

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

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2021 and 2020



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 Audit of the Financial Statements

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2021 and 2020, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, required by Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2022, 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, 2021. We issued a similar report for the year ended December 31, 2020, dated May 5, 2021, which has not been included with the 2021 financial 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, 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 4, 2022

**Lewis County Public Hospital District No. 1
doing business as Arbor Health
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020**

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, 2021 and 2020. 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 \$2,689,381, or 26 percent, in 2021 and increased by \$853,548, or 9 percent, in 2020.
- The District reported operating loss of \$2,667,680 in 2021 and operating loss of \$5,024,600 in 2020. Operating losses decreased by \$2,356,920 in 2021 and increased by \$4,085,699 in 2020.
- Nonoperating revenues and expenses decreased by \$3,219,002, or 9 percent, in 2021 compared to 2020. Nonoperating revenues and expenses increased by \$4,454,436, or 323 percent, in 2020 compared to 2019.

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 5. 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, 2021 and 2020

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 9. The District's net position increased by \$2,689,381, or 26 percent, in 2021 and increased by \$853,548, or 9 percent, in 2020, as shown in Table 1.

A significant component of the change in the District's assets is the decline in current assets. This is mostly attributed to the increase in capital spending for 2021. Current assets have decreased by 22 percent, mainly in cash as the District participated in various programs related to the COVID-19 pandemic and due to a major renovation completed during 2021. While capital assets have increased by 29 percent, changes in the Medicare program receivable, while sizeable, are standard experiences in the critical access hospital program.

Table 1: Assets, Liabilities, and Net Position

	2021	2020	2019
<i>Assets</i>			
Current assets	\$ 16,753,350	\$ 18,722,830	\$ 9,580,133
Capital assets, net	11,505,349	8,916,298	9,469,416
Other noncurrent assets	1,593,539	3,205,817	1,339,891
Total assets	\$ 29,852,238	\$ 30,844,945	\$ 20,389,440
<i>Liabilities</i>			
Current liabilities	\$ 10,563,983	\$ 9,988,546	\$ 3,881,409
Noncurrent liabilities	6,443,245	10,700,770	7,205,950
Total liabilities	17,007,228	20,689,316	11,087,359
<i>Net position</i>			
Net investment in capital assets	3,695,239	1,726,015	1,180,610
Restricted for debt service	1,220,723	836,344	761,618
Unrestricted	7,929,048	7,593,270	7,359,853
Total net position	12,845,010	10,155,629	9,302,081
Total liabilities, deferred inflows of resources, and net position	\$ 29,852,238	\$ 30,844,945	\$ 20,389,440

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Management's Discussion and Analysis (Continued)
Years Ended December 31, 2021 and 2020

Operating Results and Changes in The District's Net Position

In 2021, the District's net position increased by \$2,689,381 or 26 percent, as shown in Table 2. This decrease is made up of very different components, compared with the increase in net position for 2020 of \$853,548, and is discussed below.

Table 2: Operating Results and Changes in Net Position

	2021	2020
<i>Operating revenues</i>		
Net patient revenue	\$ 29,943,640	\$ 25,997,099
Grants	367,783	223,208
Other	424,294	304,120
Total operating revenues	30,735,717	26,524,427
<i>Operating expenses</i>		
Salaries and wages	16,467,514	14,792,381
Employee benefits	4,143,761	3,929,511
Professional fees	3,623,229	4,112,182
Supplies	2,386,071	2,124,331
Utilities	457,657	487,739
Purchased services	2,814,453	2,382,917
Leases and rentals	253,015	223,328
Repairs and maintenance	498,354	434,407
Depreciation	1,271,919	1,736,150
Insurance	246,945	214,206
Other	1,240,479	1,111,875
Total operating expenses	33,403,397	31,549,027
<i>Operating loss</i>	(2,667,680)	(5,024,600)
<i>Nonoperating revenues (expenses)</i>		
CARES Act Provider Relief Fund	780,106	3,711,316
COVID-19 grants	7,311	637,152
Taxation for maintenance and operations	1,028,508	981,433
Taxation for bond principal and interest	1,133,723	811,167
Contributions	-	4,299
Build America Bond subsidy	91,000	95,725
Gain on sale of assets	3,500	-
Interest income	26,097	62,875
Interest expense	(411,099)	(425,819)
Total nonoperating revenues, net	2,659,146	5,878,148
Change in net position before gain on forgiveness of Paycheck Protection Program loan	(8,534)	853,548
<i>Gain on forgiveness of Paycheck Protection Program loan</i>	2,697,915	-
Change in net position	2,689,381	853,548
Net position, beginning of year	10,155,629	9,302,081
Net position, end of year	\$ 12,845,010	\$ 10,155,629

