



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

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

We have audited the financial statements of Lewis County Public Hospital District No. 1 doing business as Arbor Health (the District) for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 27, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended December 31, 2019. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were management's estimate of the allowance for uncollectible accounts and contractual adjustments, estimated third-party payor settlements, and the liability for employee health insurance claims incurred but not reported.

- Management's estimate of the allowance for estimated uncollectible accounts and contractual adjustments is based on experience, third-party contractual history, and any unusual circumstances.
- Management's estimate for third-party settlements is based on interim payments, the District's expenses, and patient statistical data.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

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

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

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 27, 2020.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 12 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. These uncertainties could cause substantial doubt of the District's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 12. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

We have considered management's plans and have concluded that substantial doubt of the District's ability to continue as a going concern has been alleviated. Management's use of the going concern basis of accounting is appropriate and the related disclosures are adequate. Our report is not modified with respect to this matter.

### **Other Matters**

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

Board of Commissioners  
Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Page 3

**Restriction on Use**

This information is intended solely for the use of Board of Commissioners and management of Lewis County Public Hospital District No. 1 doing business as Arbor Health and is not intended to be, and should not be, used by anyone other than these specified parties.

*Dingus, Zarecor and Associates PLLC*

Spokane Valley, Washington  
April 27, 2020

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

Financial Indicators

December 31, 2019

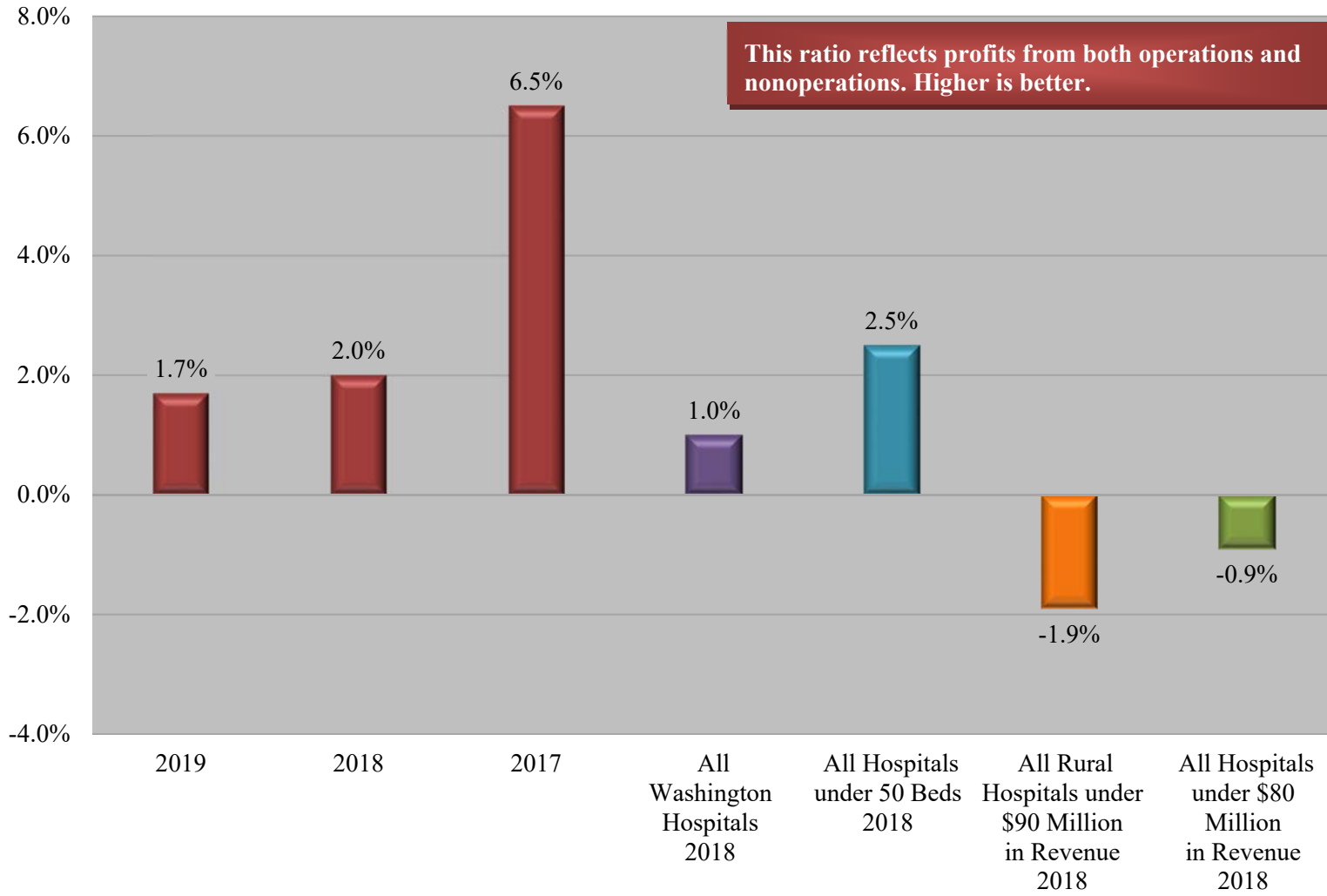


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Lewis County Public Hospital District No. 1  
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# Total Margin

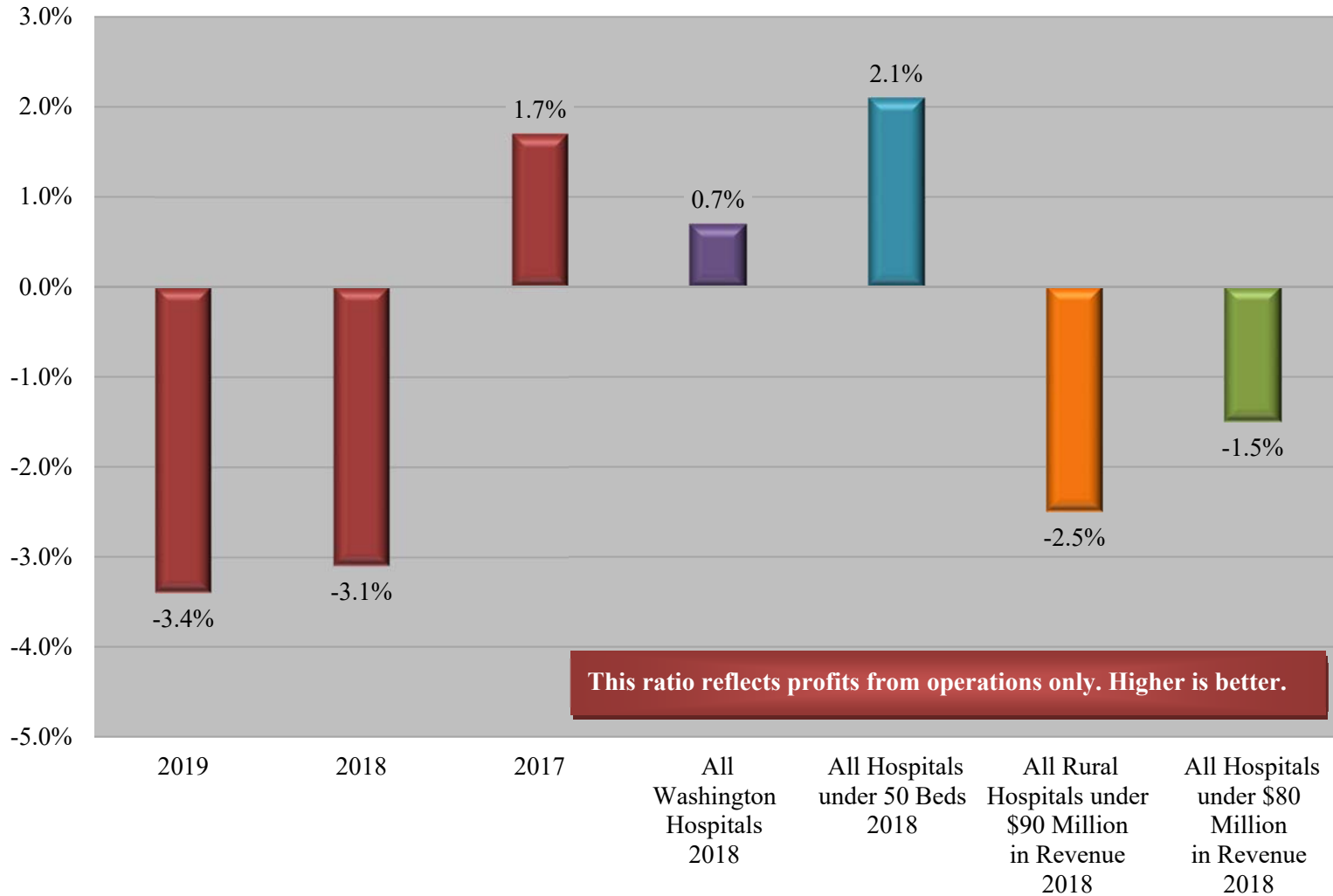
$\frac{\text{Change in Net Position}}{\text{Total Revenues}}$



Lewis County Public Hospital District No. 1  
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# Operating Margin

