



**Office of the Washington State Auditor
Pat McCarthy**

January 31, 2019

Board of Commissioners
United General District 304
Sedro Woolley, 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 United General District 304's financial statements for the fiscal years ended December 31, 2017 and 2016. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor 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 Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Sedro Woolley, Washington

Financial Statements and Supplementary Information

Years Ended December 31, 2017 and 2016

WIPFLi^{LLP}
CPAs and Consultants

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Financial Statements and Supplementary Information

Years Ended December 31, 2017 and 2016

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Independent Auditor's Report

Board of Commissioners
Skagit County Public Hospital District No. 304
d/b/a United General District 304
Sedro Woolley, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Skagit County Public Hospital District No. 304 d/b/a United General District 304 (the "District"), as of and for the years ended December 31, 2017 and 2016, 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in 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 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 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, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The statements of net position – by operating division and the related statements of revenue, expenses, and changes in net position – by operating division are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary 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. Such 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. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The directory of officials is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Wipfli LLP

Wipfli LLP

April 24, 2018
Spokane, Washington

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Net Position

December 31, 2017 and 2016

<i>Assets</i>	2017	2016
Current assets:		
Cash and cash equivalents:		
Cash	\$ 13,324,140	\$ 13,411,636
Restricted	1,221,425	1,221,093
Receivables:		
Patient account-Net	-	21,462
Taxes	29,427	32,869
Other	568,051	599,700
Prepaid expenses	48,270	26,854
Total current assets	15,191,313	15,313,614
Capital assets:		
Land	1,945,854	1,175,702
Depreciable capital assets - Net of accumulated depreciation	5,486,739	6,449,389
Capital assets - Net	7,432,593	7,625,091
Other assets:		
Equity interest in joint venture	1,467,014	1,548,539
Investment in land	774,697	774,697
Total other assets	2,241,711	2,323,236
TOTAL ASSETS	\$ 24,865,617	\$ 25,261,941

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Net Position (Continued)

December 31, 2017 and 2016

<i>Liabilities and Net Position</i>	2017	2016
Current liabilities:		
Warrants outstanding	\$ 142,051	\$ 8,656
Accounts payable	408,613	352,593
Accrued payroll and related liabilities	42,619	40,152
Accrued vacation	135,908	101,420
Due to third-party payors	50,000	50,000
Total current liabilities	779,191	552,821
Contingent liabilities and commitments - Provision for malpractice cost	50,000	50,000
Total liabilities	829,191	602,821
Net position:		
Net investment in capital assets	7,432,593	7,625,091
Restricted expendable net position	1,221,425	1,221,093
Unrestricted	15,382,408	15,812,936
Total net position	24,036,426	24,659,120
TOTAL LIABILITIES AND NET POSITION	\$ 24,865,617	\$ 25,261,941

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenue:		
Noncapital grants and contributions	\$ 1,387,678	\$ 1,444,466
Other	201,486	130,065
Total operating revenue	1,589,164	1,574,531
Operating expenses:		
Salaries and wages	1,061,066	983,300
Employee benefits	294,424	237,103
Professional fees	32,756	22,406
Supplies	133,413	158,315
Purchased services - Utilities	40,907	39,129
Purchased services - Other	543,545	667,763
Insurance	51,872	55,879
Rents and leases	168,360	165,761
Other	105,169	95,479
Depreciation	1,051,328	1,284,019
Total operating expenses	3,482,840	3,709,154
Loss from operations	(1,893,676)	(2,134,623)
Nonoperating revenue (expenses):		
Property taxes	1,065,420	110,263
Interest income	132,145	85,826
Gain (loss) on capital asset disposition	(10,376)	129,143
Income (loss) from joint ventures	(81,527)	119,528
Rental income	147,773	153,526
Total nonoperating revenue - Net	1,253,435	598,286
Loss before capital contributions	(640,241)	(1,536,337)
Capital contributions	17,547	-
Decrease in net position	(622,694)	(1,536,337)
Net position - Beginning of year	24,659,120	26,195,457
Net position - End of year	\$ 24,036,426	\$ 24,659,120