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Management's Discussion and Analysis (Continued)
Years Ended December 31, 2021 and 2020

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 2021 and 2020, the District reported an operating loss. Operating losses decreased by \$2,356,920, or 47 percent, from 2020 to 2021, and increased by \$4,085,699, or 435 percent, from 2019 to 2020.

In 2020, the District experienced a decline in most service lines related to the COVID-19 pandemic as patients express concern about interacting in environments where the virus may exist. In 2021, as concern abated, patients started to seek medical services again and operations returned to normal as illustrated in the table below.

	2021	2020	2019	2018
<i>Admissions</i>				
Medical/surgical	195	164	190	181
Skilled nursing	78	76	96	53
<i>Patient Days</i>				
Medical/surgical	803	517	631	575
Skilled nursing	1,319	1,137	1,366	718
Custodial	24	1,330	2,723	-
<i>Outpatient Utilization</i>				
Outpatient registrations	15,085	11,991	10,580	11,481
Observation registrations	253	212	218	199
Emergency registrations	4,950	4,159	4,721	4,456
Physician clinics	24,394	18,434	13,197	14,101
<i>Surgery</i>				
Inpatient	21	9	18	23
Outpatient	347	280	275	256

The District acquired a local physician practice in 2020 in an effort to maintain stability in the primary care market. In 2021 the District started offering podiatry and orthopedic services. In addition, the District discontinued offering custodial services. 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 2021. Employee benefit cost continues to grow with an aging workforce.

The primary components of these changes in operating losses are:

- An increase in Inpatient and Skilled Nursing days of 16 percent.
- An increase in Emergency Department visit of 19 percent.
- An increase in physician clinic visit and referral outpatient utilization in laboratory and radiological encounters.
- Increase in salaries and benefits expense of \$1,889,383 or 10 percent, from 2020 to 2021, and an increase of \$1,961,221 or 12 percent, from 2019 to 2020.
- In order 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, 2021 and 2020**

Capital Assets

At the end of 2021, the District had \$11,505,349 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

Debt

At year end, the District had \$6,443,245 in revenue notes, mortgage loans, and capital lease obligations outstanding. The District issued no new debt in 2021. 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 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, 2021 and 2020

ASSETS	2021	2020
<i>Current assets</i>		
Cash and cash equivalents	\$ 11,725,281	\$ 13,907,557
Receivables:		
Patient accounts	4,060,729	3,284,901
Estimated third-party payor settlements	17,977	454,668
Taxes	20,833	25,177
Taxes restricted for debt service	23,503	25,445
Other	253,436	450,314
Inventories	351,872	312,750
Prepaid expenses and other	299,719	262,018
Total current assets	16,753,350	18,722,830
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	396,319	395,614
Cash and cash equivalents, restricted for debt service	1,197,220	810,899
Cash and cash equivalents, restricted for capital acquisitions	-	1,999,304
Capital assets, net	11,505,349	8,916,298
Total noncurrent assets	13,098,888	12,122,115
Total assets	\$ 29,852,238	\$ 30,844,945

