



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

October 15, 2020

Board of Commissioners
Whitman Hospital and Medical Center
Colfax, 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 Whitman Hospital and Medical Center for the fiscal year ended December 31, 2019. The District 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

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**Whitman County Public Hospital District No. 3
doing business as
Whitman Hospital and Medical Clinics**

Financial Statements and
Independent Auditors' Reports

December 31, 2019 and 2018



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Colfax, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Whitman County Public Hospital District No. 3 doing business as Whitman Hospital and Medical Clinics (the District) and Whitman Community Hospital Foundation (the Foundation) as of and for the years ended December 31, 2019 and 2018, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and of its discretely presented component unit, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension asset, schedule of employer contributions, and schedule of investment returns on pages 33-35 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2019. We issued a similar report for the year ended December 31, 2018, dated May 1, 2019, which has not been included in the 2019 financial and compliance report. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 13, 2020

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Statements of Net Position
December 31, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
<i>Current assets</i>		
Cash and cash equivalents	\$ 16,206,110	\$ 16,978,885
Investments	-	1,047,156
Receivables:		
Patient accounts	5,781,966	4,435,878
Estimated third-party payor settlements	1,902,477	51,027
Taxes restricted for debt service	31,947	41,516
Other	82,479	22,756
Inventories	888,982	952,805
Prepaid expenses	756,714	373,627
Cash and cash equivalents restricted for debt service	272,419	125,441
Total current assets	25,923,094	24,029,091
<i>Noncurrent assets</i>		
Estimated third-party payor settlements	311,500	356,000
Capital assets, net of accumulated depreciation	22,084,168	23,960,096
Net pension asset	855,756	325,236
Total noncurrent assets	23,251,424	24,641,332
Total assets	49,174,518	48,670,423
<i>Deferred outflows of resources</i>		
Pension plan	70,574	399,745
Total assets and deferred outflows of resources	\$ 49,245,092	\$ 49,070,168

See accompanying notes to basic financial statements.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Statements of Net Position (Continued)
December 31, 2019 and 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2019	2018
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 1,207,403	\$ 1,167,210
Current maturities of capital lease obligations	28,956	-
Accounts payable	800,167	652,252
Accrued compensation and related liabilities	951,099	1,138,795
Accrued vacation	771,514	679,925
Accrued interest payable	31,901	36,990
Estimated third-party payor settlements	-	385,979
Total current liabilities	3,791,040	4,061,151
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	7,050,552	8,167,077
Capital lease obligations, less current maturities	17,133	-
Total noncurrent liabilities	7,067,685	8,167,077
Total liabilities	10,858,725	12,228,228
<i>Deferred inflows of resources</i>		
Electronic health records incentive revenue	-	441,580
Pension plan	280,318	62,130
Total deferred inflows of resources	280,318	503,710
<i>Net position</i>		
Net investment in capital assets	14,521,335	13,861,796
Restricted for debt service	304,366	166,957
Unrestricted	23,280,348	22,309,477
Total net position	38,106,049	36,338,230
Total liabilities, deferred inflows of resources, and net position	\$ 49,245,092	\$ 49,070,168

See accompanying notes to basic financial statements.

Whitman Community Hospital Foundation
Discretely Presented Component Unit
Statements of Financial Position – Discretely Presented Component Unit
December 31, 2019 and 2018

ASSETS	2019	2018
<i>Current assets</i>		
Cash and cash equivalents	\$ 78,727	\$ 62,178
Investments	5,901,955	4,793,706
Total current assets	5,980,682	4,855,884
NET ASSETS		
Net assets without donor restrictions	\$ 5,980,682	\$ 4,855,884

See accompanying notes to basic financial statements.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
<i>Operating revenues</i>		
Net patient service revenue	\$ 33,671,169	\$ 29,475,381
Electronic health records incentive	441,580	543,688
Grants	45,604	51,338
Other	340,451	275,419
Total operating revenues	34,498,804	30,345,826
<i>Operating expenses</i>		
Salaries and wages	13,761,304	12,237,804
Employee benefits	3,552,706	3,111,801
Professional fees	2,835,740	2,178,627
Supplies	3,887,102	3,328,000
Utilities	526,337	546,326
Purchased services	3,210,256	3,210,456
Insurance	180,738	162,254
Repairs and maintenance	905,323	938,892
Leases and rentals	141,746	115,195
Depreciation and amortization	3,244,113	3,235,400
Other	860,701	715,438
Total operating expenses	33,106,066	29,780,193
Operating income	1,392,738	565,633
<i>Nonoperating revenues (expenses)</i>		
Taxation for debt service	1,004,177	1,000,737
Investment return	248,585	148,698
Interest expense	(329,015)	(367,716)
Rental income, net of depreciation of \$71,661 and \$95,670, respectively	48,412	44,807
Joint venture	(623,813)	(578,122)
Gain on disposal of capital asset	21,735	3,000
Total nonoperating revenues (expenses), net	370,081	251,404
Excess of revenues over expenses before capital grants and contributions	1,762,819	817,037
<i>Capital grants and contributions</i>	5,000	63,713
Change in net position	1,767,819	880,750
Net position, beginning of year	36,338,230	35,457,480
Net position, end of year	\$ 38,106,049	\$ 36,338,230

See accompanying notes to basic financial statements.

