



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

December 10, 2020

Board of Commissioners  
North Valley Hospital  
Tonasket, 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 North Valley Hospital for the fiscal years ended December 31, 2019 and 2018. 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

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**Okanogan County  
Public Hospital District No. 4  
doing business as  
North Valley Hospital**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2019 and 2018



**DINGUS | ZARECOR & ASSOCIATES<sup>PLLC</sup>**  
Certified Public Accountants

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Okanogan County Public Hospital District No. 4  
doing business as North Valley Hospital  
Tonasket, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (the District) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

## **Opinion**

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

## **Emphasis of Matter**

As discussed in Note 11 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's future financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 11. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 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 July 17, 2019, which has not been included with the 2019 financial and compliance report. The purpose of those 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  
June 18, 2020

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Statements of Net Position**  
**December 31, 2019 and 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 5,316,539	\$ 5,885,945
Receivables:		
Patient accounts	2,866,634	2,177,227
Taxes	34,878	30,284
Taxes restricted for debt service	57,467	57,467
Estimated third-party payor settlements	50,274	230,000
Other	110,816	74,326
Cash and cash equivalents, restricted for debt service	848,505	766,655
Inventories	395,536	388,499
Prepaid expenses	199,097	98,595
Total current assets	9,879,746	9,708,998
<i>Noncurrent assets</i>		
Capital assets, net of accumulated depreciation	11,309,185	12,095,560
Cash and cash equivalents, restricted for capital acquisition by Siemens Public, Inc.	-	985,000
Total noncurrent assets	11,309,185	13,080,560
<b>Total assets</b>	<b>\$ 21,188,931</b>	<b>\$ 22,789,558</b>

*See accompanying notes to basic financial statements.*

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Statements of Net Position (Continued)**  
**December 31, 2019 and 2018**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2019</b>	<b>2018</b>
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 631,376	\$ 601,826
Current maturities of capital lease obligations	143,923	144,011
Estimated third-party payor settlements	15,298	120,943
Accounts payable	709,740	596,512
Accrued compensation and related liabilities	507,565	605,636
Accrued leave	492,989	489,986
Accrued interest payable	39,116	30,206
Total current liabilities	2,540,007	2,589,120
<i>Noncurrent liabilities</i>		
Accounts payable, capital	-	870,384
Long-term debt, less current maturities	8,139,835	8,801,696
Capital lease obligation, less current maturities	788,714	969,956
Total noncurrent liabilities	8,928,549	10,642,036
Total liabilities	11,468,556	13,231,156
<i>Deferred inflows of resources, bond refunding</i>	67,503	72,696
<i>Net position</i>		
Net investment in capital assets	1,498,718	1,589,785
Restricted for debt service	905,972	824,122
Unrestricted	7,248,182	7,071,799
Total net position	9,652,872	9,485,706
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 21,188,931</b>	<b>\$ 22,789,558</b>

*See accompanying notes to basic financial statements.*



**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**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	\$ 21,519,395	\$ 20,161,905
Grants	-	84,899
Other	495,129	290,036
Total operating revenues	22,014,524	20,536,840
<i>Operating expenses</i>		
Salaries and wages	9,993,127	10,425,992
Employee benefits	2,491,898	2,369,728
Professional fees	3,189,128	2,997,356
Purchased services	2,766,458	2,000,176
Supplies	1,637,752	1,436,034
Utilities	354,864	387,951
Rentals and leases	348,809	296,126
Repairs and maintenance	374,678	359,386
Depreciation and amortization	1,133,022	1,091,456
Insurance	177,463	139,397
Other	463,338	583,456
Total operating expenses	22,930,537	22,087,058
<i>Operating loss</i>	(916,013)	(1,550,218)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	490,978	471,629
Taxation for bond principal and interest	775,519	774,650
Contributions	70,586	38,628
Gain on sale of assets	-	125,498
Investment income	90,397	69,313
Interest expense	(344,301)	(309,067)
Total nonoperating revenues, net	1,083,179	1,170,651
Change in net position	167,166	(379,567)
Net position, beginning of year	9,485,706	9,865,273
<b>Net position, end of year</b>	<b>\$ 9,652,872</b>	<b>\$ 9,485,706</b>