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, 2021 and 2020

LIABILITIES AND NET POSITION	2021	2020
<i>Current liabilities</i>		
Accounts payable	\$ 760,577	\$ 583,616
Accrued compensation and related liabilities	2,028,286	1,798,286
Estimated third-party payor settlements	1,717,059	-
Electronic health records incentive payback	194,689	194,689
Current maturities of long-term debt	1,366,865	1,316,175
Paycheck Protection Program loan	152,685	-
Unearned CARES Act Provider Relief Fund	1,000,000	773,947
Medicare accelerated payments	3,343,822	5,321,833
Total current liabilities	10,563,983	9,988,546
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	6,443,245	7,850,170
Paycheck Protection Program loan	-	2,850,600
Total noncurrent liabilities	6,443,245	10,700,770
Total liabilities	17,007,228	20,689,316
<i>Net position</i>		
Net investment in capital assets	3,695,239	1,726,015
Restricted for debt service	1,220,723	836,344
Unrestricted	7,929,048	7,593,270
Total net position	12,845,010	10,155,629
Total liabilities and net position	\$ 29,852,238	\$ 30,844,945

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, 2021 and 2020

	2021	2020
<i>Operating revenues</i>		
Net patient revenue	\$ 29,943,640	\$ 25,997,099
Grants	367,783	223,208
Other	424,294	304,120
Total operating revenues	30,735,717	26,524,427
<i>Operating expenses</i>		
Salaries and wages	16,467,514	14,792,381
Employee benefits	4,143,761	3,929,511
Professional fees	3,623,229	4,112,182
Supplies	2,386,071	2,124,331
Utilities	457,657	487,739
Purchased services	2,814,453	2,382,917
Leases and rentals	253,015	223,328
Repairs and maintenance	498,354	434,407
Depreciation	1,271,919	1,736,150
Insurance	246,945	214,206
Other	1,240,479	1,111,875
Total operating expenses	33,403,397	31,549,027
<i>Operating loss</i>	(2,667,680)	(5,024,600)
<i>Nonoperating revenues (expenses)</i>		
CARES Act Provider Relief Fund	780,106	3,711,316
COVID-19 grants	7,311	637,152
Taxation for maintenance and operations	1,028,508	981,433
Taxation for bond principal and interest	1,133,723	811,167
Contributions	-	4,299
Build America Bond subsidy	91,000	95,725
Gain on sale of assets	3,500	-
Interest income	26,097	62,875
Interest expense	(411,099)	(425,819)
Total nonoperating revenues, net	2,659,146	5,878,148
Change in net position before gain on forgiveness of Paycheck Protection Program loan	(8,534)	853,548
<i>Gain on forgiveness of Paycheck Protection Program loan</i>	2,697,915	-
Change in net position	2,689,381	853,548
Net position, beginning of year	10,155,629	9,302,081
Net position, end of year	\$ 12,845,010	\$ 10,155,629

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, 2021 and 2020

	2021	2020
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 31,321,562	\$ 25,869,508
Cash received from grants	367,783	223,208
Cash received from other revenue	424,294	304,120
Cash paid to and on behalf of employees	(20,381,275)	(18,669,767)
Cash paid to suppliers and contractors	(11,177,117)	(11,123,383)
Net cash provided by (used in) operating activities	555,247	(3,396,314)
<i>Cash flows from noncapital financing activities</i>		
Proceeds from CARES Act Provider Relief Fund	1,006,159	4,485,263
Proceeds from COVID-19 grants	7,311	637,152
Proceeds from Medicare accelerated payments	-	5,321,833
Payment on Medicare accelerated payments	(1,978,011)	-
Proceeds from Paycheck Protection Program	-	2,850,600
Cash received from taxation for maintenance and operations	1,032,852	986,397
Contributions received	-	4,299
Net cash provided by noncapital financing activities	68,311	14,285,544
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	1,135,665	815,619
Interest paid	(426,764)	(441,486)
Principal payments on long-term debt	(1,340,570)	(1,028,938)
Proceeds from issuance of long-term debt	-	2,000,000
Principal payments on capital leases	-	(77,857)
Payments for purchase of capital assets	(3,860,970)	(1,183,032)
Proceeds from the sale of capital assets	3,500	-
Cash received from Build America Bonds subsidy	44,930	46,685
Net cash provided by (used in) capital and related financing activities	(4,444,209)	130,991
<i>Cash flows from investing activities</i>		
Interest received	26,097	62,875
Net increase (decrease) in cash and cash equivalents	(3,794,554)	11,083,096
Cash and cash equivalents, beginning of year	17,113,374	6,030,278
Cash and cash equivalents, end of year	\$ 13,318,820	\$ 17,113,374

