



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

September 10, 2020

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 financial statements of the Hospice of the Northwest for the fiscal years ended December 31, 2019 and 2018. The Agency contracted with the CPA firm for this audit and requested that we accept it 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

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

**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, 2019 and 2018

Larson Gross 

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

Contents

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis (unaudited).....	3-6
Financial Statements	
Statements of Net Position	7
Foundation Statements of Financial Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Foundation Statements of Activities.....	10
Statements of Cash Flows	11
Notes to Financial Statements	12-20
Required Supplementary Information	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22

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, 2019 and 2018, and 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 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 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.

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, 2019 and 2018, 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 3-6 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 28, 2020, 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.

Audit of Component Unit

In accordance with Government Auditing Standards, we have included the basic financial statements of Skagit Hospice Foundation D/B/A Hospice of the Northwest Foundation (the Foundation), a component unit of the Organization as of and for the years ended December 31, 2019 and 2018, on pages 8 and 10. The Foundation's financial statements were audited by us, and in our report dated April 24, 2020, we expressed an unmodified opinion on those statements.

Larson Gross PLLC

Burlington, Washington
April 28, 2020

Management's Discussion and Analysis

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

Management's Discussion and Analysis

December 31, 2019 and 2018

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) and excludes the financial position and results of operations of its discretely presented component unit (Skagit Hospice Foundation D/B/A Hospice of the Northwest Foundation), unless otherwise noted.

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)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets			
Cash	\$ 122	\$ 349	\$ 523
Investments	2,079	2,043	2,006
Patient accounts receivable, net	1,165	1,670	992
Other receivables and prepaid expenses	<u>80</u>	<u>53</u>	<u>95</u>
Total current assets	3,446	4,115	3,616
Office furniture and equipment, net	51	85	40
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 3,497</u>	<u>\$ 4,200</u>	<u>\$ 3,656</u>
Current liabilities			
Accounts payable and accrued expenses	<u>\$ 943</u>	<u>\$ 883</u>	<u>\$ 758</u>
Total current liabilities	943	883	758
Deferred inflows of resources	-	-	-
Net position			
Net investment in capital assets	51	85	40
Unrestricted	<u>2,503</u>	<u>3,232</u>	<u>2,858</u>
Total net position	<u>2,554</u>	<u>3,317</u>	<u>2,898</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,497</u>	<u>\$ 4,200</u>	<u>\$ 3,656</u>

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

Management's Discussion and Analysis

December 31, 2019 and 2018

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

Assets

Total current assets of approximately \$3,446 and \$4,115 at December 31, 2019 and 2018, respectively, were approximately \$669 lower and \$499 higher than at year-end 2018 and 2017, respectively. The decrease from 2018 to 2019 was reflective of a partnership distribution of \$400 to each partner, as well as an approximately \$505 decrease in net patient accounts receivable due to improved collection efforts. Other receivables increased by approximately \$27 for amounts due from the Hospice of the Northwest Foundation, and cash and investments had a net decrease of approximately \$191. During 2019, the Organization earned \$36 on account held with the County Treasury, which is being held in short-term investment vehicles. The increase from 2017 to 2018 was a result of an increase in patient volume as described on page 5. Cash was down \$174 and patient accounts receivable were up \$678 from 2017 due to a billing service provider error. Billings for November Medicare revenue were submitted late in December resulting in a delay in collections. The Organization experienced no issues with collections subsequent to year-end.

At December 31, 2019, property and equipment, net of accumulated depreciation, decreased approximately \$34 compared to 2018 due to depreciation expense. At December 31, 2018, property and equipment, net of accumulated depreciation, increased approximately \$45 compared to 2017 due to the purchase of computer equipment offset by \$25 of depreciation expense.

Liabilities

Current liabilities increased by approximately \$60 from 2018 to 2019 due to an increase in accounts payable to Hospital District No. 1. Current liabilities increased by approximately \$125 from 2017 to 2018 due to an increase in accounts payable to Hospital District No. 1 and accrual of computer equipment purchases.