*See accompanying notes to basic financial statements.*

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 20,909,836	\$ 20,003,749
Cash received from other revenue	452,872	273,579
Cash received from operating grants	-	84,899
Cash paid to and on behalf of employees	(13,238,917)	(12,765,048)
Cash paid to suppliers and contractors	(8,647,977)	(8,042,813)
Net cash used in operating activities	(524,186)	(445,634)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	486,384	475,937
Contributions	70,586	38,628
Net cash provided by noncapital financing activities	556,970	514,565
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	775,519	785,824
Principal paid on long-term debt	(601,826)	(572,765)
Principal paid on capital lease obligations	(181,330)	(15,033)
Interest paid on long-term debt	(316,914)	(337,826)
Interest paid on capital lease obligations	(54,155)	(5,054)
Purchase of capital assets	(1,217,031)	(878,618)
Proceeds from the sale of fixed assets	-	251,045
Proceeds from master lease purchase agreement	-	985,000
Net cash provided by (used in) capital and related financing activities	(1,595,737)	212,573
<i>Cash flows from investing activities</i>		
Interest received	90,397	69,313
Net increase (decrease) in cash and cash equivalents	(1,472,556)	350,817
Cash and cash equivalents, beginning of year	7,637,600	7,286,783
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,165,044</b>	<b>\$ 7,637,600</b>

*See accompanying notes to basic financial statements.*

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b><i>Reconciliation of Cash and Cash Equivalents</i></b>		
<b><i>to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 5,316,539	\$ 5,885,945
Cash and cash equivalents, restricted for debt service	848,505	766,655
Cash and cash equivalents, restricted for capital acquisition by Siemens Public, Inc.	-	985,000
<b>Total cash and cash equivalents</b>	<b>\$ 6,165,044</b>	<b>\$ 7,637,600</b>
<b><i>Reconciliation of Operating Loss to Net Cash</i></b>		
<b><i>Used in Operating Activities</i></b>		
Operating loss	\$ (916,013)	\$ (1,550,218)
<b><i>Adjustments to reconcile operating loss to</i></b>		
<b><i>net cash used in operating activities</i></b>		
Depreciation and amortization	1,133,022	1,091,456
Provision for bad debts	1,312,683	1,440,508
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(2,002,090)	(1,799,039)
Estimated third-party payor settlements	179,726	361,000
Other	(36,490)	(16,457)
Inventories	(7,037)	10,636
Prepaid expenses	(100,502)	126,173
Increase (decrease) in liabilities:		
Accounts payable	113,228	20,260
Accrued compensation and related liabilities	(98,071)	(324)
Accrued leave	3,003	30,996
Estimated third-party payor settlements	(105,645)	(160,625)
<b>Net cash used in operating activities</b>	<b>\$ (524,186)</b>	<b>\$ (445,634)</b>

*See accompanying notes to basic financial statements.*

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2019 and 2018**

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

**a. Reporting Entity**

Okanogan County Public Hospital District No. 4 (the District) owns and operates two separate operating divisions: a hospital division (the Hospital) which includes North Valley Hospital, a 25-bed critical access hospital in Tonasket, Washington, and a long-term care division (LTC) encompassing a 42-bed skilled nursing facility located in Tonasket, Washington. The District provides healthcare services to patients in the North Central Okanogan County, Washington, area. The services provided include acute care hospital, long-term nursing care, emergency room, physicians' clinic, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from paying federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms. The District is not a component unit of Okanogan County.

**b. Summary of Significant Accounting Policies**

***Use of estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

***Cash and cash equivalents*** – All cash receipts are deposited into a depository bank account. Periodically, these funds are transferred to the Okanogan County Treasurer (County Treasurer). The County Treasurer acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

***Inventories*** – Inventories of medical and other supplies are stated at cost (first-in, first-out method), which is considered lower than market price.