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, 2021 and 2020

	2021	2020
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 11,725,281	\$ 13,907,557
Cash and cash equivalents, limited as to use for capital acquisitions	396,319	395,614
Cash and cash equivalents, restricted for debt service	1,197,220	810,899
Cash and cash equivalents, restricted for capital acquisitions	-	1,999,304
Total cash and cash equivalents	\$ 13,318,820	\$ 17,113,374
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (2,667,680)	\$ (5,024,600)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	1,271,919	1,736,150
Provision for bad debts	653,074	521,292
(Increase) decrease in current assets:		
Receivables:		
Patient accounts, net	(1,428,902)	8,445
Estimated third-party payor settlements	436,691	(80,076)
Other	242,948	(288,550)
Inventories	(39,122)	(55,102)
Prepaid expenses and other	(37,701)	8,088
Increase (decrease) in current liabilities:		
Accounts payable	176,961	3,795
Accrued compensation and related liabilities	230,000	351,496
Estimated third-party payor settlements	1,717,059	(577,252)
Net cash provided by (used in) operating activities	\$ 555,247	\$ (3,396,314)

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, 2021 and 2020

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, 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, 2021 and 2020

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 2020, the District began providing paid sick leave, in accordance with Washington State law, to all nonbenefited 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, 2021 and 2020

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 4, 2022, 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 May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The new guidance is effective for the District's year ending December 31, 2023. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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, 2021 and 2020, were approximately \$12,858,000 and \$12,682,000, 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 the 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, 2021 and 2020

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 not changed significantly from the prior year. 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:

	2021	2020
Receivables from patients and their insurance carriers	\$ 1,765,335	\$ 1,361,002
Receivables from Medicare	2,331,435	1,930,197
Receivables from Medicaid	325,248	322,683
Receivables from 340B contract pharmacy	15,189	66,706
Total patient accounts receivable	4,437,207	3,680,588
Less allowance for uncollectible accounts	376,478	395,687
Patient accounts receivable, net	\$ 4,060,729	\$ 3,284,901

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

4. Capital Assets:

All capital assets other than land are depreciated 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, 2020	Additions	Retirements	Transfers	Balance December 31, 2021
<i>Capital assets not being depreciated</i>					
Land	\$ 998,599	\$ -	\$ -	\$ -	\$ 998,599
Construction in progress	492,571	178,177	-	(558,414)	112,334
Total capital assets not being depreciated	1,491,170	178,177	-	(558,414)	1,110,933
<i>Capital assets being depreciated</i>					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	17,436,121	2,945,943	-	303,911	20,685,975
Equipment	10,867,744	736,850	(394,968)	254,503	11,464,129
Total capital assets being depreciated	29,730,604	3,682,793	(394,968)	558,414	33,576,843
<i>Less accumulated depreciation for</i>					
Land improvements	(1,111,492)	(47,903)	-	-	(1,159,395)
Buildings and improvements	(12,459,419)	(588,791)	-	-	(13,048,210)
Equipment	(8,734,565)	(635,225)	394,968	-	(8,974,822)
Total accumulated depreciation	(22,305,476)	(1,271,919)	394,968	-	(23,182,427)
Total capital assets being depreciated, net	7,425,128	2,410,874	-	558,414	10,394,416
Capital assets, net	\$ 8,916,298	\$ 2,589,051	\$ -	\$ -	\$ 11,505,349

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

4. Capital Assets (continued):

	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)
Total capital assets being depreciated, net	8,095,019	(950,219)	-	280,328	7,425,128
Capital assets, net	\$ 9,469,416	\$ (553,118)	\$ -	\$ -	\$ 8,916,298

At December 31, 2021, construction in progress included the costs for respiratory therapy equipment, which had no additional costs and was completed in January 2022.

**Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

5. Defined Contribution Retirement Plan:

The District has a tax-sheltered annuity (TSA) plan that is available to substantially all employees. The 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 Morton General Hospital 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. Pension expenses for the years ended December 31, 2021 and 2020, were approximately \$571,000 and \$524,000, respectively. Employee contributions to the Plan for the years ended December 31, 2021 and 2020, were approximately \$945,000 and \$798,000, respectively.

The District owed approximately \$121,000 and \$38,000 to the Plan at December 31, 2021 and 2020, respectively.

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

6. Long-term Debt:

A schedule of changes in the District's long-term debt follows:

	Balance December 31, 2020			Additions	Reductions	Balance December 31, 2021		Amounts Due Within One Year
Long-term debt								
GE Government Finance, Inc note payable	\$	1,976,062	\$	-	\$ (290,570)	\$	1,685,492	\$ 271,865
2005 LTGO bonds		1,025,000		-	(185,000)		840,000	195,000
2010 LTGO A bonds		425,000		-	(85,000)		340,000	85,000
2010 LTGO B bonds		4,130,000		-	-		4,130,000	-
2012 UTGO bonds		1,595,000		-	(780,000)		815,000	815,000
Bond premiums and discounts		15,283		-	(15,665)		(382)	-
Total long-term debt	\$	9,166,345	\$	-	\$ (1,356,235)	\$	7,810,110	\$ 1,366,865
	Balance December 31, 2019			Additions	Reductions	Balance December 31, 2020		Amounts Due Within One Year
Long-term debt								
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	-
Total long-term debt		8,210,950		2,000,000	(1,044,605)		9,166,345	1,316,175
Capital lease obligations								
Regents		37,586		-	(37,586)		-	-
De Lage (Cerner)		6,798		-	(6,798)		-	-
Everbank		33,473		-	(33,473)		-	-
Total capital lease obligations		77,857		-	(77,857)		-	-
Total long-term debt and capital lease obligations								
	\$	8,288,807	\$	2,000,000	\$ (1,122,462)	\$	9,166,345	\$ 1,316,175

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

6. Long-term Debt (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 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 \$195,000 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 \$70,000 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 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 principal payment of \$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, 2021 and 2020

6. Long-term Debt (continued):

Years Ending December 31,	LTGO Bonds			UTGO Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2022	\$ 280,000	\$ 333,649	\$ 613,649	\$ 815,000	\$ 22,413	\$ 837,413
2023	295,000	320,998	615,998	-	-	-
2024	310,000	307,670	617,670	-	-	-
2025	320,000	293,669	613,669	-	-	-
2026	335,000	278,559	613,559	-	-	-
2027-2031	1,910,000	1,037,016	2,947,016	-	-	-
2032 - 2035	1,860,000	326,563	2,186,563	-	-	-
	\$ 5,310,000	\$ 2,898,124	\$ 8,208,124	\$ 815,000	\$ 22,413	\$ 837,413

Years Ending December 31,	Other			Total Long-term Debt		
	Principal	Interest	Totals	Principal	Interest	Totals
2022	\$ 271,865	\$ 33,331	\$ 305,196	\$ 1,366,865	\$ 389,393	\$ 1,756,258
2023	302,653	26,997	329,650	597,653	347,995	945,648
2024	309,122	20,528	329,650	619,122	328,198	947,320
2025	315,729	13,921	329,650	635,729	307,590	943,319
2026	322,478	7,172	329,650	657,478	285,731	943,209
2027-2031	163,645	1,010	164,655	2,073,645	1,038,026	3,111,671
2032 - 2035	-	-	-	1,860,000	326,563	2,186,563
	\$ 1,685,492	\$ 102,959	\$ 1,788,451	\$ 7,810,492	\$ 3,023,496	\$ 10,833,988

7. Paycheck Protection Program Note Payable:

In April 2020, the District was granted a loan from the Small Business Administration in the aggregate amount of \$2,850,600, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The District applied for PPP loan forgiveness in November 2021 and was granted forgiveness in the amount of \$2,697,915. The loan forgiveness is recorded as a Gain on Forgiveness of Paycheck Protection Program note payable in the statement of revenues, expenses, and changes in net position for the year ended December 31, 2021. The remaining balance on was paid back in March 2022.