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from noncapital grants and contributions	\$ 1,419,327	\$ 1,690,797
Cash received from other operating revenue	222,948	212,116
Cash paid for salaries and benefits	(1,318,535)	(1,195,811)
Cash paid for supplies, professional fees, and other operating expenses	(908,023)	(1,544,069)
Net cash used in operating activities	(584,283)	(836,967)
Cash flows from noncapital financing activities -		
Cash provided by tax revenue for operations	1,068,862	109,106
Cash flows from capital and related financing activities:		
Capital grants	17,547	-
Proceeds from disposal of capital assets	2,002	241,527
Purchase of capital assets	(871,210)	(263,297)
Net cash used in capital and related financing activities	(851,661)	(21,770)
Cash flows from investing activities:		
Interest income	132,145	85,826
Rental income	147,773	153,526
Distributions to joint ventures	-	(40,000)
Net cash provided by investing activities	279,918	199,352
Net decrease in cash and cash equivalents	(87,164)	(550,279)
Cash and cash equivalents at beginning	14,632,729	15,183,008
Cash and cash equivalents at end	\$ 14,545,565	\$ 14,632,729
Reconciliation to presentation of cash on statements of net position:		
Cash and cash equivalents	\$ 13,324,140	\$ 13,411,636
Restricted	1,221,425	1,221,093
Cash and cash equivalents at end	\$ 14,545,565	\$ 14,632,729

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Cash Flows (Continued)

Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (1,893,676)	\$ (2,134,623)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	1,051,328	1,284,019
Recovery of bad debts	-	(103,285)
Change in operating assets and liabilities:		
Receivables:		
Patient accounts	21,462	154,823
Other	31,649	246,331
Prepaid expenses	(21,416)	(16,612)
Warrants outstanding	133,395	(417,611)
Accounts payable	56,020	94,886
Accrued payroll and related liabilities	2,467	6,015
Accrued vacation	34,488	18,577
Due to third-party payors	-	30,513
Total adjustments	1,309,393	1,297,656
Net cash used in operating activities	\$ (584,283)	\$ (836,967)

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Skagit County Public Hospital District No. 304 d/b/a United General District 304 (the “District”), previously doing business as United General Hospital and United Medical Clinics, operates under the laws of the State of Washington for municipal corporations. The District is governed by an elected five-member Board of Commissioners.

The District provides a variety of services to the community, including various community health outreach programs, several low-income grant programs, and access to a fitness center. The District owns hospital and clinic facilities that serve the residents of Skagit and Whatcom Counties in the state of Washington.

United General Foundation (the “Foundation”) is a legally separate 501(c)(3) tax-exempt nonprofit public benefit corporation. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income thereon that the Foundation holds and invests, are restricted to the activities of the District by the Foundation’s bylaws, and for this reason it is a blended component unit of the District.

Affiliation With PeaceHealth

On April 1, 2014, the District transferred operations of United General Hospital, a 25-bed critical access hospital, and certain operations of United Medical Clinics to PeaceHealth St. Joseph’s Medical Center (“PeaceHealth”). Services provided by the operations of United General Hospital and United Medical Clinics included acute care, emergency, surgery, rehabilitation, medical and radiation cancer care, primary care, and related ancillary services. The District and PeaceHealth completed “due diligence” and negotiated terms captured in a Master Agreement dated January 24, 2013, (the “Master Agreement”) that provided for PeaceHealth to assume operations of the District’s health care facilities. An application for a Certificate of Need from the State of Washington’s Department of Health was approved on May 6, 2013.

In 2014, the District and PeaceHealth entered into an operating agreement dated April 1, 2014 (the “Operating Agreement”). The Operating Agreement provided for PeaceHealth to assume operations of the District’s health care facilities for a 30-year term, with automatic renewal for two additional 10-year terms upon completion of the initial term. Upon closing of the Operating Agreement, PeaceHealth reimbursed the District for certain purchased assets and prepaid contracts. Under terms of the Master Agreement, any excluded assets and liabilities of the District remained with the District. In addition, the Operating Agreement requires the District pay a semiannual subsidy, to be funded from ad valorem tax on all taxable property of the District, to assist PeaceHealth in providing health care services to residents of the District.