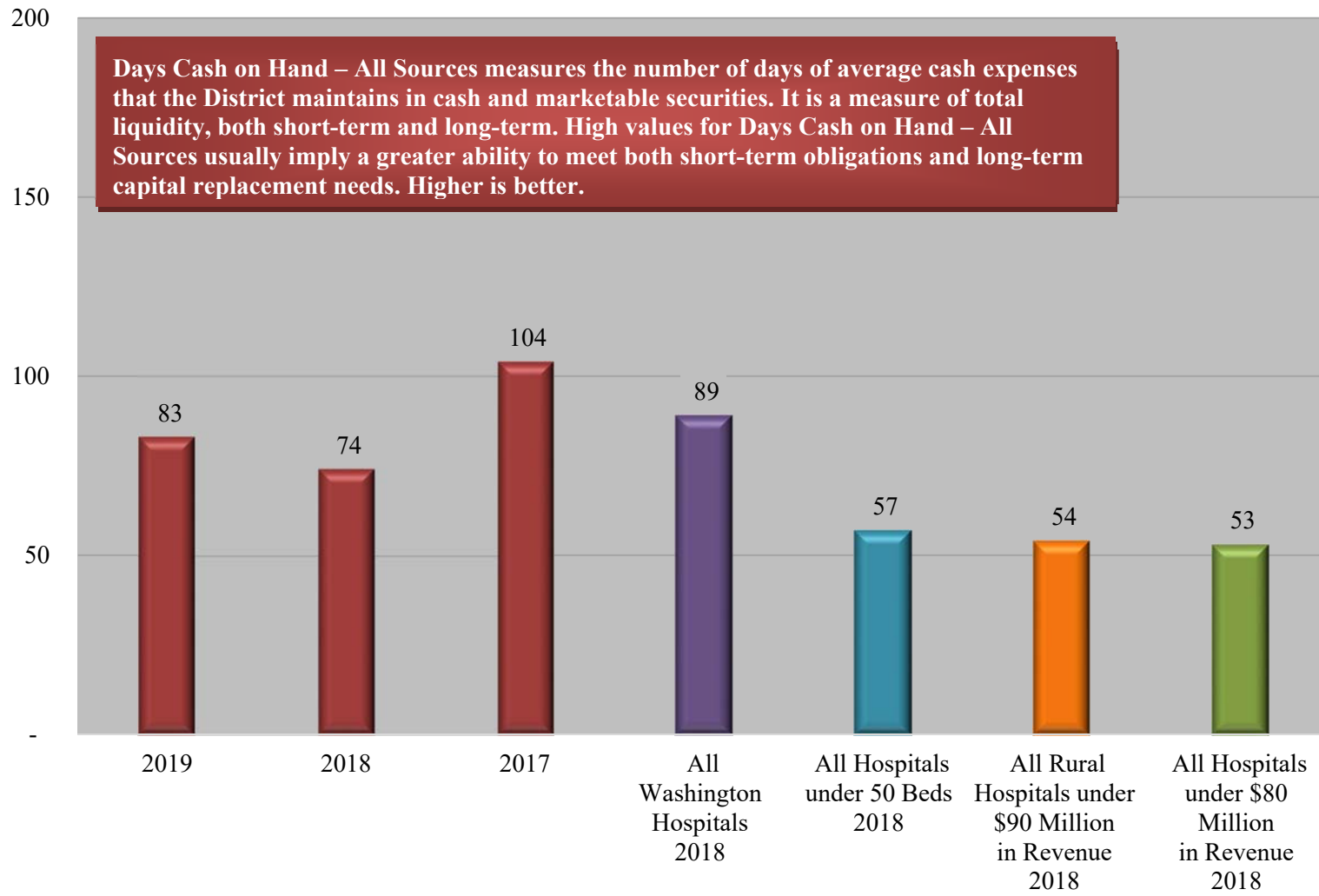
$$\frac{\text{Operating Income (Loss)}}{\text{Total Operating Revenues}}$$



This ratio reflects profits from operations only. Higher is better.

## Days Cash on Hand – All Sources

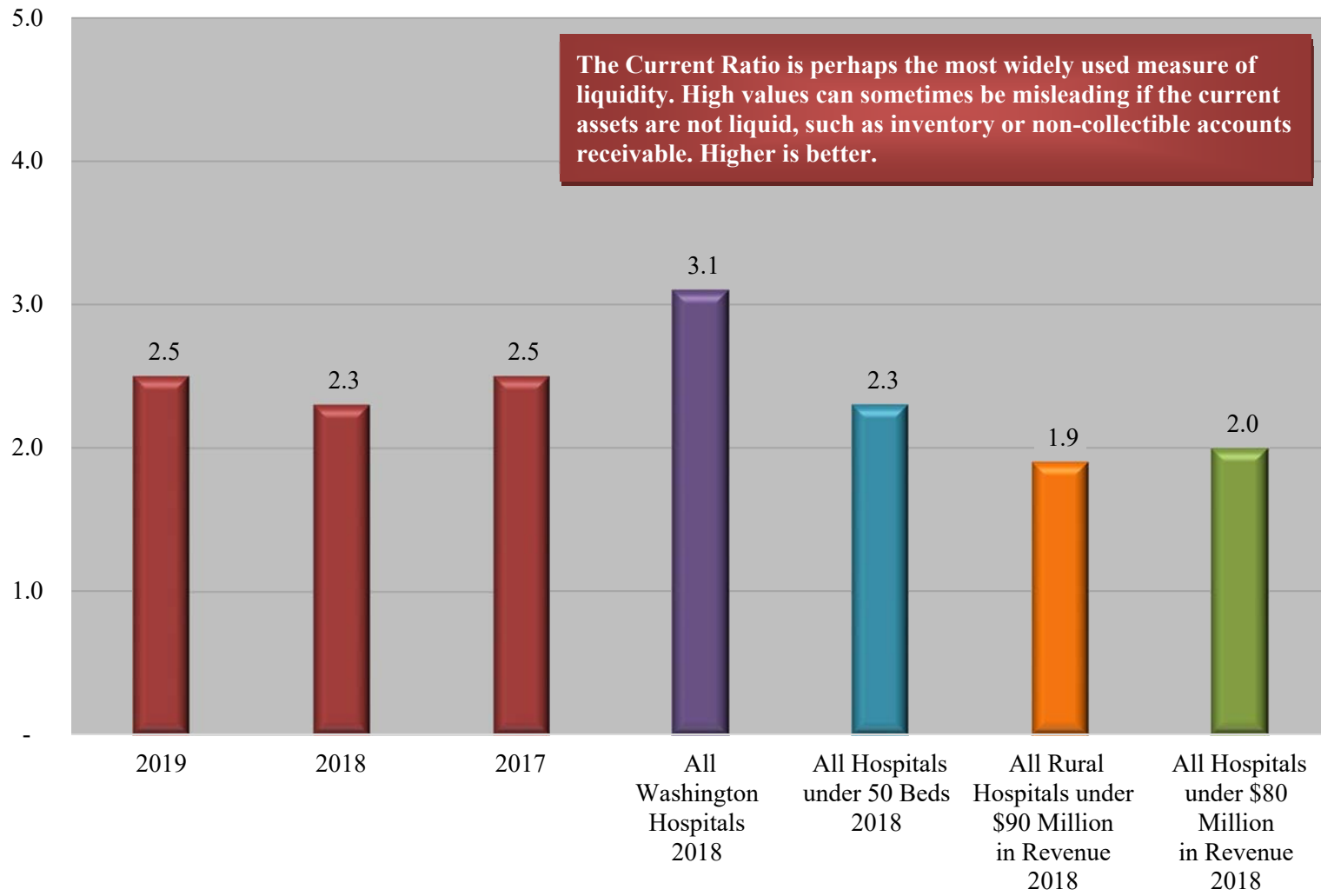
$$\frac{\text{Cash} + \text{Short-term Investments} + \text{Unrestricted Long-term Investments}}{(\text{Total Expenses} - \text{Depreciation}) / 365}$$



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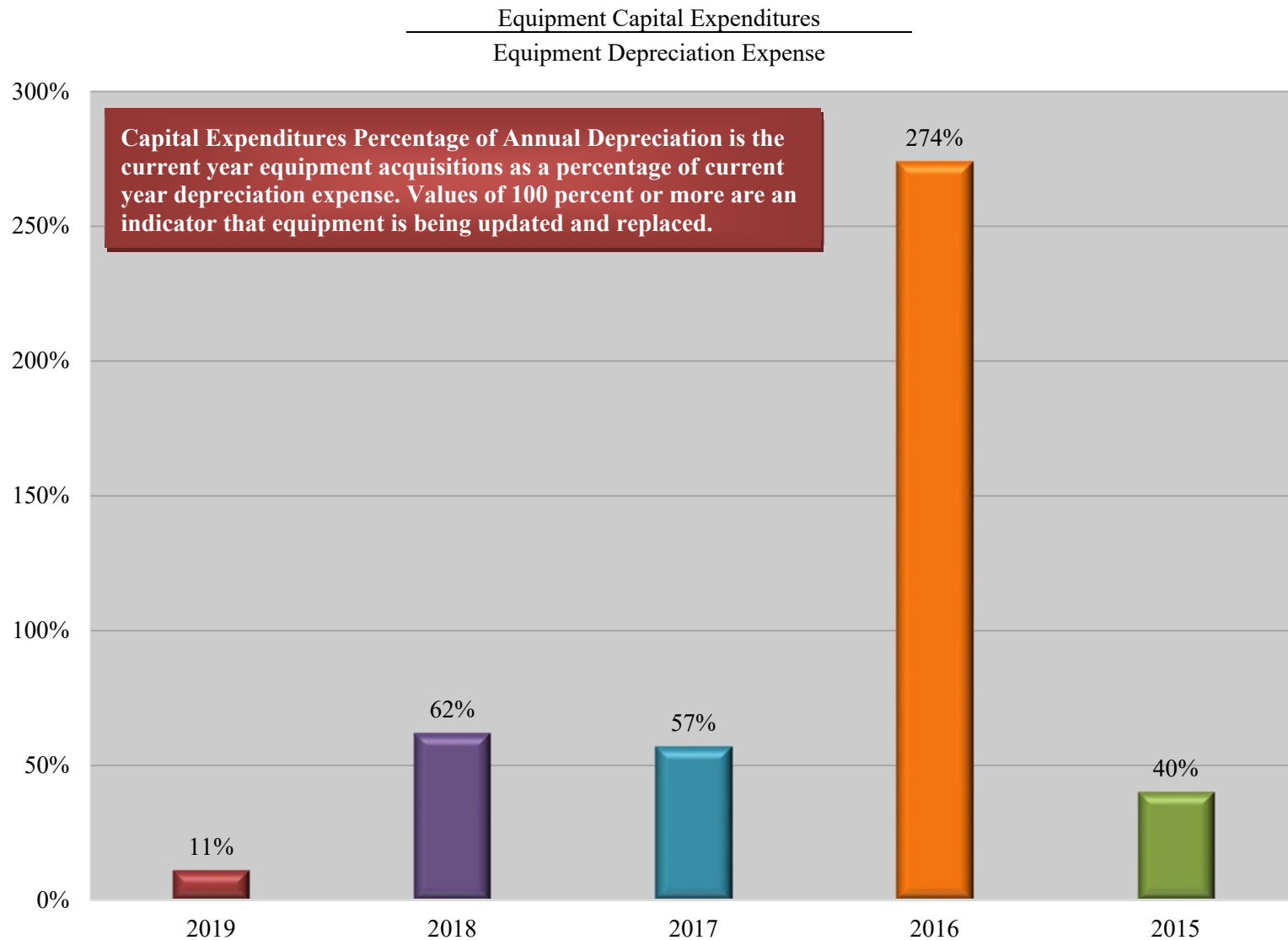
# Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$