Statements of Revenues, Expenses, and Changes in Net Position (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
Net patient service revenue, net of contractual discounts and allowances	\$ 9,895	\$ 9,282	\$ 7,677
Other operating income	-	-	1
Total operating revenues	<u>9,895</u>	<u>9,282</u>	<u>7,678</u>
Operating expenses	<u>10,243</u>	<u>9,080</u>	<u>8,200</u>
Operating income (loss)	(348)	202	(522)
Nonoperating revenues			
Contributions from Hospice of the Northwest Foundation, net	337	179	448
Interest income	<u>48</u>	<u>38</u>	<u>10</u>
Total nonoperating revenues	<u>385</u>	<u>217</u>	<u>458</u>

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

Management's Discussion and Analysis

December 31, 2019 and 2018

Statements of Revenues, Expenses, and Changes in Net Position (in thousands) – (Continued)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income before partnership distributions	\$ 37	\$ 419	\$ (64)
Partnership distributions	<u>(800)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	\$ (763)	\$ 419	\$ (64)
Net position – beginning of year	<u>3,317</u>	<u>2,898</u>	<u>2,962</u>
Net position – end of year	<u><u>\$ 2,554</u></u>	<u><u>\$ 3,317</u></u>	<u><u>\$ 2,898</u></u>

Operating revenues

Net patient service revenue increased by approximately \$613, or 6.6% due to a 4.5% increase in patient volume from 55,872 patient days in 2018 to 58,378 patient days in 2019 and a 1.9% increase in average net revenue per patient day from \$168.00 in 2018 to \$171.20 in 2019. This increase in net revenue per patient day is reflective of an overall increase in the Medicare Wage Index, adjusted by County, of 2.3%, offset by a 5.3% decrease in shorter length of stay (less than 60 days) billings, which are compensated at a 27% higher rate. Although shorter lengths of stay are billed at a higher rate, longer lengths of stay equate to more revenue per patient overall, and are a good indicator of appropriate hospice referrals.

In 2018, net patient service revenue increased by approximately \$1,605, or 20.9% due to a 23.0% increase in patient volume from 45,434 patient days in 2017 to 55,872 patient days in 2018.

Operating expenses

Operating expenses increased by approximately \$1,163, or 12.8%, from 2018 to 2019. Wages and benefits increased by approximately \$789, or 13.2%, compared to 2018, due to a 10.5% increase in full-time equivalent (FTE) personnel (63 FTEs in 2019 versus 57 FTEs in 2018) in order to meet the staffing needs for the increase in patient volume. In addition, average wages per FTE increased 7% (\$39.25 per hour in 2019 versus \$36.70 per hour in 2018). This is due to contract employee ratification bonuses and step increases, as well as non-contract employee cost of living wage increases. The increase in labor costs was also due to an increased need for contract services. Contract services and professional fees expense increased approximately \$79, or 16.5%, compared to 2018. Management fees, which are tied to wages, increased approximately \$123, or 13.8%.

Operating expenses increased by approximately \$880, or 10.7%, from 2017 to 2018. Wages and benefits increased by approximately \$580, or 10.7%, compared to 2017, due to a 7.5% increase in full-time equivalent (FTE) personnel (57 FTEs in 2018 versus 53 FTEs in 2017) that was needed to manage the increase in patient volume. Other costs related to patient care also increased including medical supplies (\$139 or 14.8%) and travel and meals (\$32 or 15.6%). Contract services and professional fees expense increased approximately \$51, or 11.9%, compared to 2017, as a result of the increase in patient volume, which had an impact on the cost of billing services. In addition, the Organization expanded complementary therapy services and hired a new answering service provider. Management fees, which are tied to wages, increased approximately \$82, or 10.2%.

