Office of the Washington State Auditor
Pat McCarthy

August 9, 2018

Board of Appointed Representatives
Hospice of the Northwest
Mount Vernon, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Hospice of the Northwest's financial statements for the fiscal year ended December 31, 2017. The District contracted with the CPA firm for this audit under an agreement with the State Auditor's Office.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest

Financial Statements and
Supplementary Information with
Independent Auditor's Report

Years Ended December 31, 2017 and 2016

Larson Gross

Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest

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Larson Gross

Independent Auditor's Report

Board of Directors
Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest
Mount Vernon, Washington

Report on the Financial Statements
We have audited the accompanying financial statements of Skagit Hospice Services, LLC. d/b/a Hospice of the Northwest (the Organization), which comprise the statements of net position as of December 31, 2017 and 2016, the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 or America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skagit Hospice Services, LLC. d/b/a Hospice of the Northwest as of December 31, 2017 and 2016, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3-5 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 March 26, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 18 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 taken as a whole.

Larson Gross PLLC

Burlington, Washington
March 26, 2018

Management's Discussion and Analysis

Management's Discussion and Analysis

December 31, 2017 and 2016

This discussion and analysis provides an overview of the financial position and financial activities of Skagit Hospice Services, LLC. d/b/a Hospice of the Northwest (the Organization).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes to the financial statements, which follow this section. The statements of net position and the statements of revenues, expenses, and changes in net position report information about the Organization's resource and its activities. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Organization's net position and changes in it. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating.

Statements of Net Position (in thousands)

	2017	2016
Current assets		
Cash	$ 524	$ 2,523
Investments	2,006	-
Patient accounts receivable, net	992	1,059
Other receivables and prepaid expenses	94	39
Total current assets	3,616	3,621
Office furniture and equipment, net	40	41
Deferred outflows of resources	-	-
Total assets and deferred outflows of resources	$ 3,656	$ 3,662
Current liabilities		
Accounts payable and accrued expenses	$ 758	$ 700
Total current liabilities	758	700
Deferred inflows of resources	-	-
Net position		
Net investment in capital assets	40	41
Unrestricted	2,858	2,921
Total net position	2,898	2,962
Total liabilities, deferred inflows of resources, and net position	$ 3,656	$ 3,662

Statements of Net Position (in thousands) – (Continued)

Assets
Total current assets of approximately $3,616 and $3,621 at December 31, 2017 and 2016, respectively, were approximately $40 lower and $212 higher than at year-end 2016 and 2015, respectively. The decrease from 2016 to 2017 was a result of an approximately $101 decrease in net patient accounts receivable due to improved collection efforts. An increase in other receivables of approximately $94 of amounts due from the Hospice of the Northwest Foundation, and a decrease in cash and investments of approximately $20. During the year, the Organization deposited $2,000 as a reserve with the County Treasury and is being held in short-term investment vehicles. The increase from 2015 to 2016 was a result of an increase in cash of approximately $865,000 due to the absence of a membership distribution in 2016. A decrease in net accounts receivable of approximately $627,000 was a result of a change in billing service.

At December 31, 2017, property and equipment, net of accumulated depreciation, decreased approximately $1 compared to 2016 due to the purchase of new computer equipment offset by depreciation expense. At December 31, 2016, property and equipment, net of accumulated depreciation, increased approximately $18 compared to 2015 due to purchase of new computer equipment.

Liabilities
Current liabilities increased by approximately $58 from 2016 to 2017 due to a increase in accounts payable to Hospital District No. 1. Current liabilities remained consistent from 2015 to 2016.

Performance Overview

The following is a comparison of 2017 actual revenues, expenses, and changes in net position results to 2016 results (in thousands):

	2017	2016
Operating revenues		
Net patient service revenue, net of contractual discounts and allowances	$ 7,677	$ 7,836
Contributions from Hospice of the Northwest Foundation	448	399
Other operating income	1	1
Total operating revenues	8,126	8,236
Operating expenses		
Hospice services	5,613	5,216
Administration	2,587	2,796
Total operating expenses	8,200	8,012
Operating income (loss)	(74)	224
Nonoperating revenues		
Interest income	10	3
Total nonoperating revenues	10	3

Performance Overview – (Continued)

	2017	2016
Increase (decrease) in net position	(64)	227
Net position - beginning of year	2,962	2,735
Net position - end of year	$ 2,898	$ 2,962

Operating revenues
In 2017, operating revenues decreased by approximately $110, or 1.3%, over 2016. Net patient service revenue decreased by approximately $159, or 2.0% due to a 4.1% decrease in patient volume from 47,364 patient days in 2016 to 45,434 patient days in 2017. Contributions from the Hospice of the Northwest Foundation increased approximately $49 in 2017 compared to 2016.