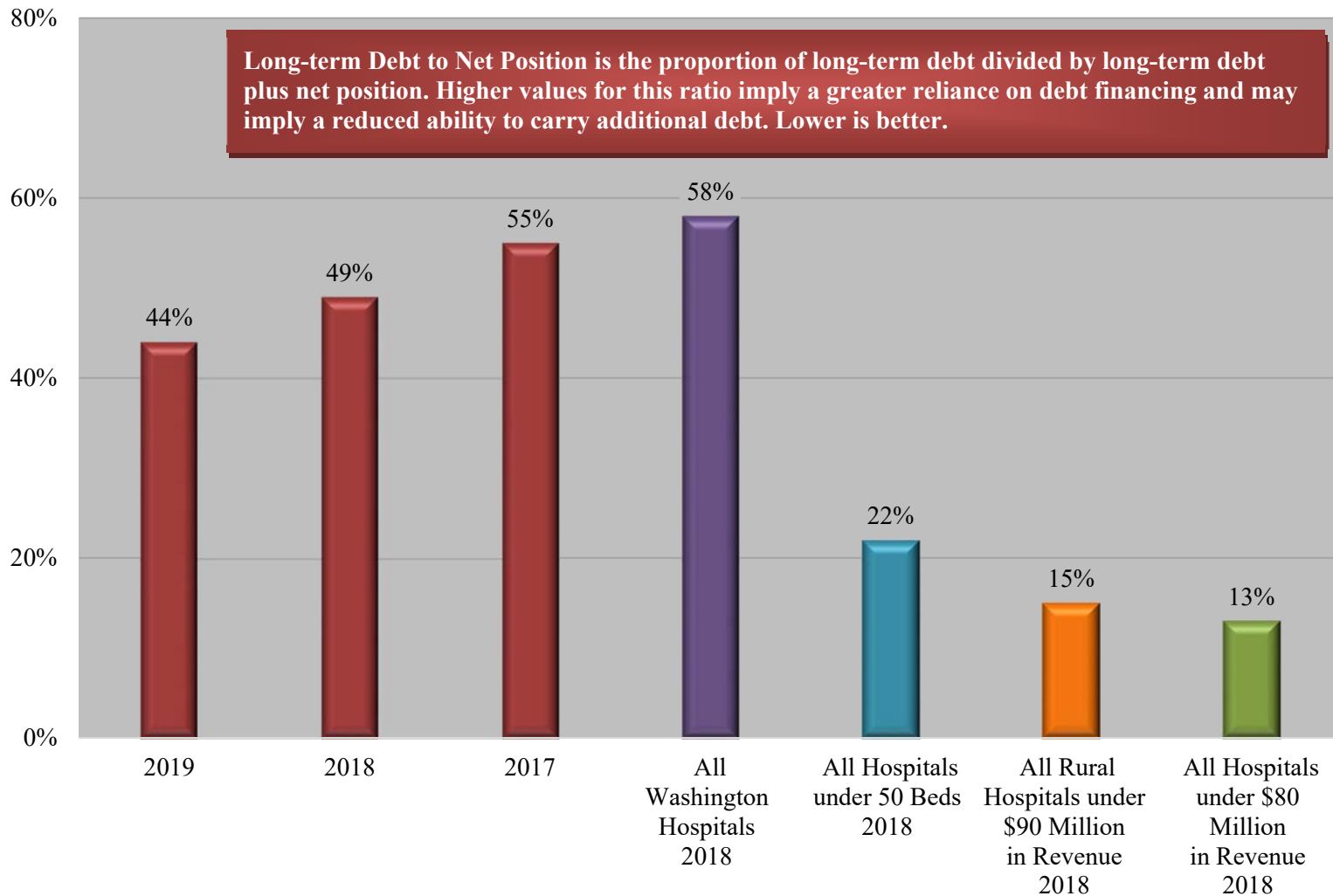


# Capital Expenditures Percentage of Annual Depreciation



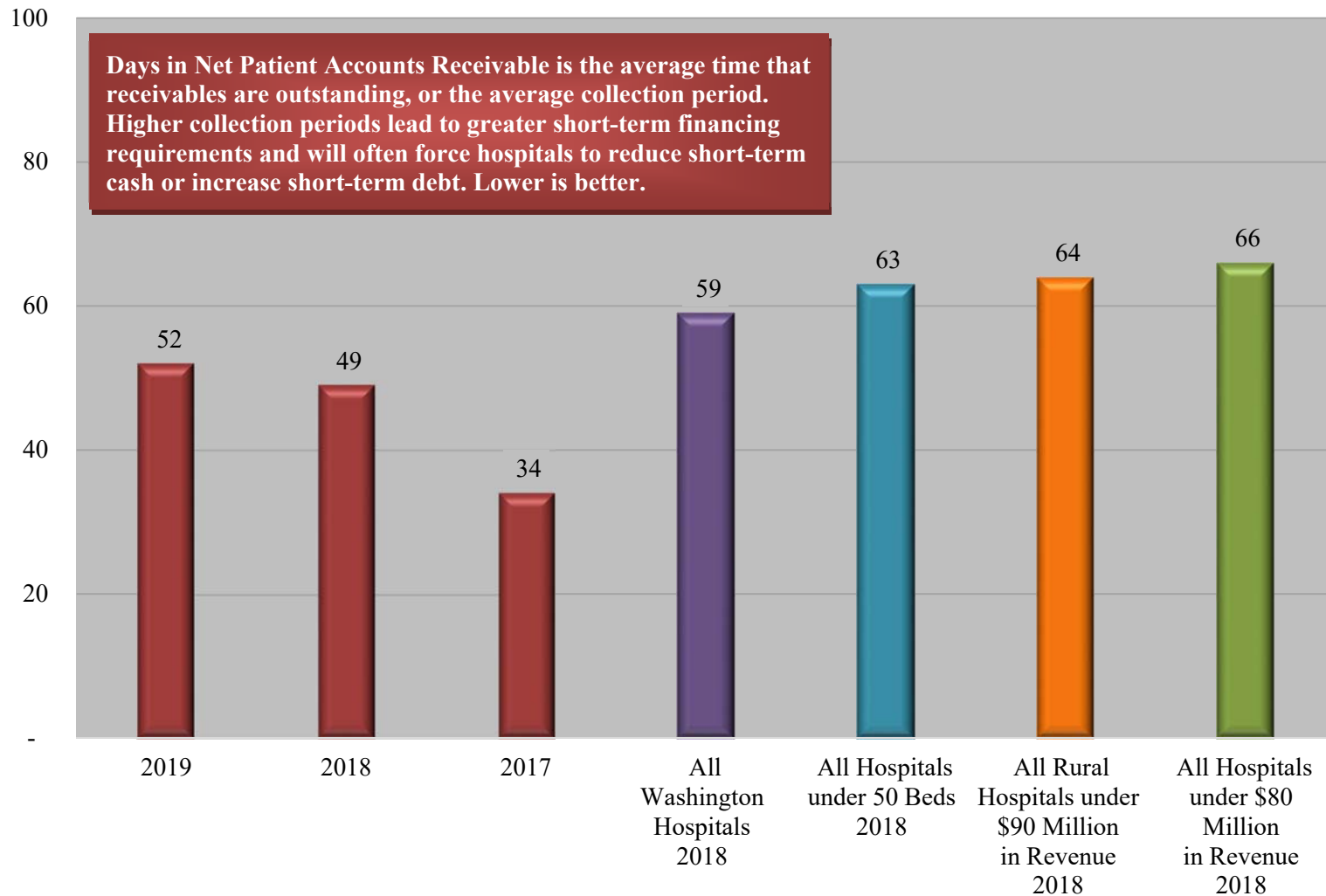
# Long-term Debt to Net Position

$$\frac{\text{Long-term Debt}}{\text{Long-term Debt} + \text{Net Position}}$$



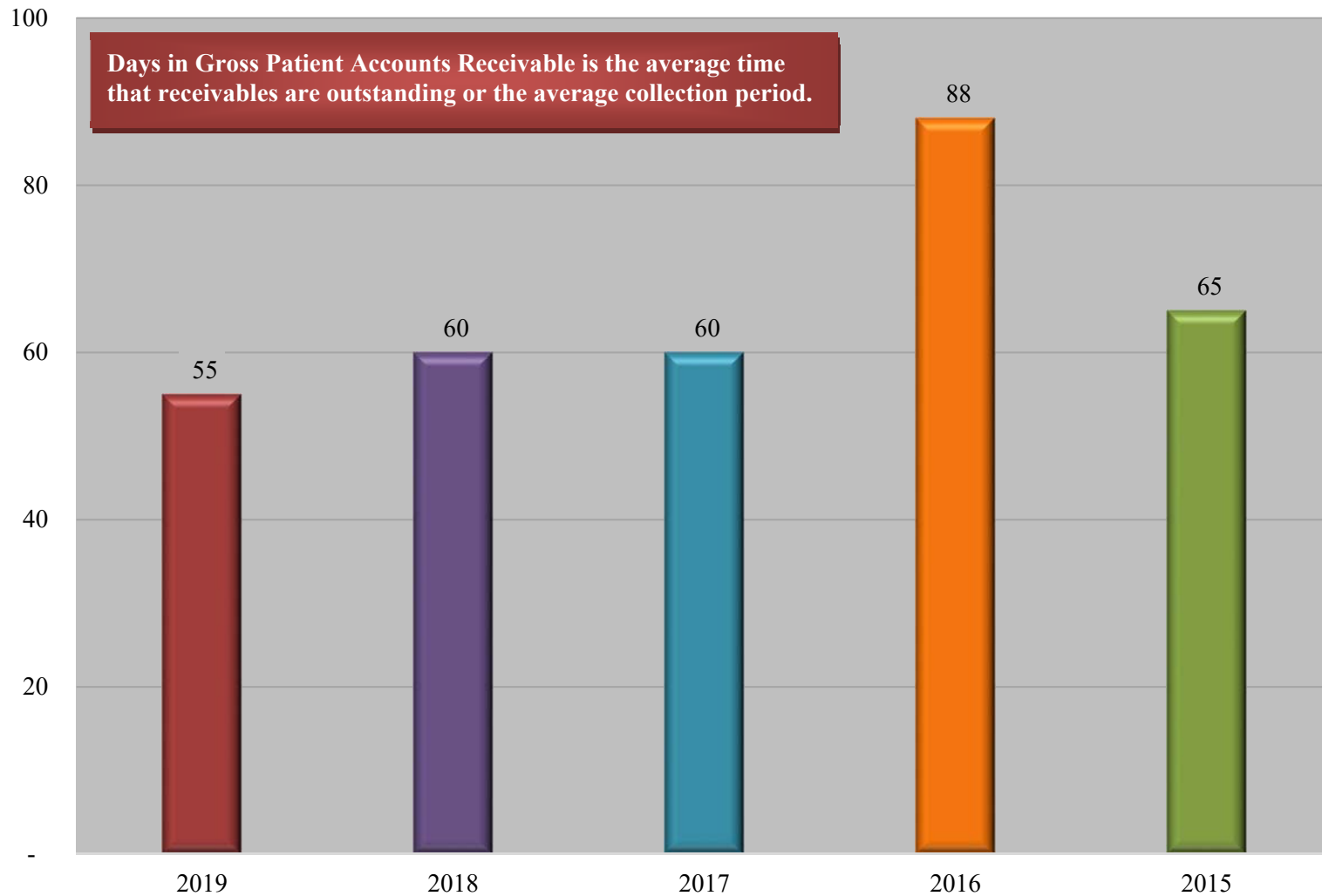