Management's Discussion and Analysis

December 31, 2019 and 2018

Statements of Revenues, Expenses, and Changes in Net Position (in thousands) – (Continued)

Nonoperating revenues

Contributions from the Skagit Hospice Foundation d/b/a Hospice of the Northwest Foundation (the Foundation) increased approximately \$158 in 2019 compared to 2018. This was partially due to a change in reimbursement. Starting in 2019, the Foundation agreed to reimburse the Hospice for 50% of wages and benefits of Foundation employees – a cost that the Hospice incurs on behalf of the Foundation. Contributions from the Hospice of the Northwest Foundation decreased approximately \$269 in 2018 compared to 2017.

Net position

Operating income (loss) was approximately \$202 in 2018 and \$(348) in 2019. The net operating income in 2018 was primarily due to an increase in patient volume as issues from 2017 were resolved, as well as an overall increase in length of stay due to referrals occurring earlier in the patient's end-of-life process. These referrals are an indication of successful education and outreach efforts with healthcare providers and the community. Additionally, the increase in patient volume began at the end of 2017 and accelerated quickly through 2018, outpacing labor expense. The net operating loss in 2019 was primarily due to the hiring of staff and training costs 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, and temporary changes in discharge practices for area hospitals. The Organization made \$800 in distributions to the members in 2019. No distributions to members were made in 2018.

Contacting the Organization's Financial Management

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets and Deferred Outflows of Resources		
Current assets		
Cash	\$ 121,939	\$ 349,339
Short-term investments	2,079,687	2,042,654
Patient accounts receivable, net of allowance for doubtful accounts of \$83,422 and \$80,693 as of December 31, 2019 and 2018, respectively	1,161,502	1,665,598
Patient accounts receivable, related party	4,072	4,727
Other receivables	60,235	35,246
Prepaid expenses	19,385	18,072
Total current assets	3,446,820	4,115,636
Office furniture and equipment, net	50,746	84,644
Deferred outflows of resources	-	-
Total assets and deferred outflows of resources	<u>\$ 3,497,566</u>	<u>\$ 4,200,280</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Accounts payable	\$ 133,360	\$ 173,740
Accounts payable – related party	710,974	661,056
Accrued expenses	99,069	48,277
Total current liabilities	943,403	883,073
Deferred inflows of resources	-	-
Net position		
Net investment in capital assets	50,746	84,644
Unrestricted	2,503,417	3,232,563
Total net position	2,554,163	3,317,207
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,497,566</u>	<u>\$ 4,200,280</u>

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

Foundation Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash	\$ 206,001	210,186
Pledges receivable, net	3,607	1,363
Prepaid expenses	<u>3,287</u>	<u>2,397</u>
Total current assets	212,895	213,946
Long-term investments	4,362,831	3,839,621
Equipment, net	<u>949</u>	<u>1,249</u>
Total assets	<u><u>\$ 4,576,675</u></u>	<u><u>\$ 4,054,816</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 72,155	\$ 42,498
Deferred revenue	<u>1,500</u>	<u>10,000</u>
Total current liabilities	73,655	52,498
Net Assets		
Without donor restrictions		
Undesignated	345,700	321,443
Net investment in equipment	949	1,249
Board-designated quasi-endowment	<u>4,156,371</u>	<u>3,654,626</u>
Total without donor restrictions	4,503,020	3,977,318
With donor restrictions		
Clinical education	<u>-</u>	<u>25,000</u>
Total with donor restrictions	<u>-</u>	<u>25,000</u>
Total net assets	<u>4,503,020</u>	<u>4,002,318</u>
Total liabilities and net assets	<u><u>\$ 4,576,675</u></u>	<u><u>\$ 4,054,816</u></u>