Whitman Community Hospital Foundation
Discretely Presented Component Unit
Statements of Activities – Discretely Presented Component Unit
Years Ended December 31, 2019 and 2018

	2019	2018
Support and revenue		
Contributions	\$ 74,597	\$ 64,959
Investment return	1,108,279	(271,431)
Other income	-	10,345
Total support and revenue	1,182,876	(196,127)
Expenses		
Program services	1,872	16,830
Management and general	31,421	11,639
Fundraising	24,785	29,296
Total expenses	58,078	57,765
Change in net assets without donor restrictions	1,124,798	(253,892)
Net assets without donor restrictions, beginning of year	4,855,884	5,109,776
Net assets without donor restrictions, end of year	\$ 5,980,682	\$ 4,855,884

See accompanying notes to basic financial statements.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 30,132,152	\$ 30,004,641
Receipt of electronic health records incentive payment	-	181,333
Receipts from grants	45,604	51,338
Other receipts	340,451	275,419
Payments to and on behalf of employees	(17,393,278)	(14,929,168)
Payments to suppliers and contractors	(12,779,015)	(11,187,234)
Net cash provided by operating activities	345,914	4,396,329
<i>Cash flows from noncapital and related financing activities</i>		
Principal paid on long-term debt	-	(90,878)
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	1,013,746	1,002,612
Cash received from capital contributions	5,000	63,713
Principal paid on long-term debt and capital lease obligations	(1,084,151)	(1,036,461)
Interest paid on long-term debt and capital lease obligations	(334,104)	(372,634)
Purchase of capital assets	(1,364,203)	(1,376,040)
Net cash used in capital and related financing activities	(1,763,712)	(1,718,810)
<i>Cash flows from investing activities</i>		
Sale of investments	1,047,156	752,965
Payments to joint ventures	(623,813)	(578,122)
Interest received	248,585	148,698
Rental receipts	120,073	140,477
Net cash provided by investing activities	792,001	464,018
Net increase (decrease) in cash and cash equivalents	(625,797)	3,050,659
Cash and cash equivalents, beginning of year	17,104,326	14,053,667
Cash and cash equivalents, end of year	\$ 16,478,529	\$ 17,104,326

See accompanying notes to basic financial statements.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
<i>Reconciliation of cash and cash equivalents to the statements of net position</i>		
Cash and cash equivalents in current assets	\$ 16,206,110	\$ 16,978,885
Cash and cash equivalents restricted for debt service	272,419	125,441
Total cash and cash equivalents	\$ 16,478,529	\$ 17,104,326
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>		
Operating income	\$ 1,392,738	\$ 565,633
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation and amortization	3,244,113	3,235,400
Provision for bad debts	659,796	587,616
Decrease (increase):		
Patient accounts receivable	(2,005,884)	(542,406)
Estimated third-party payor settlements	(1,806,950)	177,196
Other receivables	(59,723)	65,160
Inventories	63,823	(41,100)
Prepaid expenses	(383,087)	(94,828)
Net pension asset	(530,520)	594,924
Deferred outflows of resources, pension plan	329,171	(399,745)
Increase (decrease):		
Accounts payable	147,915	78,722
Accrued compensation and related liabilities	(187,696)	336,803
Accrued vacation	91,589	(181)
Estimated third-party payor settlements	(385,979)	385,979
Deferred inflow of resources, electronic health records incentive revenue	(441,580)	(441,480)
Deferred inflows of resources, pension plan	218,188	(111,364)
Net cash provided by operating activities	\$ 345,914	\$ 4,396,329

Noncash Capital and Related Financing Activities

During 2019, the District acquired equipment under capital lease obligations in the amount of \$53,908.

See accompanying notes to basic financial statements.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements
Years Ended December 31, 2019 and 2018**

1. Reporting Entity, Foundation, and Summary of Significant Accounting Policies:

a. Reporting Entity

Whitman County Public Hospital District No. 3 (the District) operates Whitman Hospital and Medical Clinics, a 25-bed critical access hospital, primary care clinic, and orthopedic clinic in Colfax, Washington, and primary care clinics in St. John and Tekoa, Washington. The District provides healthcare services to patients in the Colfax, Washington, area. The services provided include acute care, emergency room, surgical and related ancillary procedures (laboratory, imaging, therapy, etc.) associated with those services, and primary care clinic services.

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. The Board of Commissioners consists of five community members elected to six-year terms.

b. Foundation

The Whitman Community Hospital Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the District. The Foundation did not provide any support to the District during 2019 and 2018. The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code from federal income taxes except for unrelated business income.