The amount of the subsidy can amount up to 90% of the taxes levied and is subject to adjustment based on net income produced by continuing health care operations.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Affiliation With PeaceHealth (Continued)

The Operating Agreement contains real estate and equipment lease addendums (the “Lease Addendums”) that provide for PeaceHealth to lease the health care facilities and specific equipment of the District for a nominal annual fee under an initial five-year term, with options to extend the leases for five additional terms of five years each. The Lease Addendums require the District to provide up to \$125,000 annually in a preventative maintenance allowance and a \$2,000,000 maintenance and facility fund. PeaceHealth is able to utilize up to 50% of the maintenance and facility fund to perform structural repairs, with the remainder of the fund to be used upon mutual agreement of PeaceHealth and the District. It is the intent of the District and PeaceHealth that the District remain financially viable in order to carry out other programs of the District; therefore, the Operating Agreement contains limited conditions upon which the District’s funding of the subsidy, preventative maintenance allowance, and maintenance and facility fund can be reviewed after other mutually agreed-upon options have been pursued.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by the Government Accounting Standards Board.

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in the *Accounting and Reporting Manual for Hospitals*. The District’s statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. The financial statements include the accounts of both operating divisions of the District. All District assets, liabilities, and financial transactions are included in these financial statements, and all material interdivision transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Cash and Cash Equivalents

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and shares in the local government investment pool.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments

The County Treasurer invests cash in interest-bearing investments at the direction of the District. All investments are in the Washington State Local Government Investment Pool (WSLGIP), which is a safe short-term liquidity vehicle. Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same value as the fair value of the pool shares. The WSLGIP operates in a manner consistent with Section 2a-7 of the U.S. Securities and Exchange Commission's Investment Act of 1940 and is unrated. Investments with the WSLGIP are considered cash and cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include the maintenance and facility fund required by the Operating Agreement with PeaceHealth. The fund will be used to maintain the condition of the facility and equipment, with 50% immediately accessible by PeaceHealth and the other 50% requiring mutual agreement.

Capital Assets

The District's assets are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is classified in nonoperating gains and losses. Donated items are recorded at fair market value at the date of contribution and are subsequently considered as being on the basis of cost. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	5-25 years
Buildings and fixed equipment	5-40 years
Major moveable and minor equipment	3-20 years
Software	3-5 years

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital assets might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Asset Impairment (Continued)

Such events or changes in circumstance that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue, expenses, and changes in net position. No impairment losses were recorded in 2017 and 2016.

Investment in Land

The District has a ground lease with J & J Skagit, L.L.C., a Washington limited liability corporation (the "Tenant"), under which land owned by the District is leased to the Tenant for a term of 99 years. The Tenant constructed, operates, and maintains a medical office building and the associated parking for the term of the lease.

The leased land is reported as investment in land under other assets on the statements of net position and the rental income from the lease is reported under nonoperating revenue on the statements of revenues expenses, and changes in net position.

The District owns land for a future hospital expansion or relocation. The land is reported as investment in land under other assets on the statements of net position.

Compensated Absense

The Paid Time-off (PTO) program at the District provides eligible employees with appropriate compensation during holidays, vacation time, certain periods of treatment or illness for the employee or dependents, and personal leave. The District accrues leave for compensated absences as an expense and a liability when earned, based on the employee's status. The maximum allowable balance of PTO time for each employee is twice his or her annual accrual. All employees who terminate their employment, with proper notice, will be paid unused PTO hours at their regular rate of pay up to 80% of their balance. The Extended Illness Bank (EIB) provided employees with appropriate compensation for illnesses for themselves or a dependent child that extended beyond 16 consecutive scheduled hours. The District did not accrue a liability for EIB, and EIB was discontinued as of April 1, 2014.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 the current balances of any outstanding borrowing used to finance the purchase of construction of those assets. Restricted expendable net position is noncapital 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 remaining net position that does not meet the other definitions above. When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first.

Operating Revenues and Expenses

The District's statements of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with providing health care services, the District's primary business. Nonexchange revenue, including taxes, grants and contributions, received for purposes other than capital assets acquisition, and results from joint ventures are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

The District receives grants from various federal granting agencies, Skagit County, and the State of Washington, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Property Taxes

The District has the authority to impose taxes on property within the boundaries of the District. Taxes are received from Skagit County (the "County"). Ad valorem taxes and per-parcel assessments are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same year. Taxes are payable in two equal installments on April 30 and October 31.

Advertising Cost

Advertising costs are expensed as incurred. Advertising expense totaled \$5,609 in 2017 and \$1,920 in 2016.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Tax Status

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

Subsequent Events

Subsequent events have been evaluated through April 24, 2018, which is the date the financial statements were available to be issued.