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

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue, net of contractual discounts and allowances	\$ 9,895,378	\$ 9,282,161
Operating expenses		
Salaries, wages, and payroll taxes	5,420,027	4,794,828
Employee benefits	1,355,007	1,190,952
Medical supplies	1,188,658	1,081,127
Management fees	1,016,255	893,214
Contract services and professional fees	556,375	477,663
Travel and meals	258,841	235,658
Facility	252,314	242,116
Office supplies and minor equipment	44,168	53,050
Insurance	26,277	25,137
Depreciation	33,898	25,011
Training	57,935	40,328
Dues and subscriptions	21,783	14,862
Taxes, fees, and licenses	11,657	9,387
Net (revenue) expense on passthrough services	525	(3,062)
Total operating expenses	<u>10,243,720</u>	<u>9,080,271</u>
Operating income (loss)	(348,342)	201,890
Nonoperating revenues		
Contributions from Hospice of the Northwest Foundation, net	336,945	178,886
Interest income	48,353	38,271
Total nonoperating revenues	<u>385,298</u>	<u>217,157</u>
Income before partnership distributions	36,956	419,047
Partnership distributions	<u>(800,000)</u>	<u>-</u>
Increase (decrease) in net position	(763,044)	419,047
Net position – beginning of year	<u>3,317,207</u>	<u>2,898,160</u>
Net position – end of year	<u><u>\$ 2,554,163</u></u>	<u><u>\$ 3,317,207</u></u>

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

Foundation Statements of Activities

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Revenue						
Investment return (loss)	\$ 693,427	\$ -	\$ 693,427	\$ (159,133)	\$ -	\$ (159,133)
Event income	379,555	-	379,555	346,906	-	346,906
Individual contributions	314,255	-	314,255	202,305	25,000	227,305
In-kind support	194,204	-	194,204	325,524	-	325,524
Other income	402	-	402	-	-	-
Net assets released from restrictions	25,000	(25,000)	-	9,220	(9,220)	-
Total revenue and support, net	1,606,843	(25,000)	1,581,843	724,822	15,780	740,602
Operating expenses						
Program services	805,922	-	805,922	789,184	-	789,184
Management and general	95,611	-	95,611	55,690	-	55,690
Fundraising expenses	179,608	-	179,608	153,091	-	153,091
Total operating expenses	1,081,141	-	1,081,141	997,965	-	997,965
Change in net assets						
	525,702	(25,000)	500,702	(273,143)	15,780	(257,363)
Net assets – beginning of year	3,977,318	25,000	4,002,318	4,250,461	9,220	4,259,681
Net assets – end of year	<u>\$ 4,503,020</u>	<u>\$ -</u>	<u>\$ 4,503,020</u>	<u>\$ 3,977,318</u>	<u>\$ 25,000</u>	<u>\$ 4,002,318</u>

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

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

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received from and on behalf of patients	\$ 10,400,129	\$ 8,704,510
Cash paid to suppliers and for other expenses	(3,375,771)	(3,043,675)
Cash paid to employees	(6,775,034)	(5,985,780)
Other cash receipts	<u>48,353</u>	<u>38,271</u>
Net cash provided (used) by operating activities	297,677	(286,674)
Cash flows from capital and related financing activities		
Purchase of property and equipment	<u>-</u>	<u>(16,809)</u>
Net cash used by capital and related financing activities	-	(16,809)
Cash flows from investing activities		
Proceeds from withdrawal of investment funds	10,000	-
Reinvested investment income, net of fees	<u>(47,033)</u>	<u>(36,201)</u>
Net cash used by investing activities	<u>(37,033)</u>	<u>(36,201)</u>
Cash flows from noncapital financing activities		
Net contributions from Hospice of the Northwest Foundation	311,956	235,733
Partnership distributions	<u>(800,000)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(488,044)</u>	<u>235,733</u>
Decrease in cash	(227,400)	(103,951)
Cash – beginning of year	<u>418,794</u>	<u>522,745</u>
Cash – end of year	<u><u>\$ 191,394</u></u>	<u><u>\$ 418,794</u></u>
Reconciliation of income before partnership distributions to net cash provided (used) by operating activities:		
Increase in net position	\$ 36,956	\$ 419,047
Depreciation	33,898	25,011
(Increase) decrease in:		
Patient accounts receivable	504,096	(707,350)
Patient accounts receivable – related party	655	29,158
Other receivables	(336,945)	(109,431)
Prepaid expenses	(1,313)	(15,772)
Increase (decrease) in:		
Accounts payable and accrued expenses	10,412	(11,303)
Accounts payable – related party	<u>49,918</u>	<u>83,966</u>
Net cash provided (used) by operating activities	<u><u>\$ 297,677</u></u>	<u><u>\$ (286,674)</u></u>

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

Notes to Financial Statements

December 31, 2019 and 2018

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%.