***Compensated absences*** – The District's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates each pay period throughout the year with a maximum of 500 hours. Employees may carry over 100 percent of the PTO hours earned in one year to the next year. After one year of continuous employment, employees may cash out accrued PTO hours one time every year. Additionally, the employee must have at least the amount of hours equivalent to the employee's regular weekly scheduled hours of PTO remaining accrued after such payout. On termination of employment, the employee shall be paid all accrued and unused PTO hours, given they meet the requirements in the personnel policies. PTO is accrued when earned.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

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

***Compensated absences (continued)*** – The District’s employees also earn extended illness benefits (EIB) at varying rates based on actual hours worked and job classification. EIB accruals are available for use in the pay period following successful completion of the probationary period. EIB may be accessed immediately for the use of medically qualifying leave for the employee or for family members as designated by the Washington State Family Care Act, as amended, under varying circumstances as outlined in the policy. By November 1 of each calendar year, an employee may make a written request to the human resources director or designee to convert a designated number of PTO hours to the EIB bank. The maximum accrual for EIB is 500 hours. Hours in the EIB bank shall not be paid upon resignation or termination of employment except for personnel hired prior to June 26, 2014. For personnel hired prior to June 26, 2014, after 20 years of continuous service a cash payout of up to 100 hours per year is allowable. At least 100 hours must remain in the employees’ EIB bank. Cash payouts are paid at 50 percent.

***Bond premiums and discounts*** – The straight-line method is used to amortize the bond premiums and discounts over the period the related obligations are outstanding, which approximates the effective interest method.

***Deferred inflows of resources, bond refunding*** – The difference between the reacquisition price and the carrying amount of the refinanced 2007 unlimited general obligation bonds has been deferred and is amortized using the straight-line method over the life of the refunding bonds.

***Net position*** – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures and by grantors for capital acquisition. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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

***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.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

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

***Grants and contributions*** – From time to time, the District receives grants from individuals and other 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.

***Upcoming accounting standards pronouncements*** – In June 2017, the Governmental Accounting Standards Board (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, 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, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the 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 June 18, 2020, the date on which the financial statements were available to be issued.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**2. Bank Deposits and Investments:**

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be refunded to it. All cash and cash equivalents held by the County Treasurer or deposited with qualified public depositories are protected against loss by the State of Washington Public Deposit Protection Commission, as provided by RCW Chapter 39.58, subject to certain limitations. Qualified public depositories, including Wells Fargo and Umpqua Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington. The cash on deposit with these banks is also insured through the Federal Deposit Insurance Corporation.

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local 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 Okanogan County Investment Pool at December 31, 2019 and 2018, were \$3,610,314 and \$5,184,261, respectively. The Okanogan County Investment Pool consists only of a simple money market account.

Investments in the Okanogan County Local Government Investment Pool are reported at fair value based on the net asset value per share. Investments generally may be redeemed with no waiting period with proper notice to the Okanogan County Treasurer.

**3. Patient Accounts Receivable:**

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

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. 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.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**3. Patient Accounts Receivable (continued):**

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

	<b>2019</b>	<b>2018</b>
Receivables from patients and their insurance carriers	\$ 2,639,801	\$ 2,537,301
Receivables from Medicare	1,349,351	733,894
Receivables from Medicaid	438,966	391,502
Total patient accounts receivable	4,428,118	3,662,697
Less allowance for uncollectible accounts	(1,561,484)	(1,485,470)
<b>Patient accounts receivable, net</b>	<b>\$ 2,866,634</b>	<b>\$ 2,177,227</b>

**4. Property Taxes:**

The Okanogan 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 Okanogan 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. 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 must be authorized by the vote of the people.

The District has two levies: maintenance and operations (M&O) levy and 2007 and 2008 bond levies.



**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

The District's tax levies are comprised of the following:

<b>2019</b>			
	<b>Levy Rate</b>	<b>Assessed Value</b>	<b>Levy Amount</b>
M&O levy	0.447835	\$ 1,071,059,851	\$ <b>479,659</b>
Bond levy	0.718907	\$ 1,065,995,710	\$ <b>766,352</b>
<b>2018</b>			
	<b>Levy Rate</b>	<b>Assessed Value</b>	<b>Levy Amount</b>
M&O levy	0.447584	\$ 1,055,231,722	\$ <b>472,305</b>
Bond levy	0.728317	\$ 1,050,023,267	\$ <b>764,750</b>

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.