# Days in Net Patient Accounts Receivable

$$\frac{\text{Net Patient Accounts Receivable}}{\text{Net Patient Service Revenues} / 365}$$

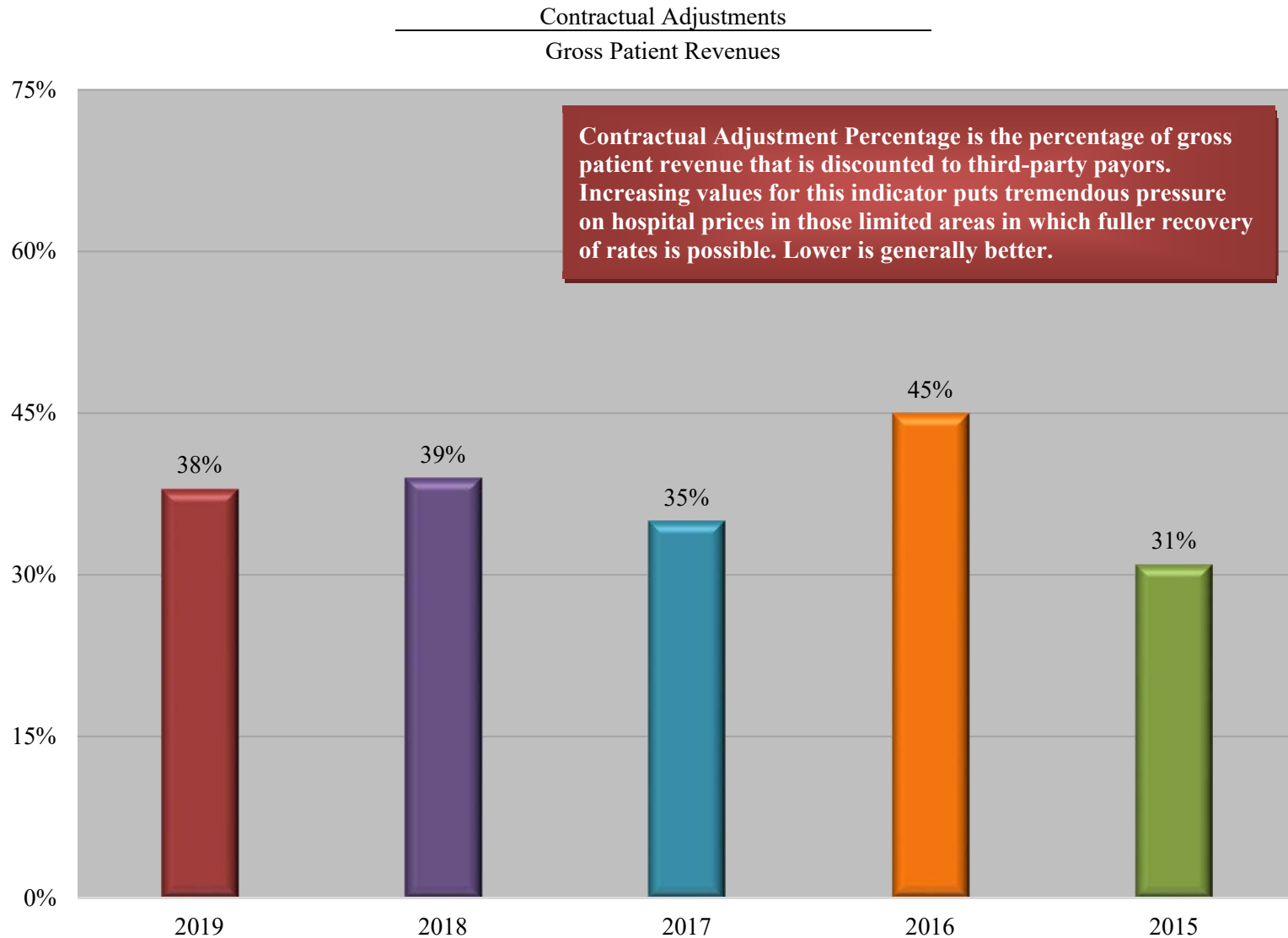


## Days in Gross Patient Accounts Receivable

$$\frac{\text{Gross Patient Accounts Receivable}}{\text{Gross Patient Service Revenues} / 365}$$