Functional expenses – The Foundation’s expenses are directly assigned to functional categories. Program expenses consist primarily of support provided to other organizations. Management and general and fundraising expenses consist primarily of purchased services, supplies, and other miscellaneous expenses.

Liquidity and availability of resources – The Foundation’s primary objective is to build its investments to \$10,000,000 so that in the event of financial difficulties of the District, the income from the investments would be available as a source of financial support and reduce the possible need for tax revenue. The Foundation’s secondary objective is to make funds available to the District for projects and activities which the Foundation limits to 15 percent of investment income, excluding gains and losses.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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

b. Foundation

Fair value measurements – The Foundation defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. The Foundation classifies its investments based upon an established 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 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active, or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Investments – The fair values of investments measured on a recurring basis using quoted prices in active markets for identical values (Level 1) are as follows:

	2019	2018
<i>Cash, money funds, and bank deposits</i>	\$ 19,928	\$ 31,588
<i>Exchange-traded products</i>	333,819	263,774
<i>Asset and mortgage-backed securities</i>	1,753	2,965
<i>Stocks</i>	-	85
<i>Mutual funds, fixed income</i>		
Multisector bond	187,502	173,686
World Allocation	633,931	540,066
Allocation 30% to 50%	55,054	47,565
Allocation 70% to 80%	690,288	580,421
<i>Mutual funds, equity</i>		
Allocation 50% to 70%	821,992	689,580
Allocation 85%+	115,634	94,115
Large Blend	-	174,405
Large Growth	774,348	583,140
Large Value	230,688	177,389
Science and Technology	-	136,290
Mid-Ccap Value	219,717	-
Small Growth	223,688	168,276
Technology	199,766	-
World Bond	248,719	237,044
World Large Stock	818,597	643,629
World Small/Mid Stock	326,531	249,688
	\$ 5,901,955	\$ 4,793,706

**Whitman County Public Hospital District No. 3
 doing business as Whitman Hospital and Medical Clinics
 Notes to Basic Financial Statements (Continued)
 Years Ended December 31, 2019 and 2018**

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

c. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise fund accounting – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less. All cash receipts are deposited directly to the District’s depository accounts at a bank. Periodically, such cash is transferred to the Whitman County Treasurer and the warrants are paid by the County Treasurer from this fund.

Inventories – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, acute care, surgery, and other supplies used in the District’s operation.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Useful lives have been estimated as follows:

Land improvements	5 to 25 years
Buildings and improvements	5 to 40 years
Equipment	3 to 20 years

Compensated absences – The District’s policy is to permit regular status full-time employees to accrue paid time off (PTO) benefits. Regular status part-time employees will earn PTO benefits on a pro-rated basis according to actual hours worked (up to 80 hours worked per pay period). Supplemental employees do not accrue PTO. PTO can be accumulated up to a maximum of 560 hours. All PTO is accrued and expensed when earned.

Pension plan – For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plan (Plan), and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

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

c. 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 and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted 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 definition of *net investment in capital assets* or *restricted net position*.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services – the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Grants and contributions – From time to time, the District receives grants from the state of Washington and other governmental and nongovernmental entities, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects, or purposes related to the District’s operating activities, are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Rental activities – The District’s rental revenue is reported net of related expenses and the net revenue is reported as nonoperating revenue.

Fair value measurement – The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District had recurring fair value measurement for bonds, which are valued using a matrix pricing model (Level 2 inputs). Defined benefit plan investments include equity and hedge funds that are valued using quoted prices in active markets (Level 1 inputs) as well as debt (fixed income) investments which are valued using a matrix pricing model (Level 2 inputs).

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

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

c. Summary of Significant Accounting Policies (continued)

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

Upcoming accounting standards pronouncements – In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 31, 2021, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement is effective for the District’s year ending December 31, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Subsequent events – Subsequent events have been reviewed through May 13, 2020, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

The *Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2019 and 2018, were \$15,680,414 and \$6,456,414, respectively.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in multiple financial institution collateral pools 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.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

2. Bank Deposits and Investments (continued):

Credit risk – Credit risk is 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 have a policy specifically requiring or limiting investments of this type.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District believes that its interest rate risk is minimal.

The District’s investments are as follows:

	Investment Rating*	Fair Value	2018	
			Investment Maturities (in Years)	
			Less Than One	One to Five
Federal National Mortgage Association	AAA	1,047,156	1,047,156	
		\$ 1,047,156	\$ 1,047,156	\$ -

* Ratings taken from Moody’s Investor’s Service, www.moody’s.com. AAA is the highest credit quality rating issued by Moody’s Investor’s Service.