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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 did not change significantly from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 2021 or 2020. 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:

	2021	2020
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 19,697,126	\$ 17,382,035
Medicaid	4,131,783	4,035,270
Other third-party payors	5,351,630	4,029,429
Patients	1,491,610	1,146,365
340B contract pharmacy	342,332	338,405
	31,014,481	26,931,504
Less:		
Charity care	417,767	413,113
Provision for bad debts	653,074	521,292
Net patient service revenue	\$ 29,943,640	\$ 25,997,099

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 hospital has been designated a critical access hospital and the clinic a rural health clinic by Medicare and they are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

8. Net Patient Service Revenue (continued):

- *Medicaid* – The majority of Medicaid beneficiaries are covered through health maintenance organizations operated by commercial insurance companies. The District is reimbursed for inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses of the District. Reimbursement for inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. Medicaid swing-bed and nursing home services are reimbursed on a prospectively set rate per day. Rural health clinic services are reimbursed on a prospective rate per visit. Nonrural health clinic physician services are reimbursed on a fee schedule.

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 increased by approximately \$17,000 in 2021 and decreased by approximately \$10,000 in 2020, 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, 2021 and 2020, were approximately \$299,000 and \$320,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2021 and 2020.

9. CARES Act Provider Relief Fund:

During the years ended December 31, 2021 and 2020, the District received \$1,006,159 and \$4,485,263 of funding from the CARES Act Provider Relief Fund, respectively. 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 years ended December 31, 2021 and 2020, the District recognized \$780,106 and \$3,711,316 of grant revenue from these funds, respectively. The District had \$1,000,000 of remaining funds as of December 31, 2021, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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:

2021				
	Levy Rate	Assessed Value		Total Levy Amount
		Real and Personal	Timber	
Bond	0.5455	\$ 1,425,141,747	\$ 77,660,181	\$ 819,757
Maintenance and operation	0.4368	\$ 1,444,874,066	\$ -	\$ 631,157
2020				
	Levy Rate	Assessed Value		Total Levy Amount
		Real and Personal	Timber	
Bond	0.4581	\$ 1,259,765,626	\$ 524,793,194	\$ 811,641
Maintenance and operation	0.4770	\$ 1,278,829,276	\$ -	\$ 610,027

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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 \$136,623 and \$0 dividend from the Public Hospital District Unemployment Compensation Trust in 2021 and 2020, respectively, which was offset against unemployment expense. Payments by the District charged to unemployment expense prior to the dividend were approximately \$34,000 and \$53,000 in 2021 and 2020, 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, 2021 and 2020

12. Medical Self-Insurance Plan:

In February 2018, the District began partially self-insuring 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:

	2021	2020
Claim liability, beginning of year	\$ 167,854	\$ 70,000
Current year claims and changes in estimates	1,804,562	2,111,945
Claims payments	(1,820,693)	(2,014,091)
Claim liability, end of year	\$ 151,723	\$ 167,854

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:

	2021	2020
Medicare	40 %	44 %
Medicaid	13	13
Other third-party payors	41	36
Patients	6	7
	100 %	100 %

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, 2021, the District renewed its contract with Carpenters' Industrial Council Local Union No. 2767. Approximately 43 percent of the District's employees are represented by the labor union under this collective bargaining agreement. The contract is effective through June 30, 2024.

Effective July 8, 2021, the District renewed its contracts with Washington State Nurses Association for registered nurses and licensed practical nurses. Approximately 11 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. Negotiations remain ongoing.

SINGLE AUDIT

AUDITORS' SECTION



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, 2021, 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 4, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 4, 2022



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for the District's Major Federal Program

Opinion on The District's Major Federal Program

We have audited Lewis County Public Hospital District No. 1 doing business as Arbor Health's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2021. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on The Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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 auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on District's response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed above, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington

May 4, 2022

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Schedule of Audit Findings and Questioned Costs
Years Ended December 31, 2021

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

___ yes X no
 ___ yes X none reported

Noncompliance material to financial statements noted?