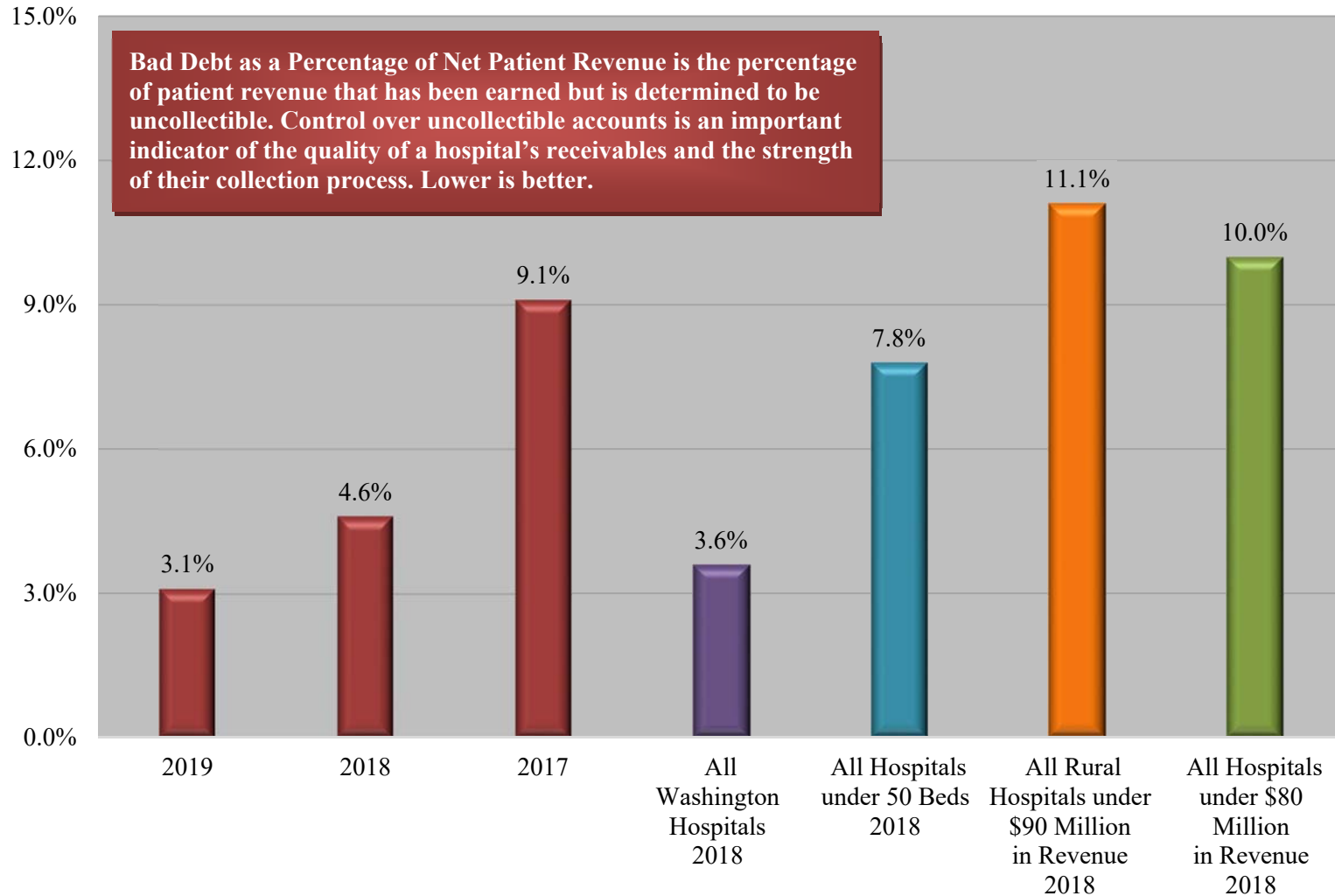


## Contractual Adjustment Percentage

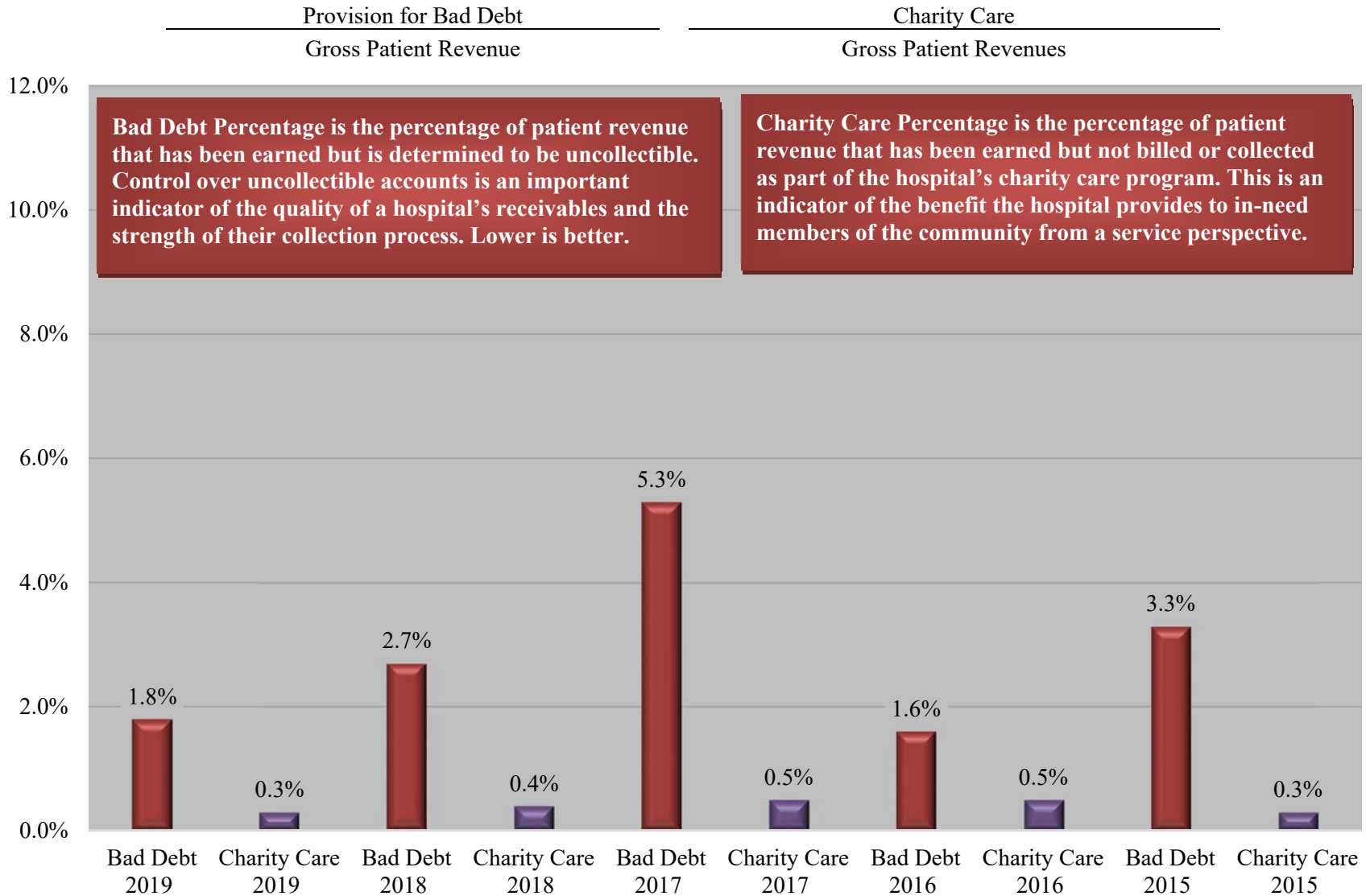


# Bad Debt as a Percentage of Net Patient Revenue

Provision for Bad Debt  
Net Patient Revenues

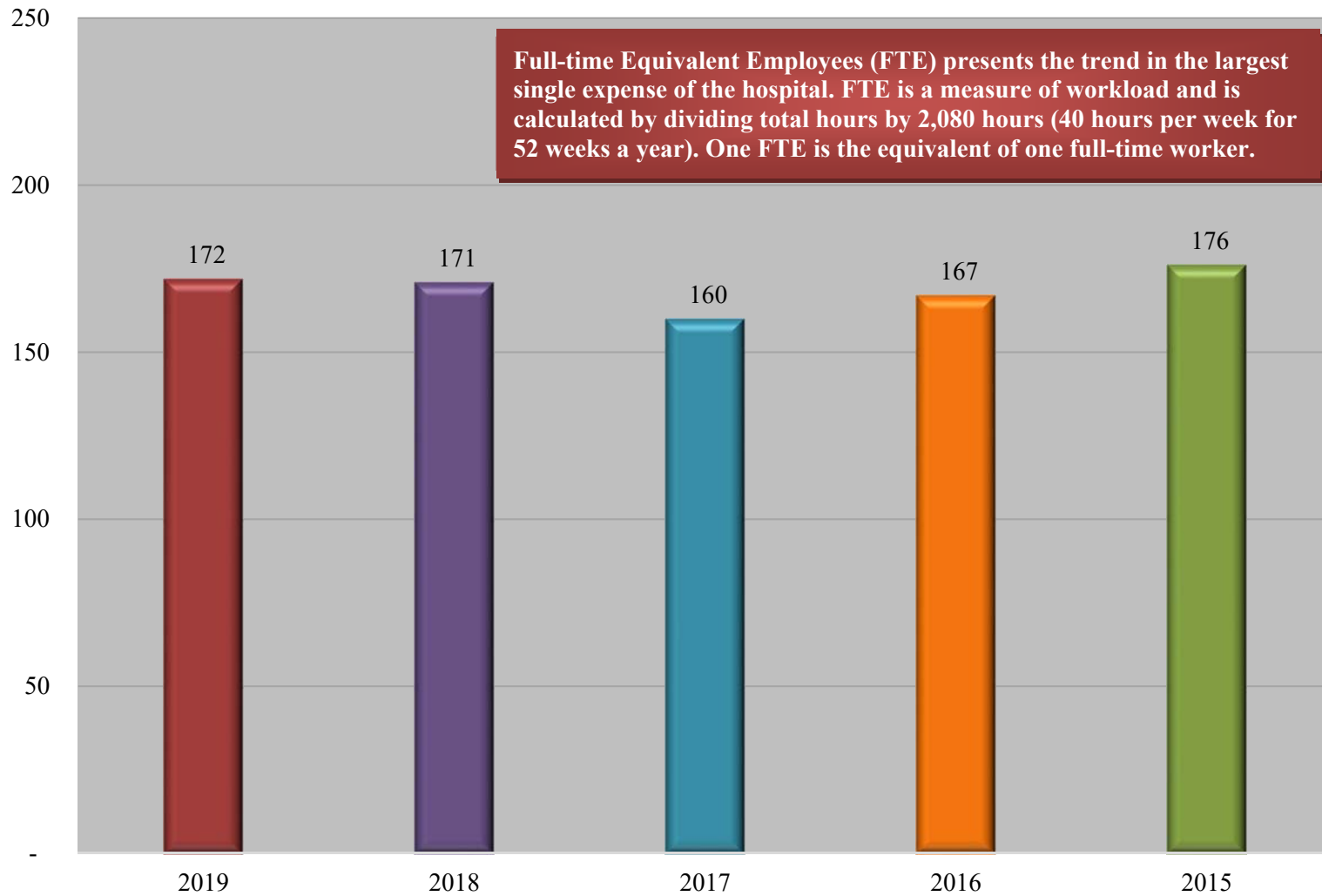


## Bad Debt and Charity Care Percentage



Lewis County Public Hospital District No. 1  
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## Full-time Equivalent Employees (FTE)