In 2016, operating revenues increased approximately $238, or 3.0%, over 2015. The increase was primarily related to a 1.6% increase in patient volume from 46,626 patient days in 2015 to 47,364 patient days in 2016. Additionally, there was a $3.30 per patient day increase in reimbursement, primarily from Medicare's new two-tier payment structure and service intensity add-on.

Operating expenses
Operating expenses increased by approximately $188, or 2.3%, from 2016 to 2017. Wages and benefits increased by approximately $250, or 4.8%, compared to 2016, due to a 6% increase in full-time equivalent (FTE) personnel (53 FTEs in 2017 versus 50 FTEs in 2016) that was not offset by an increase in patient census in 2017 (budgeted patient days for 2017 were 49,640 versus actual of 45,505). The increase in labor costs was offset by a decreased need for contract services. Contract services and professional fees expense decreased approximately $112, or 21%, compared to 2016. Management fees, which are tied to wages, increased approximately $37, or 4.8%.

Operating expenses increased by approximately $666, or 9.1%, from 2015 to 2016. Salaries, wages, and employee benefits accounted for the majority of the increase with approximately $663 in additional expenses. This labor cost increase is primarily attributed to union and cost of living wage increases, salary increase from administrative staff turnover, and growth in the number of full-time equivalents to support the increase in patient volume and provide better patient care. Management fees increased approximately $100, or 14.8%, which is calculated as 15% of total labor and benefits costs.

Net position
Operating income (loss) was approximately $224 in 2016 and $(74) in 2017. The net loss was primarily due to the hiring of staff and training costs in 2017 for a predicted increase in census based on a two-year trend. This increase did not materialize due to a downtrend in skilled nursing facility patients, temporary changes in discharge practices for area hospitals, and a staffing interruption in the Organization's outreach department. The Organization made no distributions to the members in 2017 or 2016.

Contacting the Organization's Financial Management of Net Position

This financial report is designed to provide our patients, suppliers, and members, with a general overview of the Organization's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Laws, Executive Director, at (360) 814-5550, 227 Freeway Drive, Suite A, Mount Vernon, Washington 98273.

Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest

Statements of Net Position

December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current assets		
Cash	$ 522,745	$ 2,522,712
Short-term investments	2,006,453	-
Patient accounts receivable, net of allowance for doubtful accounts of $65,881 and $65,640 as of December 31, 2017 and 2016, respectively	958,248	1,059,358
Patient accounts receivable, related party	33,885	-
Other receivables	92,093	23,242
Prepaid expenses	2,300	15,733
Total current assets	3,615,724	3,621,045
Office furniture and equipment, net	40,070	40,660
Deferred outflows of resources	-	-
Total assets and deferred outflows of resources	$ 3,655,794	$ 3,661,705

Liabilities, Deferred Inflows of Resources, and Net Position

	2017	2016
Current liabilities		
Accounts payable	$ 119,156	$ 97,709
Accounts payable - related party	577,090	537,074
Accrued expenses	61,388	64,650
Total current liabilities	757,634	699,433
Deferred inflows of resources	-	-
Net position		
Net investment in capital assets	40,070	40,660
Unrestricted	2,858,090	2,921,612
Total net position	2,898,160	2,962,272
Total liabilities, deferred inflows of resources, and net position	$ 3,655,794	$ 3,661,705

The accompanying notes are an integral part of these financial statements.

Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of contractual discounts and allowances	$ 7,676,748	$ 7,835,701
Contributions from Hospice of the Northwest Foundation	448,612	399,298
Other operating income	1,046	647
Total operating revenues	8,126,406	8,235,646
Operating expenses		
Hospice services	5,613,343	5,216,495
Administration	2,586,964	2,795,803
Total operating expenses	8,200,307	8,012,298
Operating income (loss)	(73,901)	223,348
Nonoperating revenues		
Interest income	9,789	3,511
Total nonoperating revenues	9,789	3,511
Increase (decrease) in net position	(64,112)	226,859
Net position - beginning of year	2,962,272	2,735,413
Net position - end of year	$ 2,898,160	$ 2,962,272

Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received from and on behalf of patients	$ 7,745,871	$ 8,454,193
Cash paid to suppliers and for other expenses	(2,700,944)	(2,833,051)
Cash paid to employees	(5,405,346)	(5,155,425)
Other cash receipts	390,596	440,107
Net cash provided by operating activities	30,177	905,824
Cash flows from capital and related financing activities		
Purchase of property and equipment	(23,691)	(40,737)
Net cash used by capital and related financing activities	(23,691)	(40,737)
Cash flows from investing activities		
Purchase of investments	(2,000,000)	-
Reinvested investment income	(6,453)	-
Net cash used by investing activities	(2,006,453)	-
Cash flows from noncapital financing activities	-	-
Net cash used by noncapital financing activities	-	-
Net change in cash	(1,999,967)	865,087
Cash - beginning of year	2,522,712	1,657,625
Cash - end of year	$ 522,745	$ 2,522,712
Reconciliation of income before partnership distributions to net cash provided (used) by operating activities:		
Increase (decrease) in net position	$ (64,112)	$ 226,859
Depreciation	24,281	22,383
(Increase) decrease in:		
Patient accounts receivable	101,110	626,946
Patient accounts receivable - related party	(33,885)	-
Other receivables	(68,851)	36,651
Prepaid expenses	13,433	(10,620)
Increase (decrease) in:		
Accounts payable and accrued expenses	18,185	(4,582)
Accounts payable - related party	40,016	8,187
Net cash provided by operating activities	$ 30,177	$ 905,824

The accompanying notes are an integral part of these financial statements.

Note 1 – Nature of Operations and Significant Accounting Policies

Organization – Skagit Hospice Services, LLC. d/b/a Hospice of the Northwest (the Organization) was formed as a domestic limited liability company by Public Hospital Districts No. 1 (PHD No. 1) and No. 304 (PHD No. 304) of Skagit County, Washington to provide services to residents of the districts and surrounding communities. Each member has capital and profit interests of 50%.

Basis of accounting – The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental account and financial reporting principles.

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Cash – Cash consists of cash in the bank for statement of cash flow purposes.

Short-term investments – Investments are held by the State Treasurer and invested in the State Treasurer's Investment Pool and obligations of the United States Government in accordance with state guidelines. Investments are carried at fair value. Investment income are reported as nonoperating revenues on the statements of revenue, expenses, and changes in net position.

Patient accounts receivable – Accounts receivable are stated at net realizable value. Third party contractual adjustments are made based on contracted rates. Receivables are reduced by an allowance for estimated uncollectible amounts and accounts deemed uncollectible are charged against this allowance. The Organization provides care to patients regardless of their ability to pay. Although every effort is made to collect payments, a significant number of these accounts are ultimately determined to be uncollectible. The Organization does not charge interest on past due receivable balances.

Office furniture and equipment – The Organization capitalizes assets with an individual cost and projects with an aggregate cost greater than $1,000. Purchased property is carried at cost. Expenses for repairs and maintenance are charged to operations as incurred. Depreciation is computed using the straight-line method based on estimated useful lives stipulated by the American Hospital Association guidelines, which range from 3 to 40 years.

Net position – The Organization's net position is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specified purpose. At December 31, 2017 and 2016, the Organization did not have a restricted net position. The unrestricted component of net positions is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Note 1 – Nature of Operations and Significant Accounting Policies – (Continued)

Operating revenues and expenses – The Organization's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as net patient service revenue, result from exchange transactions associated with providing hospice services – the Organization's primary business. Nonexchange revenues, such as contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide hospice services. Peripheral or incidental transactions are reported as nonoperating gains or losses.

Net patient service revenue – The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity care – The Organization receives payment from Hospice of the Northwest Foundation (the Foundation) for patients that are unable to meet financial obligations for hospice services. In 2017 and 2016, the Foundation incurred expenses totaling $30,165 and $32,713, respectively, for uncompensated care, which are recognized as net patient service revenue, net of contractual discounts and allowances, on the statements of revenues, expenses, and changes in net position.