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

3. Patient Accounts Receivable (continued):

The District’s allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District consisted of these amounts:

	2019	2018
Receivables from patients and their insurance carriers	\$ 3,092,692	\$ 2,527,237
Receivables from Medicare	2,348,234	1,816,109
Receivables from Medicaid	737,927	458,453
Total patient accounts receivable	6,178,853	4,801,799
Less allowance for uncollectible accounts	396,887	365,921
Patient accounts receivable, net	\$ 5,781,966	\$ 4,435,878

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

4. Capital Assets:

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 397,262	\$ -	\$ -	\$ -	\$ 397,262
Construction in progress	94,762	-	-	(94,762)	-
Total capital assets not being depreciated	492,024	-	-	(94,762)	397,262
<i>Capital assets being depreciated</i>					
Land improvements	451,001	41,258	-	-	492,259
Building and improvements	35,521,417	130,928	(14,020)	2,064,720	37,703,045
Building and improvements - nonoperating	2,056,080	-	-	(2,056,080)	-
Fixed equipment	3,741,998	508,229	(8,443)	86,122	4,327,906
Major movable equipment	10,166,050	759,431	(394,269)	-	10,531,212
Total capital assets being depreciated	51,936,546	1,439,846	(416,732)	94,762	53,054,422
<i>Less accumulated depreciation for</i>					
Land improvements	407,005	9,366	-	-	416,371
Building and improvements	16,460,745	1,577,439	(14,020)	1,469,259	19,493,423
Building and improvements - nonoperating	1,398,782	71,661	-	(1,470,443)	-
Fixed equipment	2,164,139	459,002	(8,443)	1,184	2,615,882
Major movable equipment	8,037,803	1,198,306	(394,269)	-	8,841,840
Total accumulated depreciation	28,468,474	3,315,774	(416,732)	-	31,367,516
<i>Total capital assets being depreciated, net</i>	23,468,072	(1,875,928)	-	94,762	21,686,906
Capital assets, net	\$ 23,960,096	\$ (1,875,928)	\$ -	\$ -	\$ 22,084,168

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

4. Capital Assets (continued):

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 397,262	\$ -	\$ -	\$ -	\$ 397,262
Construction in progress	130,835	52,771	-	(88,844)	94,762
Total capital assets not being depreciated	528,097	52,771	-	(88,844)	492,024
<i>Capital assets being depreciated</i>					
Land improvements	464,931	-	(13,930)	-	451,001
Building and improvements	35,285,713	161,561	-	74,143	35,521,417
Building and improvements - nonoperating	2,056,080	-	-	-	2,056,080
Fixed equipment	3,096,622	654,676	(10,500)	1,200	3,741,998
Major movable equipment	11,193,716	510,032	(1,551,199)	13,501	10,166,050
Total capital assets being depreciated	52,097,062	1,326,269	(1,575,629)	88,844	51,936,546
<i>Less accumulated depreciation for</i>					
Land improvements	404,444	16,491	(13,930)	-	407,005
Building and improvements	14,812,372	1,648,373	-	-	16,460,745
Building and improvements - nonoperating	1,304,308	95,670	-	(1,196)	1,398,782
Fixed equipment	1,744,167	429,276	(10,500)	1,196	2,164,139
Major movable equipment	8,447,742	1,141,260	(1,551,199)	-	8,037,803
Total accumulated depreciation	26,713,033	3,331,070	(1,575,629)	-	28,468,474
Total capital assets being depreciated, net	25,384,029	(2,004,801)	-	88,844	23,468,072
Capital assets, net	\$ 25,912,126	\$ (1,952,030)	\$ -	\$ -	\$ 23,960,096

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

5. Long-term Debt and Capital Lease Obligations:

A schedule of changes in the District's long-term debt and capital lease obligations is as follows:

	Balance December 31, 2018			Balance December 31, 2019		Amounts Due Within One Year
		Additions	Reductions			
2006 UTGO bonds	\$ 6,745,000	\$ -	\$ (725,000)	\$ 6,020,000	\$ 755,000	
2013 Revenue bond	1,862,264	-	(351,332)	1,510,932	361,525	
Liability to Providence Health & Services	727,023	-	-	727,023	90,878	
Capital lease obligations	-	53,908	(7,819)	46,089	28,956	
Total long-term debt and capital lease obligations	\$ 9,334,287	\$ 53,908	\$ (1,084,151)	\$ 8,304,044	\$ 1,236,359	

	Balance December 31, 2017			Balance December 31, 2018		Amounts Due Within One Year
		Additions	Reductions			
2006 UTGO	\$ 7,440,000	\$ -	\$ (695,000)	\$ 6,745,000	\$ 725,000	
2013 Revenue Bond	2,203,725	-	(341,461)	1,862,264	351,332	
Liability to Providence Health & Services	817,901	-	(90,878)	727,023	90,878	
Total long-term debt	\$ 10,461,626	\$ -	\$ (1,127,339)	\$ 9,334,287	\$ 1,167,210	

The terms and due dates of the District's long-term debt and capital lease obligations:

Unlimited tax general obligation bonds – The District issued unlimited tax general obligation (UTGO) bonds on December 20, 2006 (the 2006 Bonds), in the original amount of \$8,590,000. The interest for the 2006 Bonds is payable semiannually on June 1 and December 1 of each year until maturity. The interest rates vary from 4 percent to 4.2 percent. Principal payments range from \$755,000 in 2020 to \$970,000 in 2026, when the final bonds payment is due.