Component unit – Skagit Hospice Foundation D/B/A Hospice of the Northwest Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Organization. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Organization in support of its programs. The board of the Foundation is self-perpetuating. Although the Organization does not control the timing of amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Organization by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Organization, the Foundation is considered a component unit of the Organization and is discretely presented in the Organization's financial statements. Complete financial statements for the Foundation can be obtained from the Administrative Office at 227 Freeway Drive, Suite A, Mount Vernon, WA 98273.

Basis of accounting – The financial statements of the Organization have been prepared in accordance 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 accounting 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.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Organization's financial reporting entity for these differences.

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

Short-term investments – Investments are held by the State Treasurer and invested in the Washington State Local Government Investment Pool in obligations of the United States Government in accordance with state guidelines. Investments are carried at fair value. Investment income is 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. The Organization does not charge interest on past due receivable balances.

Notes to Financial Statements

December 31, 2019 and 2018

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

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.

Deferred outflows and inflows of resources – The Organization reports decreases(increases) in net assets that relate to future periods as deferred outflows(inflows) of resources as separate sections on the statements of net position. The Organization did not recognized any deferred outflows or inflows of resources as of December 31, 2019 and 2018.

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. The restricted component of net position represents noncapital assets that must be used for a specified purpose. At December 31, 2019 and 2018, the Organization did not have a restricted net position. The unrestricted component of net position 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.

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 contributions from Skagit Hospice Foundation d/b/a Hospice of the Northwest Foundation (the Foundation) for patients that are unable to meet financial obligations for hospice services. In 2019 and 2018, the Organization received contributions from the Foundation totaling \$33,951 and \$69,455, respectively, to cover costs for providing uncompensated care.

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.

The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundation files a federal income tax return annually under this section as a public charity. The Foundation is considered to be a supporting organization, operating exclusively to support the Organization. The tax returns for the prior three years remain subject to examination by major tax jurisdictions.

Notes to Financial Statements

December 31, 2019 and 2018

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

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 at December 31:

	Shown as %	
	2019	2018
Medicare	72	87
Medicaid	7	3
Other third-party payers	21	10
	<u>100</u>	<u>100</u>

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 April 28, 2020, 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.

Notes to Financial Statements

December 31, 2019 and 2018

Note 2 – Short-term Investments – (Continued)

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

	2019	2018
Investment in Washington State LGIP	\$ 2,079,687	\$ 2,042,654

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.

Interest income included in nonoperating revenues totaled \$48,353 and \$38,271 for the years ended December 31, 2018 and 2017, respectively.

Note 3 – Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

LGIP: 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.

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 3 – Fair Value Measurements – (Continued)

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.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodology used during the years ended December 31, 2019 and 2018.

The following tables sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

2019				
	Level 1	Level 2	Level 3	Total
Investment fair value hierarchy	\$ -	\$ -	\$ -	\$ -
Investments measured at net asset value ^(a)				
Investment in Washington State LGIP				2,079,687
Total investments at fair value				\$ 2,079,687

2018				
	Level 1	Level 2	Level 3	Total
Investment fair value hierarchy	\$ -	\$ -	\$ -	\$ -
Investments measured at net asset value ^(a)				
Investment in Washington State LGIP				2,042,654
Total investments at fair value				\$ 2,042,654

^(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net position.