**5. Capital Assets:**

The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation or amortization is removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues or expenses. All capital assets, other than land and construction in progress, are being depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Such amortization is included in depreciation and amortization in the financial statements. Useful lives have been estimated as follows:

Land improvements	2 to 20 years
Buildings	5 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

Capital additions, retirements, transfers, and balances follow:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 358,540	\$ -	\$ -	\$ -	\$ 358,540
Construction in progress	1,037,061	119,888	-	(1,078,798)	78,151
Total capital assets not being depreciated	1,395,601	119,888	-	(1,078,798)	436,691
<i>Capital assets being depreciated</i>					
Land improvements	719,936	-	-	-	719,936
Buildings	13,275,096	38,383	-	428,687	13,742,166
Fixed equipment	6,521,289	7,505	-	-	6,528,794
Movable equipment	5,985,616	180,871	-	650,111	6,816,598
Total capital assets being depreciated	26,501,937	226,759	-	1,078,798	27,807,494
<i>Less accumulated depreciation for</i>					
Land improvements	707,602	4,306	-	-	711,908
Buildings	5,582,632	463,759	-	-	6,046,391
Fixed equipment	4,677,133	201,005	-	-	4,878,138
Movable equipment	4,834,611	463,952	-	-	5,298,563
Total accumulated depreciation	15,801,978	1,133,022	-	-	16,935,000
Total capital assets being depreciated, net	10,699,959	(906,263)	-	1,078,798	10,872,494
<b>Capital assets, net</b>	<b>\$ 12,095,560</b>	<b>\$ (786,375)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,309,185</b>

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

Capital additions, retirements, transfers, and balances follow:

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 358,540	\$ -	\$ -	\$ -	\$ 358,540
Construction in progress	34,278	1,037,061	(34,278)	-	1,037,061
Total capital assets not being depreciated	392,818	1,037,061	(34,278)	-	1,395,601
<i>Capital assets being depreciated</i>					
Land improvements	719,936	-	-	-	719,936
Buildings	13,275,096	-	-	-	13,275,096
Fixed equipment	6,379,039	256,336	(114,086)	-	6,521,289
Movable equipment	5,386,789	599,605	(778)	-	5,985,616
Total capital assets being depreciated	25,760,860	855,941	(114,864)	-	26,501,937
<i>Less accumulated depreciation for</i>					
Land improvements	698,274	9,328	-	-	707,602
Buildings	5,167,566	415,066	-	-	5,582,632
Fixed equipment	4,481,524	218,426	(22,817)	-	4,677,133
Movable equipment	4,386,753	448,636	(778)	-	4,834,611
Total accumulated depreciation	14,734,117	1,091,456	(23,595)	-	15,801,978
Total capital assets being depreciated, net	11,026,743	(235,515)	(91,269)	-	10,699,959
<b>Capital assets, net</b>	<b>\$ 11,419,561</b>	<b>\$ 801,546</b>	<b>\$ (125,547)</b>	<b>\$ -</b>	<b>\$ 12,095,560</b>

Construction in progress at December 31, 2019, consisted primarily of costs associated with two projects: the remodel of existing space for a physician's clinic, which is expected to be completed in July 2020, and the purchase of a new boiler, which is expected to be completed in September 2020. The projects have a total estimated cost to complete of \$1,100,000.

The remaining cost to complete will be financed by \$1,050,000 from a capital lease funding system entered into in April 2020, which is further discussed in Note 12, and \$100,000 from a state grant. Any additional costs will be paid for by income from the District's operations.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

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

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amount Due Within One Year
<i>Long-term debt</i>					
Limited Tax General Obligation Bonds, 2002	\$ 766,714	\$ -	\$ (176,826)	\$ 589,888	\$ 186,376
Unlimited Tax General Obligation Bonds, 2017	8,210,000	-	(425,000)	7,785,000	445,000
Bond premiums and discounts	426,808	-	(30,485)	396,323	-
Total long-term debt	9,403,522	-	(632,311)	8,771,211	631,376
<i>Capital lease obligations</i>	1,113,967	-	(181,330)	932,637	143,923
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 10,517,489</b>	<b>\$ -</b>	<b>\$ (813,641)</b>	<b>\$ 9,703,848</b>	<b>\$ 775,299</b>
	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amount Due Within One Year
<i>Long-term debt</i>					
Limited Tax General Obligation Bonds, 2002	\$ 934,479	\$ -	\$ (167,765)	\$ 766,714	\$ 176,826
Unlimited Tax General Obligation Bonds, 2017	8,615,000	-	(405,000)	8,210,000	425,000
Bond premiums and discounts	457,295	-	(30,487)	426,808	-
Total long-term debt	10,006,774	-	(603,252)	9,403,522	601,826
<i>Capital lease obligations</i>	-	1,129,000	(15,033)	1,113,967	144,011
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 10,006,774</b>	<b>\$ 1,129,000</b>	<b>\$ (618,285)</b>	<b>\$ 10,517,489</b>	<b>\$ 745,837</b>