Note 2: Cash and Cash Equivalents

Deposits and Investments

The District has funds on deposit with the Treasurer of Skagit County, Washington. 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 WSLGIP; savings accounts in qualified public depositories; and certain other investments.

The District maintains an investment policy designed to maximize return and limit the following types of risks:

Custodial credit risk - The risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are covered entirely 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. 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 type.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 2: Cash and Cash Equivalents (Continued)

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.

The carrying amount of cash, cash equivalents, and investments was as follows at December 31:

	2017	2016
Cash on deposit	\$ 104,531	\$ 98,818
Cash (WSLGIP)	514,876	533,934
Investment (WSLGIP)	12,664,233	12,738,493
Certificate of deposit - Foundation operations	40,300	40,191
Cash on hand	200	200
Totals	\$ 13,324,140	\$ 13,411,636

The carrying amount of cash, cash equivalents, and investments included in the District's restricted assets was as follows at December 31:

	2017	2016
Restricted (WSLGIP)	\$ 1,221,425	\$ 1,221,093

Note 3: Restricted Assets

Restricted assets consisted of the following at December 31:

	2017	2016
Repairs and maintenance fund	\$ 1,182,328	\$ 1,182,328
Oncology expenditures	39,097	38,765
Restricted (WSLGIP)	\$ 1,221,425	\$ 1,221,093

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2017, was as follows:

	January 1, 2017	Additions	Retirements	December 31, 2017
Land	\$ 1,175,702	\$ -	\$ -	\$ 1,175,702
Construction in progress	-	770,152	-	770,152
Total nondepreciable assets	1,175,702	770,152	-	1,945,854
Land improvements	1,969,842	-	-	1,969,842
Buildings and improvements	27,014,732	101,058	-	27,115,790
Equipment	15,737,750	-	(331,005)	15,406,745
Software	2,064,252	-	-	2,064,252
Total depreciable assets	46,786,576	101,058	(331,005)	46,556,629
Less accumulated depreciation for:				
Land improvements	1,437,086	103,553	-	1,540,639
Buildings and improvements	21,942,562	732,480	-	22,675,042
Equipment	14,935,796	215,295	(318,625)	14,832,466
Software	2,021,743	-	-	2,021,743
Total accumulated depreciation	40,337,187	1,051,328	(318,625)	41,069,890
Capital assets - Net	\$ 7,625,091	\$ (180,118)	\$ (12,380)	\$ 7,432,593

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 4: Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2016, was as follows:

	January 1, 2016	Additions	Retirements	December 31, 2016
Land	\$ 1,284,799	\$ -	\$ (109,097)	\$ 1,175,702
Total nondepreciable assets	1,284,799	-	(109,097)	1,175,702
Land improvements	1,970,652	-	(810)	1,969,842
Buildings and improvements	27,098,360	44,373	(128,001)	27,014,732
Equipment	15,894,960	218,924	(376,134)	15,737,750
Software	2,064,252	-	-	2,064,252
Total depreciable assets	47,028,224	263,297	(504,945)	46,786,576
Less accumulated depreciation for:				
Land improvements	1,327,491	110,230	(635)	1,437,086
Buildings and improvements	21,335,299	732,151	(124,888)	21,942,562
Equipment	14,870,293	441,638	(376,135)	14,935,796
Software	2,021,743	-	-	2,021,743
Total accumulated depreciation	39,554,826	1,284,019	(501,658)	40,337,187
Capital assets - Net	\$ 8,758,197	\$ (1,020,722)	\$ (112,384)	\$ 7,625,091

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 5: Joint Ventures

Skagit Hospice Services, LLC

As of December 31, 2017 and 2016, the District had a 50% interest in Skagit Hospice Services, LLC ("Hospice"), along with Skagit Valley Hospital (SVH). The District accounts for its interest in the joint venture on the equity method.

Summarized financial information from Hospice's internal financial statements at December 31 is as follows:

	2017	2016
Total assets	\$ 3,666,919	\$ 3,694,205
Account payable and other liabilities	\$ 774,218	\$ 694,667
Partner's capital	2,892,701	2,999,538
Total liabilities and capital	\$ 3,666,919	\$ 3,694,205
Revenue	\$ 8,136,194	\$ 7,998,467
Net income	\$ (69,574)	\$ 217,443

The District and Public Hospital District No. 1 doing business as SVH are partners in Affiliated Health Services (AHS), a Washington general partnership. The AHS partnership ended operations effective January 1, 2004 (the disaffiliation date), and certain assets, liabilities, and net position of the partnership were distributed as provided by the disaffiliation agreement. Other assets and liabilities remain in the AHS partnership. As part of the winding up of the affairs of the partnership, the Districts have agreed to utilize the assets remaining in the partnership to pay estimated liabilities.