Proceeds from both UTGO bond issues were used to finance building improvements to expand and modernize the District's facilities.

The UTGO bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2006 Bonds, and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

Revenue bond – The District issued a Health Care Facilities Improvement and Refunding Revenue Bond, 2013 (the Bond) on October 24, 2013, in the original amount of \$3,400,000. This Bond was issued to retire the revenue bonds issued on July 27, 2007, and to remodel the existing facilities. Fixed principal and interest payments of \$100,255 are payable quarterly on the first day of January, April, July, and October of each year until the Bond matures on October 1, 2023. The Bond bears interest at a per annum rate of 2.87 percent.

The Bond includes financial covenants that must be complied with as a condition of the bonds.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

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

Note payable – Note payable to Providence Health & Services – Washington, a Washington nonprofit corporation, in the original amount of \$908,779 effective July 2017. Annual installments of \$90,878 are due beginning January 2018 through 2027. The note payable is for underfunded pension contributions. The note payable is interest free and imputed interest is not material.

Capital lease obligations – The minimum lease payments have been capitalized and the related assets and obligations have been recorded using the implicit interest rates in the leases. The assets are amortized to expense on a straight-line basis over the lives of the assets. Interest expense is recorded on the basis of the outstanding lease obligations. The leases provide that the District pay for insurance, taxes, and maintenance associated with the equipment.

Capital lease obligations are due in monthly installments including principal and interest of \$2,899, including interest at varying rates from 5.76 percent to 8.32 percent through July 2022.

Scheduled principal and interest repayments on the District’s UTGO bonds are as follows:

Years Ending December 31,	Principal	Interest	Total
2020	\$ 755,000	\$ 252,723	\$ 1,007,723
2021	790,000	220,635	1,010,635
2022	825,000	187,060	1,012,060
2023	855,000	151,998	1,006,998
2024	895,000	116,943	1,011,943
2025 to 2026	1,900,000	120,540	2,020,540
	\$ 6,020,000	\$ 1,049,899	\$ 7,069,899

Scheduled principal and interest repayments on the District’s revenue bond are as follows:

Years Ending December 31,	Principal	Interest	Total
2020	\$ 361,525	\$ 39,568	\$ 401,093
2021	371,964	29,057	401,021
2022	382,780	18,240	401,020
2023	394,663	7,108	401,771
	\$ 1,510,932	\$ 93,973	\$ 1,604,905

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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

Scheduled principal and interest repayments on the District's note payable are as follows:

Years Ending December 31,	Principal	Interest	Total
2020	\$ 90,878	\$ -	\$ 90,878
2021	90,878	-	90,878
2022	90,878	-	90,878
2023	90,878	-	90,878
2024	90,878	-	90,878
2025 to 2027	272,633	-	272,633
	\$ 727,023	\$ -	\$ 727,023

Scheduled principal and interest repayments on the District's capital lease obligations are as follows:

Years Ending December 31,	Principal	Interest	Total
2020	\$ 28,956	\$ 2,028	\$ 30,984
2021	11,258	693	11,951
2022	5,875	99	5,974
	\$ 46,089	\$ 2,820	\$ 48,909

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

6. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly from prior years. The District has not changed its charity care or uninsured discount policies during 2019 or 2018. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows.

	2019	2018
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 17,324,524	\$ 15,617,384
Medicaid	4,714,321	3,461,968
Other third-party payors	11,746,687	9,754,906
Patients	811,875	1,412,429
	34,597,407	30,246,687
Less:		
Charity care	266,442	183,690
Provision for bad debts	659,796	587,616
Net patient service revenue	\$ 33,671,169	\$ 29,475,381

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor. Hospital-based physicians and freestanding clinics are reimbursed on a fee schedule.
- *Medicaid* – Reimbursement for inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. Physician services are reimbursed on a fee schedule.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

6. Net Patient Service Revenue (continued):

- *Other* – The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedule, and prospectively determined daily rates.

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 a material amount in the near term. Net patient service revenue decreased by approximately \$77,000 and increased by approximately \$222,000 in the years ended December 31, 2019 and 2018, respectively, due to differences between original estimates and final settlements.

The District has recorded an estimated third-party payor receivable related to the liability to Providence Health & Services – Washington (see Note 5) for prior year unfunded pension contributions. The pension plan expense is related to the years ended December 31, 2010 through 2014. Therefore, the additional third-party payor reimbursement is also from prior periods. The District will receive the additional third-party payor reimbursement as the note payable principal payments are paid in future years. Such payments will be included and reimbursed through Medicare and Medicaid cost report settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the year ended December 31, 2019 and 2018, was \$186,000 and \$128,000, respectively. The District did not receive any gifts or grants to subsidize charity care services during 2019 or 2018.

7. Electronic Health Records Incentive Payment:

The Electronic Health Records (EHR) incentive program is provided to incent hospitals and eligible providers to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District has elected to defer recognition of its 2014 Medicare incentive payment over a 5-year period beginning in 2015 and ending in 2019.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

8. Property Taxes:

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general District purposes. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by a vote of the people.