**Long-term debt** – The terms and due dates of the District's long-term debt follow:

- Limited Tax General Obligation (LTGO) Improvement and Refunding Bonds, 2002 Series A (tax-exempt) dated October 1, 2002, in the original amount of \$2,473,000, are payable semiannually on June 1 and December 1, in varying principal installments from \$186,376 in 2020 to \$207,070 in 2022, plus interest at 5.33 percent.

The 2002 LTGO bonds were issued for the purpose of refunding the 1991, 1995, and 1997 LTGO bonds. The 1991 bonds were issued for the purpose of purchasing and furnishing a clinic; the 1995 and 1997 bonds were issued for the purpose of constructing an assisted living center.

LTGO bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a maintenance and operations tax upon the taxable property within the District.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

***Long-term debt (continued) –***

- Unlimited Tax General Obligation (UTGO) Bonds, series 2017, dated December 1, 2017, in the original amount of \$8,760,000, payable annually in varying principal installments from \$445,000 in 2020 to \$785,000 in 2032, plus interest varying from 3 percent to 4 percent.

The 2017 UTGO bonds were issued for the purpose of refunding the 2007 UTGO bonds. The 2007 UTGO bonds were issued for the purpose of expanding and modernizing the Hospital and to purchase land required for the expansion.

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 2007 UTGO bonds and a special levy to pay the principal and interest. Tax receipts limited for the bond redemption and interest are used to pay the principal and interest each year.

Aggregate annual principal and interest payments over the terms of long-term debt follow:

	UTGO Bonds			LTGO Bonds			Totals		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 445,000	\$ 265,325	\$ 710,325	\$ 186,376	\$ 28,989	\$ 215,365	\$ 631,376	\$ 294,314	\$ 925,690
2021	465,000	251,975	716,975	196,442	18,923	215,365	661,442	270,898	932,340
2022	490,000	238,025	728,025	207,070	8,313	215,383	697,070	246,338	943,408
2023	515,000	218,425	733,425	-	-	-	515,000	218,425	733,425
2024	540,000	202,975	742,975	-	-	-	540,000	202,975	742,975
2025-2029	3,095,000	745,900	3,840,900	-	-	-	3,095,000	745,900	3,840,900
2030-2032	2,235,000	181,800	2,416,800	-	-	-	2,235,000	181,800	2,416,800
	<b>\$ 7,785,000</b>	<b>\$ 2,104,425</b>	<b>\$ 9,889,425</b>	<b>\$ 589,888</b>	<b>\$ 56,225</b>	<b>\$ 646,113</b>	<b>\$ 8,374,888</b>	<b>\$ 2,160,650</b>	<b>\$ 10,535,538</b>

***Capital lease obligations*** – During 2018, the District entered into a capital lease obligation with an interest rate of 3.148 percent. The lease is collateralized by the leased equipment. At December 31, 2019 and 2018, the capitalized cost of the capital lease obligation was \$144,000 and the accumulated amortization was \$36,000 and \$18,000, respectively.

During 2018, the District entered into a master lease purchase agreement under which the District received \$985,000 for medical equipment and capital improvements whose title will transfer to the lender and will be leased to the District over the period of fifteen years, with payments beginning in January 2019. The District will assume ownership of the assets at the conclusion of the lease and therefore the amount has been reported as a capital lease obligation. At December 31, 2019 and 2018, the capitalized cost of the capital lease obligation was \$961,209 and \$943,000, respectively, and the accumulated amortization was \$135,392 and \$-0-, respectively.