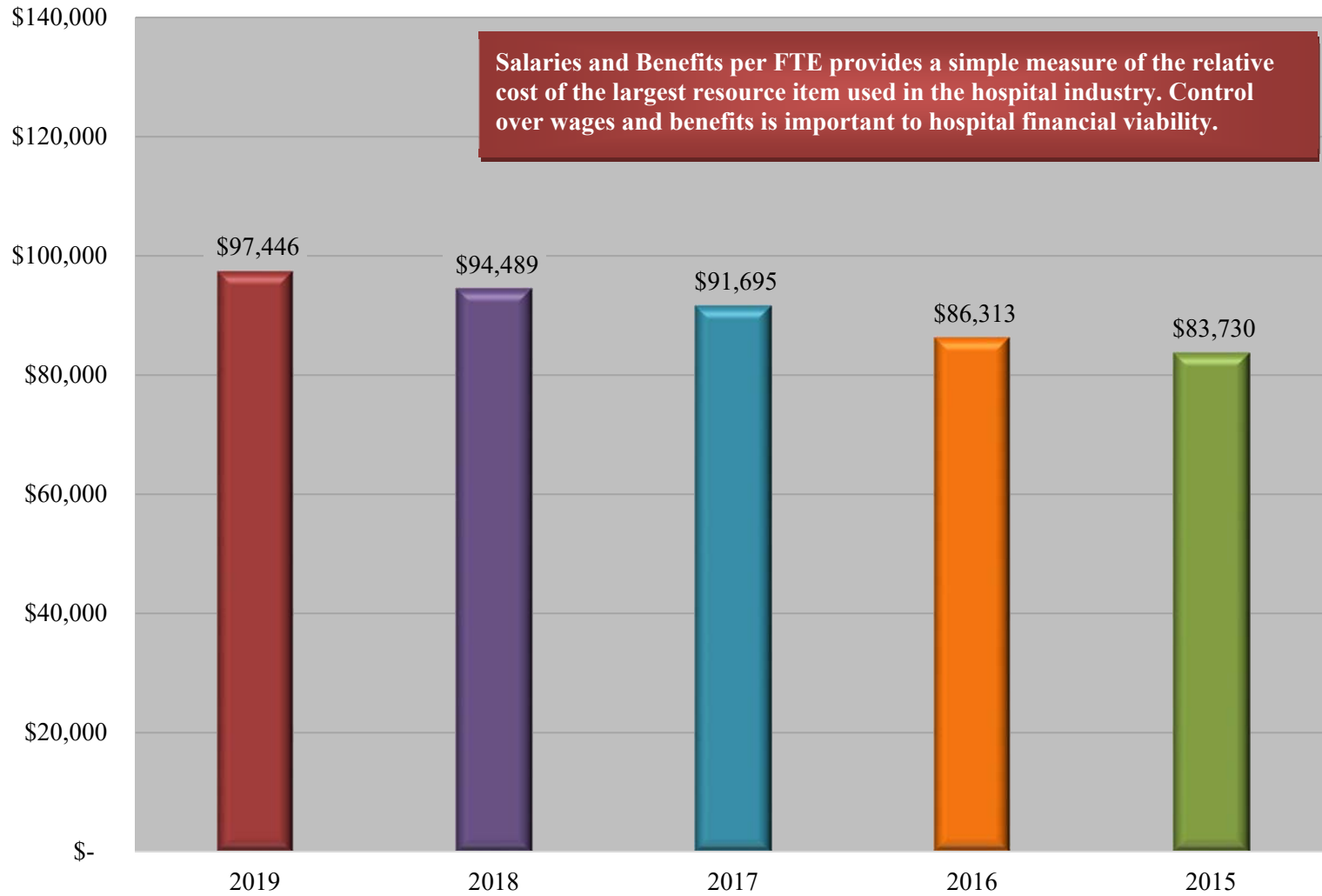




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doing business as  
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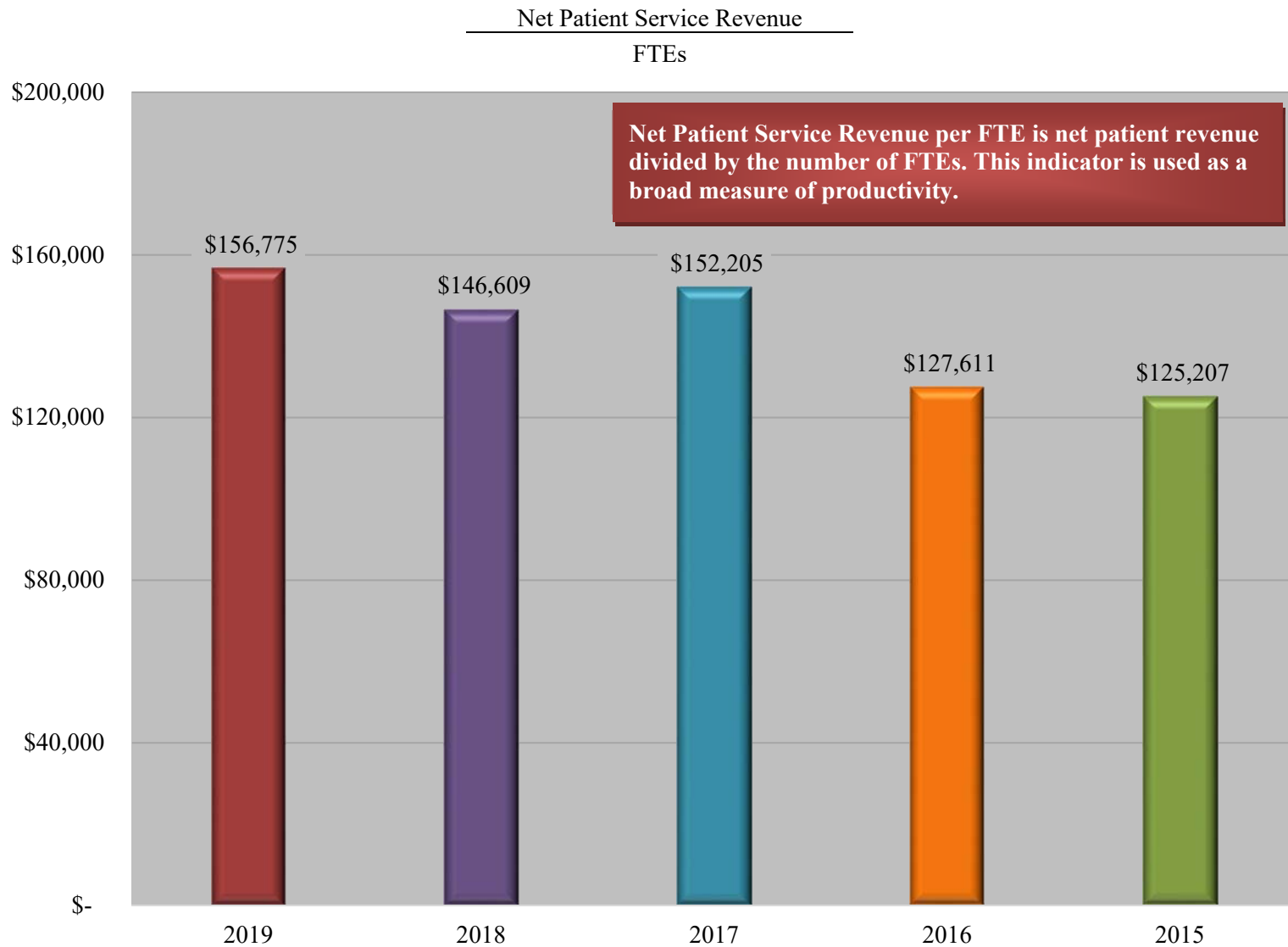
# Salaries and Benefits per FTE

$$\frac{\text{Total Salaries} + \text{Total Benefits}}{\text{FTEs}}$$



Lewis County Public Hospital District No. 1  
doing business as  
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# Net Patient Service Revenue per FTE



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

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2019 and 2018



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Certified Public Accountants

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

## 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, 2019 and 2018, 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, 2019 and 2018, 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 12 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 12. 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 April 27, 2020, 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, 2019. We issued a similar report for the year ended December 31, 2018, dated May 13, 2019, which has not been included with the 2019 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  
April 27, 2020

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Management’s Discussion and Analysis  
Years Ended December 31, 2019 and 2018**

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, 2019 and 2018. 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 \$484,811, or 5 percent, in 2019 and increased by \$557,400, or 7 percent, in 2018.
- The District reported operating loss of \$938,901 in 2019 and operating loss of \$783,870 in 2018. Operating losses increased by \$155,031 in 2019 and increased by \$1,203,186 in 2018.
- Nonoperating revenues and expenses increased by \$82,442, or 6 percent, in 2019 compared to 2018. Nonoperating revenues and expenses increased by \$58,795, or 5 percent, in 2018 compared to 2017.

**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, 2019 and 2018**

**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 increased by \$484,811, or 5 percent, in 2019 and increased by \$557,400, or 7 percent, in 2018, 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 2020 and onward. Current assets have increased by 7 percent, mainly in cash as the District recognized third party settlements and normal extinguishment of debt throughout the year. 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>2019</b>	<b>2018</b>	<b>2017</b>
<i>Assets</i>			
Current assets	\$ 9,580,133	\$ 8,896,608	\$ 8,474,895
Capital assets, net	9,469,416	10,823,038	12,049,482
Other noncurrent assets	1,339,891	1,282,355	1,221,466
<b>Total assets</b>	<b>\$ 20,389,440</b>	<b>\$ 21,002,001</b>	<b>\$ 21,745,843</b>
<i>Liabilities</i>			
Current liabilities	\$ 3,881,409	\$ 3,870,342	\$ 3,431,865
Noncurrent liabilities	7,205,950	8,314,389	10,054,108
<b>Total liabilities</b>	<b>11,087,359</b>	<b>12,184,731</b>	<b>13,485,973</b>
<i>Net position</i>			
Net investment in capital assets	1,180,609	785,694	344,615
Restricted for debt service	761,618	717,044	668,364
Unrestricted	7,359,854	7,314,532	7,246,891
<b>Total net position</b>	<b>9,302,081</b>	<b>8,817,270</b>	<b>8,259,870</b>
<b>Total liabilities, deferred inflow of resources, and net position</b>	<b>\$ 20,389,440</b>	<b>\$ 21,002,001</b>	<b>\$ 21,745,843</b>



**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

In 2019, the District's net position increased by \$484,811, or 5 percent, as shown in Table 2. This decrease is made up of very different components, compared with the increase in net position for 2018 of \$557,400, and is discussed below.

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

	<b>2019</b>	<b>2018</b>
<i>Operating revenues</i>		
Net patient revenue, net of provision for bad debts	\$ 26,965,225	\$ 25,070,163
Electronic health records incentive payment (payback)	-	-
Grants and other	545,587	425,359
<b>Total operating revenues</b>	<b>27,510,812</b>	<b>25,495,522</b>
<i>Operating expenses</i>		
Salaries and benefits	16,760,671	16,157,631
Supplies	1,895,561	2,132,690
Depreciation and amortization	1,780,460	1,826,344
Other	8,013,021	6,162,727
<b>Total operating expenses</b>	<b>28,449,713</b>	<b>26,279,392</b>
<i>Operating loss</i>	<b>(938,901)</b>	<b>(783,870)</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation	1,609,987	1,620,457
Interest income	131,170	101,990
Interest expense	(428,642)	(501,004)
Other	111,197	119,827
<b>Total nonoperating revenues, net</b>	<b>1,423,712</b>	<b>1,341,270</b>
Change in net position	484,811	557,400
Net position, beginning of year	8,817,270	8,259,870
<b>Net position, end of year</b>	<b>\$ 9,302,081</b>	<b>\$ 8,817,270</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Management’s Discussion and Analysis (Continued)**  
**Years Ended December 31, 2019 and 2018**

**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 2019 and 2018, the District reported an operating loss. Operating losses increased by \$155,031, or 20 percent, from 2018 to 2019, and increased by \$1,203,186, or 287 percent, from 2017 to 2018.