Concentrations of credit risk – The Organization maintains its cash in bank accounts that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

The Organization also grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The breakout of net receivables from patients and third-party payers was as follows for the years ended December 31:

	Shown as %	
	2017	2016
Medicare	80	77
Medicaid	5	4
Other third-party payers	15	19
	100	100

Federal income tax – The Organization is not subject to federal income tax. The members of the Organization are governmental entities not subject to federal income tax.

Allocation of functional expenses – The costs of providing hospice services and administration have been summarized on a functional basis in the statements of revenues, expenses, and changes in net position. Accordingly, certain costs have been allocated to hospice services and supporting activities benefited.

Note 1 – Nature of Operations and Significant Accounting Policies – (Continued)

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, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's financial statement presentation.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 26, 2018, the date the financial statements were available to be issued.

Note 2 – Short-term Investments

The Organization makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool (LGIP), eligible bankers' acceptances, and repurchase agreements.

As a joint venture of two political subdivisions of the state, the Organization categorizes investments to give an indication of the risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the Organization's agent in the Organization 's name. Category 2 includes' uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the Organization 's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the Organization's name.

All investments of the Organization are categorized as Category 1 and consist of the following at December 31:

	2017	2016
Short-term investments		
Investment in State Treasurer's Investment Pool	$ 1,009,386	$ -
Federal Home Loan Agency Bond	500,000	-
Treasury bill	497,067	-
	$ 2,006,453	$ -

The Organization participates in the LGIP. The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST and any proposed changes are reviewed by the LGIP Advisory Committee.

Note 2 – Short-term Investments – (Continued)

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Organization 's investment policy limits the types of investments to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Custodial credit risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the Organization will not be able to recover the value of the investment that are in the possession of an outside party. All U.S. government investments are held by the Organization 's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Organization 's investment in a single issuer. The Organization mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The Organization manages interest rate risk by limiting the maximum maturity of any one investment.

Interest income included in nonoperating revenues totaled $9,789 and $-0- for the years ended December 31, 2017 and 2016, respectively.

Note 3 – Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. The Organization records a provision for uncollectible accounts related to self-pay portions of patient billings in the period the services are provided. This provision for uncollectible accounts is presented on the statements of revenues, expenses, and changes in net position as a component of net patient service revenue.

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established schedule. These payment arrangements include:

Medicare – Services rendered to Medicare program beneficiaries are reimbursed at a daily rate for each day the patient is enrolled in the hospice benefit. Rates are determined by the patient's level of care and adjusted to account for differences in wage rates among markets. A final reimbursement settlement is determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary.

Note 3 – Net Patient Service Revenue – (Continued)

Medicaid – Services rendered to Medicaid program beneficiaries are reimbursed at a daily rate for each day the patient is enrolled in the hospice benefit. Rates are determined by the patient's level of care and adjusted to account for differences in wage rates among markets. A final reimbursement settlement is determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary.

Approximately 94% and 97% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by an amount in the near term.

Note 4 – Office Furniture and Equipment

A summary of office furniture and equipment is as follows at December 31:

	2017	2016
Office furniture and equipment	$ 395,144	$ 371,454
Less accumulated depreciation	(355,074)	(330,794)
	$ 40,070	$ 40,660

Depreciation expense totaled $24,281 and $22,383 for the years ended December 31, 2017 and 2016, respectively.

Note 5 – Related Party Transactions

All employees of the Organization are employed by and fall under the benefit plans, including deferred compensation plans, collective bargaining agreements, and employment policies of member PHD No.1. In addition, the Organization reimburses PHD No. 1 for employee salaries and an additional 25% of salaries for benefits and other costs of employment. PHD No. 1 also provides payroll, human resources, information services, liability insurance coverage, and additional services as needed to the Organization. Management fee is determined based on a rate of 15% applied to gross salaries and employee benefits expense.