For 2019, the District's bond levy was \$1.03044 per \$1,000 on a total assessed valuation of \$976,252,410, for a total bond levy of \$1,005,967. For 2018, the District's bond levy was \$1.03687 per \$1,000 on a total assessed valuation of \$969,855,651, for a total bond levy of \$1,005,611.

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

9. Defined Benefit Plan:

The Providence Health and Services Cash Balance Retirement Plan (the Plan) is a frozen defined benefit plan that is available to substantially all employees who were actively employed prior to or on December 31, 2009, with at least 800 hours of service in 2009. This is a single-employer plan. The pension fund is managed by the Providence Health & Services Systems Investment Committee (Providence). Employer contributions become vested after five years, where the employee has worked at least 800 hours of service to receive one year of credited vesting services. Employees do not currently contribute to this plan.

Benefit provisions for the Plan are listed below. Any amendments to the benefit provisions of this pension plan are recommended by the plan trustees (chief executive officer/administrators) and approved by Providence in their role as the pension plan sponsor.

- **Normal retirement benefit** – Participant’s benefit is the greater of the following:
 - *Cash balance benefit* – Sum of annual pay credits and monthly interest credits equal to the member’s cash balance account at the beginning of the plan year of determination plus 1/12th of the interest crediting rate for that year. Annual pay credits is equal to the sum of the greater of 5 percent eligible compensation, or an alternate percentage ranging from 5.5 percent to 12.5 percent, depending on age under the Rule of 50 table, and 5 percent of total base compensation in excess of social security taxable wage base.
 - *Grandfathered benefit* – Applies to members with at least 15 years of service as of January 1, 1998, and calculated at 1.5 percent of final average salary.
- **Early retirement benefit** – Participants may elect early retirement at any time after having attained the age of 55 and accumulated five years of vested service. This accrued benefit is actuarially reduced to reflect immediate commencement of benefits.
- **Delayed retirement benefit** – A member may continue employment after the Normal Retirement Date (age 65) and cash balance interest credits continue to accrue through the delayed retirement date, which is the earlier of the first of the month after which the member is not employed, and the April 1 following the later of (1) calendar year following attainment of age 70 ½, or (2) the calendar year of retirement.
- **Death benefit** – If participant dies after vesting but before commencement of benefits, a lump-sum value of accrued benefit will be paid out based on age and service on date of death. A nonvested member who dies while an eligible employee immediately becomes 100 percent vested.
- **Termination benefits** – If terminated after earning five or more years of vesting service, the member is entitled to a vested deferred monthly benefit or an immediate lump sum.
- **Benefit payout options** – Straight life annuity; 10-year certain and life annuity; social security adjustment; 50 percent and 100 percent Joint and Survivor annuities; and single-sum cash distribution.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

9. Defined Benefit Plan (continued):

Funding policy – A target funded ratio of 130 percent was determined by Providence in 1995, requiring the District to make contributions based on 4.0 percent of total gross payroll starting in 2003 and carried through 2014. Beginning in 2015, contributions are not expected unless the funded ratio drops below the 130 percent threshold.

The Internal Revenue Service determined that the Plan is a church plan under Internal Revenue Code (IRC) Section 414(e), and as a result is no longer subject to Section 412 of the IRC concerning minimum funding standards. An annual report on the Plan is available upon request. The actuarial valuation date is December 31, 2019.

The District did not contribute to the Plan during the years ended December 31, 2019 and 2018.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2019 and 2018, the District reported an asset of \$855,756 and \$325,236, respectively. The net pension asset was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of those dates. The District’s net pension asset was calculated using the discount rate of 6.50 percent. For the years ended December 31, 2019 and 2018, the District recognized pension expense of \$16,839 and \$83,815, respectively.

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources 2019	Deferred Outflows of Resources 2019
Differences between expected and actual expenses	\$ 56,094	\$ 61,675
Changes of assumptions or inputs	-	8,899
Net difference between projected and actual earnings	224,224	-
Total	\$ 280,318	\$ 70,574

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources 2018	Deferred Outflows of Resources 2018
Differences between expected and actual expenses	\$ 62,130	\$ 86,345
Net difference between projected and actual earnings	-	313,400
Total	\$ 62,130	\$ 399,745

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

9. Defined Benefit Plan (continued):

Amounts currently reported as deferred outflows/(inflows) of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,		
2020	\$	(69,865)
2021		(54,841)
2022		16,361
2023		(101,399)
Total	\$	(209,744)

Actuarial assumptions – The total pension asset in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Economic assumptions:

Inflation	1.75 percent per year
Investment rate of return	6.5 percent, net of investment expenses

Governmental Accounting Standards Board (GASB) Statement No. 68 requires the cost of benefits accruing to be measured using the Entry Age Normal Actuarial Cost Method, and thus, this measurement method has been used.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The policy allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Long-term Expected Rate of Return:

Asset Class	Policy Allocation	Long-Term Expected Real Rate of Return
US Long Credit Bonds	33.00%	3.24%
US Large Cap Equity	20.66%	4.33%
Global Equity	17.55%	5.27%
Hedge Funds - MultiStrategy	11.25%	3.29%
Infrastructure	5.00%	4.78%
Emerging Markets Equity	4.13%	8.03%
Hedge Funds - Distressed	3.75%	3.24%
US Small Cap Equity	2.66%	5.64%
US Cash	2.00%	0.09%

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

9. Defined Benefit Plan (continued):

Discount rate – The discount rate used to measure the total pension liability was 6.5 percent. The Plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the District’s net pension asset (liability) to changes in the discount rate – The following presents the net pension asset (liability) of the District, calculated using the discount rate of 6.50 percent, as well as what the net pension asset (liability) would be if it were calculated using a discount rate that is 1 percentage point lower (5.50 percent) or 1 percentage point higher (7.50 percent) than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Total pension liability	\$ 3,444,261	\$ 3,206,327	\$ 2,998,322
Fiduciary net position	\$ 4,062,083	\$ 4,062,083	\$ 4,062,083
Net pension asset	\$ (617,822)	\$ (855,756)	\$ (1,063,761)

Pension plan fiduciary net position – Detailed information about the Plan’s fiduciary net position is available in the separately issued financial report.

Plan asset composition – The composition of Plan assets is as follows:

	2019	2018
Investments:		
Equity	\$ 1,629,475	\$ 1,287,154
Debt (fixed income)	1,771,022	1,481,963
Hedge funds	967,433	777,615
Alternative investments	(305,847)	(45,724)
Total plan assets	\$ 4,062,083	\$ 3,501,008

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

10. Defined Contribution Plan:

Whitman 403(b) Plan (the 403(b) Plan) is an employer sponsored defined contribution plan and Providence is the plan administrator. The 403(b) Plan can be amended only by the District. All eligible employees age 18 or older may enroll in the 403(b) Plan immediately at the time of hire and anytime thereafter. The District matches 50 percent of employee contributions, up to the first 6 percent of pay the employee contributes to the Plan depending on their years of service. The employee is 100 percent vested in the matching contribution immediately. Additionally, employees may receive an allocation of any service contributions the District makes to the Plan. Service contributions are expected to be 2 percent to 5 percent of the employee's pay depending on the employee's years of service. An employee is fully vested in the service contribution account after completing five years of vesting service. Employee contributions to the 403(b) Plan were approximately \$828,000 and \$721,000 in the years ended December 31, 2019 and 2018, respectively. Employer contributions to this Plan were approximately \$567,000 and \$433,000 for the years ended December 31, 2019 and 2018, respectively. The District has recorded an accrued defined contribution plan payable (included with accrued compensation and related liabilities) of \$341,799 and \$648,823 at December 31, 2019 and 2018, respectively.

The District sponsors a deferred compensation plan. The Whitman Hospital 457b Plan (the 457b Plan) covers substantially all of the District's employees who have reached the age of 18. Participants may defer a percentage of their compensation up to certain limits specified by the Internal Revenue Code. Participants are fully vested in their salary deferrals to the 457b Plan. Participant contributions to the 457b Plan during the years ended December 31, 2019 and 2018, were approximately \$37,000 and \$19,000, respectively.

11. Contingencies:

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Risk transfer pool – The District has workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. This fund is a risk transfer pool administered by the Washington State Hospital Association. Premiums are charged to operations as they are incurred. Total workers' compensation benefits expense was approximately \$94,000 and \$73,000 in 2019 and 2018, respectively, and a dividend in the amount of \$91,111 and \$67,298 was received and recognized in 2019 and 2018, respectively, which reduced expense in 2019 and 2018 by the amount of the dividend.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

11. Contingencies (continued):

Medical malpractice claims – The District has its professional liability insurance coverage with Physicians Insurance. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. There is no deductible on this policy.

The District also has excess professional liability insurance with Physicians Insurance on a “claims-made” basis. The excess malpractice insurance provides \$4,000,000 per claim of primary coverage with an annual aggregate limit of \$4,000,000. There is no deductible on this policy.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Joint ventures – Palouse Surgeons, LLC, is a joint venture of Gritman Medical Center, Pullman Regional Hospital, and Whitman Hospital and Medical Center. The three hospitals have purchased Palouse Surgeons from the physicians for the purpose of continuing to provide surgeons to the Palouse region. The hospitals are currently assisting Palouse Surgeons in funding any financial shortfalls. Gritman Medical Center and Pullman Regional Hospital each own a 40 percent share in Palouse Surgeons, while Whitman Hospital and Medical Center owns the remaining 20 percent share. Financial statements for Palouse Surgeons, LLC, are available upon request.