The District experienced an increase in most service lines, as illustrated in the table below.

	<b>2019</b>	<b>2018</b>	<b>Variance</b>	<b>Variance %</b>
<i>Admissions</i>				
Medical/surgical	<b>190</b>	181	9	5%
Skilled nursing	<b>96</b>	53	43	81%
<i>Patient Days</i>				
Medical/surgical	<b>631</b>	575	56	10%
Skilled nursing	<b>1,366</b>	688	678	99%
Custodial	<b>2,723</b>	4,049	(1,326)	-33%
<i>Outpatient Utilization</i>				
Outpatient registrations	<b>10,580</b>	11,481	(901)	-8%
Observation registrations	<b>218</b>	199	19	10%
Emergency registrations	<b>4,721</b>	4,456	265	6%
Physician clinics	<b>13,197</b>	14,101	(904)	-6%

The District is facing pricing pressure in the market as consumers look to commoditize the healthcare industry. Management’s focus on growing the skilled nursing program is showing evidence of success with a 99 percent increase in patient days. This program’s focus is to return patients to the local market that sought advance care outside of the 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 2019. Employee benefit cost continues to grow with an aging workforce.

The primary components of these changes in operating losses are:

- An increase in skilled nursing days of 99 percent.
- A decrease in physician clinic visit and referral outpatient utilization in laboratory and radiological encounters.
- Increase in salaries and benefits expense of \$603,040, or 4 percent, from 2018 to 2019, and an increase of \$1,486,419, or 10 percent, from 2017 to 2018.
- 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.
- The District exited a proprietary therapy contract with a non-recurring cost of \$491,000 in the current year.

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Management’s Discussion and Analysis (Continued)  
Years Ended December 31, 2019 and 2018**

**Capital Assets**

At the end of 2019, the District had \$9,469,416 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

**Debt**

At year end, the District had \$7,205,950 in revenue notes, mortgage loans, and capital lease obligations outstanding. The District issued no new debt in 2019. 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 Morton General Hospital, PO Box 1138, Morton, Washington 98356.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Statements of Net Position**  
**December 31, 2019 and 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 4,690,387	\$ 3,669,659
Receivables:		
Patient accounts	3,814,638	3,347,146
Estimated third-party payor settlements	374,592	1,148,345
Taxes	30,141	30,047
Taxes restricted for debt service	29,897	28,873
Other	112,724	92,544
Inventories	257,648	301,090
Prepaid expenses and other	270,106	278,904
Total current assets	9,580,133	8,896,608
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	608,170	594,184
Cash and cash equivalents, restricted for debt service	731,721	688,171
Capital assets, net	9,469,416	10,823,038
Total noncurrent assets	10,809,307	12,105,393
<b>Total assets</b>	<b>\$ 20,389,440</b>	<b>\$ 21,002,001</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, 2019 and 2018**

<b>LIABILITIES AND NET POSITION</b>	<b>2019</b>	<b>2018</b>
<i>Current liabilities</i>		
Accounts payable	\$ 579,821	\$ 504,174
Accrued compensation and related liabilities	1,446,790	1,448,524
Estimated third-party payor settlements	577,252	-
Electronic health records incentive payback	194,689	194,689
Current maturities of long-term debt	1,005,000	1,636,780
Current portion of capital lease obligations	77,857	86,175
Total current liabilities	<b>3,881,409</b>	<b>3,870,342</b>
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	7,205,950	8,237,808
Capital lease obligations, less current portion	-	76,581
Total noncurrent liabilities	<b>7,205,950</b>	<b>8,314,389</b>
Total liabilities	<b>11,087,359</b>	<b>12,184,731</b>
<i>Net position</i>		
Net investment in capital assets	1,180,609	785,694
Restricted for debt service	761,618	717,044
Unrestricted	7,359,854	7,314,532
Total net position	<b>9,302,081</b>	<b>8,817,270</b>
<b>Total liabilities and net position</b>	<b>\$ 20,389,440</b>	<b>\$ 21,002,001</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, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<i>Operating revenues</i>		
Net patient revenue	\$ 26,965,225	\$ 25,070,163
Grants	127,329	76,301
Other	418,258	349,058
<b>Total operating revenues</b>	<b>27,510,812</b>	<b>25,495,522</b>
<i>Operating expenses</i>		
Salaries and wages	13,291,870	12,995,173
Employee benefits	3,468,801	3,162,458
Professional fees	3,631,231	2,577,389
Supplies	1,895,561	2,132,690
Utilities	386,128	376,161
Purchased services	1,965,280	1,652,472
Leases and rentals	128,090	143,686
Repairs and maintenance	389,054	378,757
Depreciation and amortization	1,780,460	1,826,344
Insurance	199,590	180,577
Other	1,313,648	853,685
<b>Total operating expenses</b>	<b>28,449,713</b>	<b>26,279,392</b>
<i>Operating loss</i>	<b>(938,901)</b>	<b>(783,870)</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	803,187	809,119
Taxation for bond principal and interest	806,800	811,338
Contributions	16,692	19,698
Build America Bond subsidy	92,146	91,929
Gain on sale of assets	2,359	8,200
Interest income	131,170	101,990
Interest expense	(428,642)	(501,004)
<b>Total nonoperating revenues, net</b>	<b>1,423,712</b>	<b>1,341,270</b>
Change in net position	484,811	557,400
Net position, beginning of year	8,817,270	8,259,870
<b>Net position, end of year</b>	<b>\$ 9,302,081</b>	<b>\$ 8,817,270</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, 2019 and 2018**

	2019	2018
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 27,848,738	\$ 23,466,385
Cash received from grants	127,329	76,301
Cash received from other revenue	418,258	349,058
Cash paid to and on behalf of employees	(16,780,812)	(15,998,255)
Cash paid to suppliers and contractors	(9,782,468)	(8,314,725)
Net cash provided by (used in) operating activities	1,831,045	(421,236)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	803,093	812,669
Contributions received	16,692	19,698
Net cash provided by noncapital financing activities	819,785	832,367
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	805,776	813,270
Interest paid	(455,500)	(516,670)
Principal payments on long-term debt	(1,636,780)	(1,566,721)
Principal payments on capital leases	(84,899)	(85,137)
Payments for purchase of capital assets	(426,838)	(602,700)
Proceeds from the sale of capital assets	2,359	11,000
Cash received from Build America Bonds subsidy	92,146	91,929
Net cash used in capital and related financing activities	(1,703,736)	(1,855,029)
<i>Cash flows from investing activities</i>		
Interest received	131,170	101,990
Net increase (decrease) in cash and cash equivalents	1,078,264	(1,341,908)
Cash and cash equivalents, beginning of year	4,952,014	6,293,922
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,030,278</b>	<b>\$ 4,952,014</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, 2019 and 2018**

	2019	2018
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 4,690,387	\$ 3,669,659
Cash and cash equivalents, limited as to use for capital acquisitions	608,170	594,184
Cash and cash equivalents, restricted for debt service	731,721	688,171
<b>Total cash and cash equivalents</b>	<b>\$ 6,030,278</b>	<b>\$ 4,952,014</b>
<b><i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i></b>		
Operating loss	\$ (938,901)	\$ (783,870)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,780,460	1,826,344
Provision for bad debts	824,575	1,152,549
Decrease (increase) in current assets:		
Receivables:		
Patient accounts, net	(1,292,067)	(2,257,190)
Estimated third-party payor settlements	773,753	(499,137)
Other	(20,180)	(84,027)
Inventories	43,442	(109,879)
Prepaid expenses and other	8,798	(32,308)
Increase (decrease) in current liabilities:		
Accounts payable	75,647	137,765
Accrued compensation and related liabilities	(1,734)	228,517
Estimated third-party payor settlements	577,252	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,831,045</b>	<b>\$ (421,236)</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, 2019 and 2018**

**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 and Mossyrock, Washington. The District provides healthcare services to patients in eastern Lewis County, Washington. The services provided include acute care, emergency room, long-term 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. The District has no material component units.

**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.

*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.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

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

**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.

**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.

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

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

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

*Reclassifications* – Certain reclassifications of the 2018 amounts have been made in the financial statements in order to conform to the 2019 presentation. These reclassifications had no effect on the previously reported change in net position.

*Subsequent events* – Subsequent events have been reviewed through April 27, 2020, the date on which the financial statements were available to be issued.

*Change in accounting principle* – The Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*, which is effective for the year ended December 31, 2019. GASB No. 84 requires fiduciary component units to be presented in the basic financial statements as discretely presented component units. The District's 403(b) plan is not material to the District's financial statements and has not been presented in the District's financial statements.