Note 5 – Related Party Transactions – (Continued)

A summary of operating expenses incurred by the Organization under these agreements is as follows for the years ended December 31:

	2017	2016
Salaries, wages, and payroll taxes	$ 4,324,277	$ 4,124,340
Employee benefits	1,081,069	1,031,085
Contract services and professional fees	884,378	876,412
Travel and meals	168,403	184,060
Other	30,697	12,538
Medical supplies	9,017	11,505
	$ 6,497,841	$ 6,239,940

Accounts payable owed to PHD No. 1 included in the statements of net position totaled $577,090 and $537,074 at December 31, 2017 and 2016, respectively.

The Organization pays 50% of employee salaries and related expenses on behalf of the Foundation. The Foundation supports the Organization by soliciting and managing contributions to provide reimbursement for uncompensated patient care (see Note 1), bereavement staff wages, and other expenses as requested by the Organization.

Contributions received from the Foundation totaled $448,612 and $399,298 for the years ended December 31, 2017 and 2016, respectively.

A summary of operating expenses incurred by the Organization under this arrangement is as follows for the years ended December 31:

	2017	2016
Salaries, wages, and payroll taxes	$ 110,562	$ 94,978
Employee benefits	27,641	23,745
Management fees	20,730	17,808
Facility	9,138	8,754
	$ 168,071	$ 145,285

Patient accounts receivable due from the Foundation included in the statements of net position totaled $33,885 and $-0- at December 31, 2017 and 2016, respectively.

Other receivables due from the Foundation included in the statements of net position totaled $90,662 and $23,242 at December 31, 2017 and 2016, respectively.

Note 6 – Leases

The Organization leases certain facilities under operating lease agreements. Rent expense, including triple net costs, is included in operating expenses on the statements of revenues, expenses, and changes in net position and totaled $207,022 and $198,319 for the years ended December 31, 2017 and 2016, respectively. The following is a schedule by year of future minimum lease payments, including triple net costs, as of December 31:

2018	$	198,000
2019		201,000
2020		33,000
	$	432,000

Note 7 – Risk Management

The Organization 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 illness; natural disasters; medical malpractice; and employee accident benefits. Risk management services including commercial insurance coverage are provided to the Organization as part of a management agreement with PHD No. 1 for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Pursuant to that agreement, PHD No. 1 has kept, in full force and effect, professional liability insurance on a claims-made basis of at least $1 million per occurrence and $3 million annual aggregate limit. In addition, employees of PHD No. 1 provided as a purchased service to the Organization are covered under PHD No. 1's self-insured worker's compensation policy.

Note 8 – Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.

Required Supplementary Information

Larson Gross

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 Directors
Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest
Mount Vernon, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Skagit Hospice Services, LLC. d/b/a Hospice of the Northwest's (the Organization) basic financial statements, and have issued out report thereon dated March 26, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization'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 Organization'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 or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

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Bellingham
Burlington
Lynden

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Larson Gross PLLC

Bellingham, Washington
March 26, 2018

Supplementary Information

Skagit Hospice Services, LLC.
d/b/a Hospice of the Northwest

Statement of Functional Expenses

Year Ended December 31, 2017

(With Summarized Comparative Totals for Year Ended December 31, 2016)

	Hospice Services	Administration	2017 Total	2016 Total
Salaries, wages, and payroll taxes	$ 3,199,965	$ 1,124,312	$ 4,324,277	$ 4,124,340
Employee benefits	799,991	281,078	1,081,069	1,031,085
Total salaries, wages, payroll taxes, and employee benefits	3,999,956	1,405,390	5,405,346	5,155,425
Medical supplies	941,762	-	941,762	951,932
Management fees	-	810,802	810,802	773,314
Contract services and professional fees	286,036	140,884	426,920	539,432
Facility	100,638	150,958	251,596	247,621
Travel and meals	205,370	30,688	236,058	223,188
Office supplies and minor equipment	17,167	18,933	36,100	37,515
Dues and subscriptions	18,576	6,527	25,103	21,853
Insurance	15,129	5,316	20,445	21,314
Training	10,784	1,611	12,395	-
Taxes, fees, and licenses	1,900	7,599	9,499	18,321
	5,597,318	2,578,708	8,176,026	7,989,915
Depreciation	16,025	8,256	24,281	22,383
Total expenses	$ 5,613,343	$ 2,586,964	$ 8,200,307	$ 8,012,298