The remaining reserves and liabilities consist of workers' compensation claims related to employees of AHS through December 31, 2003. The partners have agreed to continue the partnership until substantially all remaining liabilities have been paid and to equally share any excess liabilities or assets.

Affiliated Health Services

As of December 31, 2017 and 2016, the District had a 50% interest in AHS, along with SVH. The District accounts for its interest in the joint venture on the equity method.

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Notes to Financial Statements

Note 5: Joint Ventures (Continued)

Summarized financial information from AHS's internal financial statements at December 31 is as follows:

	2017	2016
Total assets	\$ 44,838	\$ 98,204
Account payable and other liabilities	\$ 3,513	\$ 664
Partner's capital	41,325	97,540
Total liabilities and capital	\$ 44,838	\$ 98,204
Revenue	\$ 7,324	\$ 8,662
Net loss	\$ (56,215)	\$ (25,071)

Note 6: Property Taxes

The District received approximately 34.05% and 4.71% percent of its financial support from property taxes for the years ended December 31, 2017 and 2016. These funds were used as follows:

	2017	2016
Used to support operations	\$ 1,065,420	\$ 110,263

The District is permitted to levy a maintenance and operations tax on the taxable property within the district without a vote of the taxpayers. As a junior taxing district, the District's regular property tax levy may be reduced under certain circumstances if the aggregate tax levy of all senior and junior taxing districts covering the same geographical areas as the District exceeds \$.50 per \$1,000 of value. Maintenance and operations tax revenue are included in nonoperating revenue in the accompanying statements of revenue, expenses, and changes in net position. Property taxes are recorded as receivables when levied. Since state law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 7: Lease

The District is leasing an administration building and a Women, Infants, and Children clinic building. Minimum lease payments are expected to be \$150,000 annually, increased each year by the consumer price index, through the expiration of the lease in 2021. Lease expenses for the years ended December 31, 2017 and 2016, amounted to approximately \$150,000 and \$150,000, respectively.

Skagit County Public Hospital District No. 304

d/b/a United General District 304

Notes to Financial Statements

Note 8: Retirement Plans

The District maintains a defined contribution retirement plan covering substantially all of the employees meeting certain eligibility requirements. The District's contribution is based on the salaries of active participants in accordance with formulas specified in the plan. The plan's third-party trustees select the fund manager (Voya Financial) to invest the assets of the plan. Total expense incurred for this plan for the years ended December 31, 2017 and 2016, was \$27,661 and \$27,163, respectively.

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Compensation deferred under the deferred compensation plan and all income attributable to the plan have been placed in trust (or custodial account or annuity contract) for the exclusive benefit of plan participants and their beneficiaries.

Note 9: Self-Insured Plans

The District has a self-insured unemployment plan. The District has joined the Public Hospital District Unemployment Compensation Fund that is administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Total unemployment expense for December 31, 2017 and 2016, was approximately \$9,000 and \$7,000, respectively.

Note 10: Risk Management

The District has its professional liability insurance coverage with Physicians Insurance. The policy provides protection on a "claims made" basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy. Claims under this policy must be submitted to the carrier during the policy period or within 60 days after expiration of the policy for coverage to apply. If there are unreported incidents that result in malpractice claims in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchased claims-made insurance in that year or the District purchased "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of the claims-made policy. The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Note 11: Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the classifications used in 2017.