*Upcoming accounting standard pronouncements* – In July 2017, the 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, 2020, 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, 2020. 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, 2019 and 2018**

**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, 2019 and 2018, were approximately \$4,915,000 and \$4,139,000, 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, 2019 and 2018**

**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>2019</b>	<b>2018</b>
Receivables from patients and their insurance carriers	\$ 1,309,205	\$ 1,782,739
Receivables from Medicare	2,518,631	1,871,774
Receivables from Medicaid	352,028	385,751
Receivables from 340b contract pharmacy	64,741	-
Total patient accounts receivable	<b>4,244,605</b>	4,040,264
Less allowance for uncollectible accounts	<b>429,967</b>	693,118
<b>Patient accounts receivable, net</b>	<b>\$ 3,814,638</b>	<b>\$ 3,347,146</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**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, 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)
Total capital assets being depreciated, net	9,695,348	(1,665,764)	-	65,435		8,095,019
<b>Capital assets, net</b>	\$ 10,823,038	\$ (1,351,782)	\$ (1,840)	\$ -		\$ 9,469,416

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

	Balance December 31,				Balance December 31,
	2017	Additions	Retirements	Transfers	2018
<i>Capital assets not being depreciated</i>					
Land	\$ 971,399	\$ -	\$ (2,800)	\$ -	\$ 968,599
Construction in progress	221,000	459,919	-	(521,828)	159,091
Total capital assets not being depreciated	1,192,399	459,919	(2,800)	(521,828)	1,127,690
<i>Capital assets being depreciated</i>					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	17,024,205	-	(57,925)	20,963	16,987,243
Equipment	10,055,760	142,781	(629,174)	500,865	10,070,232
Total capital assets being depreciated	28,506,704	142,781	(687,099)	521,828	28,484,214
<i>Less accumulated depreciation for</i>					
Land improvements	(895,795)	(89,151)	-	-	(984,946)
Buildings and improvements	(10,459,179)	(697,315)	57,925	-	(11,098,569)
Equipment	(6,294,647)	(1,039,878)	629,174	-	(6,705,351)
Total accumulated depreciation	(17,649,621)	(1,826,344)	687,099	-	(18,788,866)
<i>Total capital assets being depreciated, net</i>	10,857,083	(1,683,563)	-	521,828	9,695,348
<b>Capital assets, net</b>	<b>\$ 12,049,482</b>	<b>\$ (1,223,644)</b>	<b>\$ (2,800)</b>	<b>\$ -</b>	<b>\$ 10,823,038</b>

At December 31, 2019, construction in progress included the costs of two projects:

- The installation of a new Mindray telemetry system, which had additional costs of approximately \$85,000 and was completed in January 2020.
- 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 \$3,900,000 and is expected to be complete in the first quarter of 2021.

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**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 Mass Mutual. 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. 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, 2019 and 2018, were approximately \$485,000 and \$472,000, respectively. Employee contributions to the Plan for the years ended December 31, 2019 and 2018, were approximately \$780,000 and \$755,000, respectively.

The District owed approximately \$30,000 and \$67,000 to the Plan at December 31, 2019 and 2018, respectively.



**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**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, 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>\$ 10,037,344</b>	<b>\$ -</b>	<b>\$ (1,748,537)</b>	<b>\$ 8,288,807</b>	<b>\$ 1,082,857</b>

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due Within One Year
<i>Long-term debt</i>					
Note payable to De Lage (Cerner)	\$ 1,312,139	\$ -	\$ (645,359)	\$ 666,780	\$ 666,780
Note payable to Security State Bank	6,362	-	(6,362)	-	-
2005 LTGO bonds	1,540,000	-	(165,000)	1,375,000	170,000
2010 LTGO A bonds	655,000	-	(70,000)	585,000	80,000
2010 LTGO B bonds	4,130,000	-	-	4,130,000	-
2012 UTGO bonds	3,740,000	-	(680,000)	3,060,000	720,000
Bond premiums and discounts	73,474	-	(15,666)	57,808	-
<b>Total long-term debt</b>	<b>11,456,975</b>	<b>-</b>	<b>(1,582,387)</b>	<b>9,874,588</b>	<b>1,636,780</b>
<i>Capital lease obligations</i>					
Regents	109,681	-	(35,544)	74,137	36,682
De Lage (Cerner)	32,559	-	(13,680)	18,879	13,208
Everbank	105,653	-	(35,913)	69,740	36,285
<b>Total capital lease obligations</b>	<b>247,893</b>	<b>-</b>	<b>(85,137)</b>	<b>162,756</b>	<b>86,175</b>
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 11,704,868</b>	<b>\$ -</b>	<b>\$ (1,667,524)</b>	<b>\$ 10,037,344</b>	<b>\$ 1,722,955</b>

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**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:

- 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 \$180,000 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 \$80,000 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 \$745,000 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, 2019 and 2018**

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

*Capital lease obligations* – The terms and due dates of the District’s capital lease obligations are as follows:

- Capital lease obligations with Regents Capital Corporation, dated January 2016, due in combined quarterly installments of \$9,561, including interest of 2.1 percent through November 2020.
- Capital lease obligation with De Lage Landen Public Finance, collateralized by leased software, dated May 2015, due in monthly installments of \$1,146, including interest of 4.27 percent through May 2020.
- Capital lease obligation with Everbank, collateralized by equipment, dated November 2015, due in monthly installments ranging from \$1,500 to \$3,065, including interest of 3.4 percent through October 2020.

The lease obligations are reflected in the District’s assets and liabilities. The assets acquired under the capital leases had a capitalized cost of \$400,344 and \$400,344 and accumulated amortization of \$302,588 and \$234,939 as of December 31, 2019 and 2018, respectively.

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

Years Ending December 31,	LTGO Bonds		
	Principal	Interest	Totals
2020	\$ 260,000	\$ 357,074	\$ 617,074
2021	270,000	345,832	615,832
2022	280,000	333,649	613,649
2023	295,000	320,998	615,998
2024	310,000	307,670	617,670
2025-2029	1,750,000	1,269,731	3,019,731
2030-2034	2,180,000	632,044	2,812,044
2035	495,000	34,031	529,031
	<b>\$ 5,840,000</b>	<b>\$ 3,601,029</b>	<b>\$ 9,441,029</b>

Years Ending December 31,	UTGO Bonds		
	Principal	Interest	Totals
2020	\$ 745,000	\$ 58,675	\$ 803,675
2021	780,000	41,913	821,913
2022	815,000	22,413	837,413
2023	-	-	-
2024	-	-	-
2025-2029	-	-	-
2030-2034	-	-	-
2035	-	-	-
	<b>\$ 2,340,000</b>	<b>\$ 123,001</b>	<b>\$ 2,463,001</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

Years Ending December 31,	Total Long-term Debt		
	Principal	Interest	Totals
2020	\$ 1,005,000	\$ 415,749	\$ 1,420,749
2021	1,050,000	387,745	1,437,745
2022	1,095,000	356,062	1,451,062
2023	295,000	320,998	615,998
2024	310,000	307,670	617,670
2025-2029	1,750,000	1,269,731	3,019,731
2030-2034	2,180,000	632,044	2,812,044
2035	495,000	34,031	529,031
	<b>\$ 8,180,000</b>	<b>\$ 3,724,030</b>	<b>\$ 11,904,030</b>

**7. 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 2019 or 2018. 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:

	2019	2018
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 17,638,303	\$ 15,133,365
Medicaid	4,050,612	5,232,887
Other third-party payors	4,638,035	4,542,265
Patients	1,373,862	1,469,163
340b contract pharmacy	208,578	-
	<b>27,909,390</b>	<b>26,377,680</b>
Less:		
Charity care	119,590	154,968
Provision for bad debts	824,575	1,152,549
<b>Net patient service revenue</b>	<b>\$ 26,965,225</b>	<b>\$ 25,070,163</b>

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**7. 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 increased by approximately \$11,000 in 2019 and decreased by approximately \$73,000 in 2018, 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, 2019 and 2018, were approximately \$76,000 and \$96,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2019 and 2018.

**8. 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.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**8. Property Taxes (continued):**

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>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>

<b>2018</b>				
	<b>Levy Rate</b>	<b>Assessed Value</b>		<b>Total Levy Amount</b>
		<b>Real and Personal</b>	<b>Timber</b>	
Bond	0.5805	\$ 1,026,865,608	\$ 343,825,566	<b>\$ 795,649</b>
Maintenance and operation	0.5719	\$ 1,043,569,928	-	<b>\$ 596,788</b>

**9. 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.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**9. Risk Management and Contingencies (continued):**

*Medical malpractice claims (continued)* – 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 \$60,631 and \$40,493 dividend from the Public Hospital District Unemployment Compensation Trust in 2019 and 2018, respectively, which was offset against unemployment expense. Payments by the District charged to unemployment expense prior to the dividend were approximately \$60,000 and \$59,000 in 2019 and 2018, 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, 2019 and 2018**

**10. 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:

	<b>2019</b>	<b>2018</b>
Claim liability, beginning of year	\$ 69,141	\$ -
Current year claims and changes in estimates	1,336,201	1,264,532
Claims payments	<b>(1,335,342)</b>	<b>(1,195,391)</b>
<b>Claim liability, end of year</b>	<b>\$ 70,000</b>	<b>\$ 69,141</b>

**11. 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>2019</b>	<b>2018</b>
Medicare	49 %	44 %
Medicaid	16	15
Other third-party payors	28	31
Patients	7	10
	<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.

Effective July 8, 2019, 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.



**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**12. 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.

State and federal governments are providing emergency funding to help hospitals overcome these negative effects. The District has received CARES Act Provider Relief Fund and Washington State Health Care Authority funding of \$545,000 and \$142,857, respectively, subsequent to year end. Medicare sequestration has been suspended from May 1, 2020 through December 31, 2020, increasing Medicare reimbursement by 2 percent.

As of December 31, 2019, the District had unrestricted reserves representing 83 days of operating expenses. The District also has also received subsequent to year end accelerated Medicare payments of \$5,321,833 to help with short-term liquidity. The accelerated Medicare payments are scheduled to begin to be repaid 120 days after receipt. The District has also received subsequent to year end a Small Business Administration Payroll Protection Program loan through North Cascades Bank. This loan contains a forgiveness provision that can be applied for after June 30, 2020, in which the loan could be forgiven partially or entirely, based on the District meeting qualifications.

State and federal governments are also considering additional emergency funding to help hospitals overcome these negative effects.

In addition to accepting funding from the CARES Act Provider Relief Fund, management plans on restarting elective surgeries when the state of Washington removes the restrictions. The District could also utilize its unrestricted reserves to cover operating expenses until revenues recover. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.



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, 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, and have issued our report thereon dated April 27, 2020.

**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  
April 27, 2020

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Summary Schedule of Prior Year Audit Findings  
Year Ended December 31, 2019**

The audit for the year ended December 31, 2018, reported no audit findings, nor were there any unresolved findings from the periods ended December 31, 2017, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2019.