Palouse Specialties, P.S., is a joint venture of Gritman Medical Center, Pullman Regional Hospital and Whitman Hospital and Medical Center. The three hospitals have created this organization to provide urology, oncology, and ear, nose, and throat, and audiology physicians to the Palouse region. Gritman Medical Center and Pullman Regional Hospital each owns a 45 percent share in Palouse Specialties, while Whitman Hospital and Medical Center owns the remaining 10 percent share. The hospitals are currently assisting Palouse Specialties in funding any financial shortfalls. Financial statements for Palouse Specialties, P.S., are available upon request.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017**

12. Concentration of Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Whitman County.

The mix of receivables from patients was as follows:

	2019	2018
Medicare	42 %	40 %
Medicaid	16	13
Other third-party payors	32	33
Patients	10	14
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

13. Subsequent Event:

The District within the defined benefit plan and the Foundation have material investments in equity securities and have experienced a material decline in the fair value of their investments in equity securities subsequent to the statement of financial position date.

14. COVID-19 Pandemic:

The-COVID-19 pandemic has created economic uncertainties which may negatively impact the District’s financial position. The District has seen significant declines in patient volumes starting in March when the State of Washington temporarily suspended elective procedures.

State and federal governments are providing emergency funding to help hospitals overcome these negative effects. The District has received CARES Act Provider Relief Funding of \$786,392 subsequent to year end. The District also received CARES ACT Rural Hospital funding of \$3,710,125 subsequent to year end.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2020 increasing Medicare reimbursement by 2 percent.

The District has also received subsequent to year end a Small Business Administration Paycheck Protection Program loan through Columbia State Bank of \$3,303,562. This loan contains a forgiveness provision, in which the loan could be forgiven partially or entirely, based on the District meeting qualifications.

The District has unrestricted reserves representing 195 days of operating expenses.

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

14. COVID-19 Pandemic (continued):

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

Management also is restarting elective surgeries when the state of Washington restrictions are removed. The District could also utilize its unrestricted reserves to cover operating expenses until revenues recover. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Schedule of Changes in Net Pension Asset
Last 10 Years*

	2019	2018	2017	2016	2015
Change in total pension asset					
Total pension asset at beginning of year	\$ 325,236	\$ 920,160	\$ 483,177	\$ 393,950	\$ 867,536
Interest	(201,214)	(192,719)	(204,288)	(209,579)	(217,259)
Effect of economic/demographic gains	19,734	(111,015)	103,550	-	-
Administrative expenses	(5,214)	(7,401)	(10,769)	(11,148)	(17,107)
Net investment income (loss)	729,182	(283,789)	548,490	309,954	(239,220)
Effect of plan changes	(11,968)	-	-	-	-
Total pension asset at end of year	\$ 855,756	\$ 325,236	\$ 920,160	\$ 483,177	\$ 393,950
Change in plan fiduciary net position					
Plan fiduciary net position at beginning of year	\$ 3,501,008	\$ 3,975,050	\$ 3,808,983	\$ 3,722,973	\$ 4,433,524
Net investment income (loss)	729,182	(283,789)	548,490	309,954	(239,220)
Service benefits	(162,893)	(182,852)	(371,654)	(212,796)	(454,224)
Administrative expenses	(5,214)	(7,401)	(10,769)	(11,148)	(17,107)
Total plan fiduciary net position	\$ 4,062,083	\$ 3,501,008	\$ 3,975,050	\$ 3,808,983	\$ 3,722,973

December 31,	District's net pension asset	District's covered-employee payroll	Net pension asset as % of covered payroll	Plan fiduciary net position as a % of total pension liability
2014	\$ 867,536	\$ 5,500,000	-15.77%	124.32%
2015	\$ 393,950	\$ 5,220,000	-7.55%	111.83%
2016	\$ 483,177	\$ 5,400,000	-8.95%	114.53%
2017	\$ 920,160	\$ 4,730,000	-19.45%	130.12%
2018	\$ 325,236	\$ 4,171,000	-7.80%	110.24%
2019	\$ 855,756	\$ 3,995,000	-21.42%	126.69%

*GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Schedule of Employer Contributions
Last 10 Years*

December 31,	Actuarially determined contribution	Actual contribution	Contribution (deficiency) excess	District's covered- employee payroll	Contributions as a percentage of covered- employee payroll
2015	\$ -	\$ -	\$ -	5,220,000	0.00%
2016	\$ -	\$ -	\$ -	5,400,000	0.00%
2017	\$ -	\$ -	\$ -	4,730,000	0.00%
2018	\$ -	\$ -	\$ -	4,171,000	0.00%
2019	\$ -	\$ -	\$ -	3,995,000	0.00%

*GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Schedule of Investment Returns
Last 10 Years*

December 31,	Rate of Return
2015	-5.7%
2016	8.6%
2017	14.9%
2018	-7.3%
2019	21.4%

*GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Colfax, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Whitman County Public Hospital District No. 3 doing business as Whitman Hospital and Medical Clinics (the District) and Whitman Community Hospital Foundation as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated May 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

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

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 13, 2020

**Whitman County Public Hospital District No. 3
doing business as Whitman Hospital and Medical Clinics
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2019**

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