Supplementary Information

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Net Postion - By Operating Division

December 31, 2017

<i>Assets</i>	United General District 304	United General Foundation	Eliminations	Total
Current assets:				
Cash and cash equivalents:				
Cash	\$ 13,179,309	\$ 144,831	\$ -	\$ 13,324,140
Restricted	1,221,425	-	-	1,221,425
Receivables:				
Patient account - Net	-	-	-	-
Taxes	29,427	-	-	29,427
Other	573,551	-	(5,500)	568,051
Prepaid expenses	48,270	-	-	48,270
Total current assets	15,051,982	144,831	(5,500)	15,191,313
Capital assets:				
Land	1,945,854	-	-	1,945,854
Depreciable capital assets - Net	5,486,739	-	-	5,486,739
Capital assets - Net	7,432,593	-	-	7,432,593
Other assets:				
Equity interest in joint venture	1,467,014	-	-	1,467,014
Investment in land	774,697	-	-	774,697
Total other assets	2,241,711	-	-	2,241,711
TOTAL ASSETS	\$ 24,726,286	\$ 144,831	\$ (5,500)	\$ 24,865,617

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Statements of Net Postion - By Operating Division (Continued)

December 31, 2017

<i>Liabilities and Net Position</i>	United General District 304	Uniterd General Foundation	Eliminations	Total
Current liabilities:				
Warrents outstanding	\$ 142,051	\$ -	\$ -	\$ 142,051
Accounts payable	360,813	53,300	(5,500)	408,613
Accrued payroll and related liabilities	42,619	-	-	42,619
Accrued vacation	135,908	-	-	135,908
Due to third-party payors	50,000	-	-	50,000
Total current liabilities	731,391	53,300	(5,500)	779,191
Contingent liabilities and commitments -				
Provision for malpractice cost	50,000	-	-	50,000
Total liabilities	781,391	53,300	(5,500)	829,191
Net position:				
Net investment in capital assets	7,432,593	-	-	7,432,593
Restricted expendable net position	1,221,425	-	-	1,221,425
Unrestricted	15,290,877	91,531	-	15,382,408
Total net position	23,944,895	91,531	-	24,036,426
TOTAL LIABILITIES AND NET POSITION	\$ 24,726,286	\$ 144,831	\$ (5,500)	\$ 24,865,617

Skagit County Public Hospital District No. 304

d/b/a United General District 304

Statements of Revenues, Expenses, and Changes in Net Position - By Operating Division

Year Ended December 31, 2017

	United General District 304	United General Foundation	Eliminations	Total
Operating revenue:				
Noncapital grants and contributions	\$ 1,418,774	\$ 163,544	\$ (194,640)	\$ 1,387,678
Other	163,264	38,222	-	201,486
Total operating revenue	1,582,038	201,766	(194,640)	1,589,164
Operating expenses:				
Salaries and wages	1,061,066	-	-	1,061,066
Employee benefits	294,424	-	-	294,424
Professional fees	32,756	-	-	32,756
Supplies	131,055	2,358	-	133,413
Purchased services - Utilities	37,989	2,918	-	40,907
Purchased services - Other	536,163	7,382	-	543,545
Insurance	51,872	-	-	51,872
Rents and leases	159,960	8,400	-	168,360
Other	98,549	201,260	(194,640)	105,169
Depreciation	1,051,328	-	-	1,051,328
Total operating expenses	3,455,162	222,318	(194,640)	3,482,840
Loss from operations	(1,873,124)	(20,552)	-	(1,893,676)
Nonoperating revenue (expenses):				
Property taxes	1,065,420	-	-	1,065,420
Interest income	131,940	205	-	132,145
Loss on capital asset disposition	(10,376)	-	-	(10,376)
Loss from joint ventures	(81,527)	-	-	(81,527)
Rental income	147,773	-	-	147,773
Total nonoperating revenue - Net	1,253,230	205	-	1,253,435
Loss before capital contributions	(619,894)	(20,347)	-	(640,241)
Capital contributions	17,547	-	-	17,547
Change in net position	(602,347)	(20,347)	-	(622,694)
Net position - Beginning of year	24,547,242	111,878	-	24,659,120
Net position - End of year	\$ 23,944,895	\$ 91,531	\$ -	\$ 24,036,426

Skagit County Public Hospital District No. 304 d/b/a United General District 304

Directory of Officials

December 31, 2017

	Elected	Term	Expiration
Commissioners:	Andrew C. Hunter	6	2021
	Charles S. Ruhl	6	2023
	Gary L. Kent	6	2019
	Jeri Kaufman	6	2023
	Robert Stanely	6	2019

	<u>Appointed</u>
Administrator:	Ted Brockmann

Attorney Foster Pepper

Mailing Address

District: Skagit County Public Hospital District No. 304
 d/b/a United General District 304
 2241 Hospital Drive
 Sedro Woolley, Washington 98284