___ yes X no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

___ yes X no
X yes ___ none reported

Type of auditors’ report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with 2 CFR 200.516(a)?

X yes ___ no

Identification of major federal program:

Federal Assistance Listing Number

Name of Federal Program or Cluster

93.498

Provider Relief Fund

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

___ yes X no

Lewis County Public Hospital District No. 1
doing business as Arbor Health
Schedule of Audit Findings and Questioned Costs (Continued)
Years Ended December 31, 2021 and 2020

Section II – Financial Statement Findings

No matters were reported for 2021.

Section III – Federal Award Findings and Questioned Costs

2021-001	Inconsistency in Lost Revenue Methodology
<i>Federal Agency</i>	Department of Health and Human Services
<i>Assistance Listing Number</i>	93.498 – Provider Relief Fund
<i>Criteria</i>	[X] Significant Deficiency [] Material Weakness [X] Compliance Finding
	Under the terms and conditions of the award, the recipient certifies it will provide accurate and consistent reporting, through the end of the Public Health Emergency.
<i>Condition</i>	An error in an internally developed reporting spreadsheet caused the District to under report its lost revenue.
<i>Context</i>	This finding appears to be an isolated instance.
<i>Effect</i>	The District underreported its lost revenue by approx. \$1,000,000.
<i>Cause</i>	The District does not have proper review of internal documentation used to report on federal awards.
<i>Recommendation</i>	We recommend management formalize and document policies and procedures surrounding the review of internal documentation used to report on federal awards.
<i>Views of responsible officials and planned corrective action</i>	Management is aware of the compliance requirement and the District plans to formalize a policy to ensure proper review of all internally developed documents used for reporting in fiscal year 2022.

AUDITEE'S SECTION

**Lewis County Public Hospital District No. 1
doing business as Arbor Health
Schedule of Expenditures of Federal Awards
Years Ended December 31, 2021 and 2020**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass - Through Entity Identifying Number	Additional Award Identification	Federal Expenditures
U.S. Department of Health and Human Services Direct Programs:				
Provider Relief Fund and American Rescue Plan Rural Distribution	93.498		COVID-19	\$ 4,186,928
COVID-19 Testing for the Uninsured	93.461		COVID-19	19,797
Total U.S. Department of Health and Human Services Direct Programs				4,206,725
Washington State Department of Health				
Small Rural Hospital Improvement Grant Program	93.301	HSP25495-0		10,878
Total Expenditures of Federal Awards			\$	4,217,603

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

Notes to the Schedule of Expenditures of Federal Awards:

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Lewis County Public Hospital District No. 1 doing business as Arbor Health (the District) under programs of the federal government for the year ended December 31, 2021. Amounts reported on the Schedule for Federal Assistance Listing Number 93.498 - Provider Relief Fund and American Rescue Plan Rural Distribution are based upon the June 30, 2021, Provider Relief Fund report. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

May 2, 2022

Dingus, Zarecor and Associates, PLLC
Spokane Valley, WA

In response to the Single Audit matter identified as follows, please see our response.

Reported to matters in Section II – Financial Statement Findings and one matter in Section III – Federal Award Findings and Questioned Costs.

Current year audit finding:

2021-001 Inconsistency in Lost Revenue Methodology

Corrective action planned: Management will work to add additional review processes to prevent this from occurring again. Additional review could be added staff oversight or consultation with outside services to review documents further.

Anticipated completion date: Fiscal year 2022

Contact person responsible for corrective action: Richard Boggess, Chief Financial Officer

Sincerely,
Richard Boggess

Richard Boggess, Chief Financial Officer
Arbor Health



Lewis County Public Hospital District No. 1
doing business as Arbor Health
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2021

The audit for the year ended December 31, 2020, reported no audit findings, nor were there any unresolved findings from prior periods. Therefore, there are no matters to report in this schedule for the year ended December 31, 2021.