To assess the appropriate classification of investments with the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total investments. For the year ended December 31, 2019 and 2018, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 4 – Office Furniture and Equipment

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

	2019	2018
Office furniture and equipment	\$ 159,438	\$ 159,438
Less accumulated depreciation	(108,692)	(74,794)
	<u>\$ 50,746</u>	<u>\$ 84,644</u>

Depreciation expense totaled \$33,898 and \$25,011 for the years ended December 31, 2019 and 2018, respectively.

Note 5 – 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.

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% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018.

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.

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 6 – Component Unit Transactions

During the year ended December 31, 2019 and 2018, the Foundation distributions to the Organization totaled \$531,149 and \$504,410, respectively, including reimbursed expenses for uncompensated care (see Note 1: Charity care), bereavement staff wages, and other expenses as requested by the Organization.

The Organization pays employee salaries and related expenses on behalf of the Foundation. During 2019, the Foundation began reimbursing the Organization for 50% of employee-related costs. A summary of operating expenses incurred by the Organization under this arrangement is as follows for the years ended December 31:

	2019	2018
Salaries, wages, and payroll taxes	\$ 114,129	\$ 220,516
Employee benefits	28,532	55,129
Management fees	42,836	41,347
Facility	8,707	8,532
	<u>\$ 194,204</u>	<u>\$ 325,524</u>

Patient accounts receivable due from the Foundation included in the statements of net position totaled \$4,072 and \$4,727 at December 31, 2019 and 2018, respectively.

Other receivables due from the Foundation included in the statements of net position totaled \$60,201 and \$33,679 at December 31, 2019 and 2018, respectively.

Note 7 – Related Party Transactions

All employees of the Organization are employed by and fall under the benefit plans, including deferred compensation plans, collective bargaining agreements, compensated absences, 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. A summary of operating expenses incurred by the Organization under these agreements is as follows for the years ended December 31:

	2019	2018
Salaries, wages, and payroll taxes	\$ 5,420,027	\$ 4,794,828
Employee benefits	1,355,007	1,190,952
Management fees	1,016,255	893,214
Travel and meals	227,483	189,974
Contract services and professional fees	71,073	70,569
Other	33,454	28,267
Medical supplies	5,395	5,777
	<u>\$ 8,128,694</u>	<u>\$ 7,173,581</u>

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 7 – Related Party Transactions – (Continued)

Accounts payable owed to PHD No. 1 included in the statements of net position totaled \$710,974 and \$661,056 at December 31, 2019 and 2018, respectively.

Note 8 – Leases

The Organization leases certain facilities under an operating lease agreement. Subsequent to year-end, the existing lease agreement was extended for a period of five years expiring in August 2025. Monthly rent totals \$10,407 per month and is subject to annual increases based on the consumer price index. Rent expense, including triple net costs, is included in operating expenses on the statements of revenues, expenses, and changes in net position and totaled \$197,253 and \$193,276 for the years ended December 31, 2019 and 2018, respectively.

The following is a schedule by year of future minimum lease payments, including triple net costs, as of December 31:

2020	\$ 198,000
2021	202,000
2022	205,000
2023	210,000
2024	215,000
Thereafter	146,000
	<u>\$ 1,176,000</u>

Note 9 – Supplemental Disclosure of Cash Flow Information

The following information is a supplement to the statements of cash flows:

	2019	2018
Noncash investing and financing activities:		
Property and equipment purchases in accounts payable	<u>\$ -</u>	<u>\$ 52,776</u>

Note 10 – 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.

Notes to Financial Statements

December 31, 2019 and 2018

Note 10 – Risk Management – (Continued)

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.

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.

Note 11 – Recent Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board (FASB) issued Statement No. 87, "Leases", which requires lessees to record most leases with terms greater than twelve months on their statement of net position by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. Statement No. 87 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is required for annual periods beginning after December 15, 2019. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.

Note 12 – Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates.

Required Supplementary Information

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, 2019, 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 our report thereon dated April 28, 2020.

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.

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
April 28, 2020