The unspent portion of the \$985,000 received in 2018 was returned to the lessor in 2019.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

Scheduled future annual payments on capital lease obligations are as follows:

<b>December 31,</b>	<b>Amount</b>
2020	\$ 176,915
2021	176,915
2022	176,915
2023	176,915
2024	176,915
2025	158,509
Total future minimum lease payments	1,043,084
Less amount representing interest	(110,447)
Present value of future minimum lease payments	932,637
Less current maturities	(143,923)
<b>Total capital lease obligations, net of current maturities</b>	<b>\$ 788,714</b>

**7. Net Patient Service Revenue:**

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

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**7. Net Patient Service Revenue (continued):**

Patient service revenue, net of contractual adjustments and discounts, recognized in the period from these major payor sources, is as follows:

	<b>2019</b>	<b>2018</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 10,395,546	\$ 9,349,689
Medicaid	7,021,935	6,319,215
Other third-party payors	4,194,366	4,011,134
Patients	1,507,772	1,895,443
Proshare	329,556	385,535
	<b>23,449,175</b>	<b>21,961,016</b>
Less:		
Charity care	(617,097)	(358,603)
Provision for bad debts	(1,312,683)	(1,440,508)
<b>Net patient service revenue</b>	<b>\$ 21,519,395</b>	<b>\$ 20,161,905</b>

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

- *Medicare* – The Hospital has been designated a critical access hospital by Medicare, and is reimbursed for most inpatient, swing-bed, and outpatient services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for skilled nursing facility services under a prospective payment system. Physician services are reimbursed on a fee schedule. 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.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Nursing home services are reimbursed based on costs as defined and limited by the Medicaid program. Swing-bed services are reimbursed on a prospectively set rate per day. Physician services are reimbursed on a fee schedule.
- The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**7. Net Patient Service Revenue (continued):**

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 \$4,000 and \$98,000 in the years ended December 31, 2019 and 2018, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates.

Net patient service revenue increased by approximately \$154,000 in 2019 due to the forgiveness by the state of Washington of the rural health clinic Medicaid managed care reconciliation amounts due.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2019 and 2018, were approximately \$384,000 and \$226,000, respectively. Disproportionate share hospital payments from the state of Washington received to subsidize charity services provided for the years ended December 31, 2019 and 2018, were approximately \$46,000 and \$115,000, respectively.

**8. Retirement Plans:**

The District provides benefits through the North Valley Hospital Profit Sharing Plan (the 401(a) Plan), a defined contribution retirement plan under Section 401(a) of the Internal Revenue Code (IRC). The 401(a) Plan is administered by Empower Retirement. Benefit terms, including contribution requirements, for the 401(a) Plan are established and may be amended by the Board of Commissioners. In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the District to the plan plus investment earnings. The 401(a) Plan is available to all employees at least 21 years of age, on the first day of the month following 90 days of employment. Employees become vested following 800 hours of service during a twelve-month period. The District can contribute up to one percent of eligible employees' compensation to the 401(a) Plan. The District contributed approximately \$126,000 and \$90,000 to the 401(a) Plan in 2019 and 2018, respectively.

Forfeitures and the District's liability were not material in 2019 and 2018.

The District also offers a deferred compensation plan under Section 457(b) of the IRC. The name of the plan is the Okanogan Co. Public Hospital District #4 Deferred Compensation Plan (the 457(b) Plan). The 457(b) Plan is administered by Empower Retirement. Benefit terms for the 457(b) Plan are established and may be amended by the Board of Commissioners. The 457(b) Plan is available to all employees at least 21 years of age, on the first day of the month following 90 days of employment. Employee contributions are deposited and held with accounts established with Empower Retirement and are 100 percent vested. District employees contributed approximately \$277,000 and \$187,000 to the 457(b) Plan in 2019 and 2018, respectively.



**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**9. Risk Management and Contingencies:**

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

The District also has excess professional liability insurance with Coverys on a “claims-made” basis. The excess malpractice insurance provides \$2,000,000 per claim of primary coverage with an aggregate limit of \$2,000,000. The policy has no deductible.

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

***Self-insurance risk pools*** – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust. The trust is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Unemployment compensation expenses under the plan were approximately \$88,000 and \$86,000 in 2019 and 2018, respectively.

The District insures for workers’ compensation through the state of Washington’s Department of Labor & Industries (L&I). L&I manages all claims and pays benefits out of an insurance pool called the Washington State Fund. The fund is financed by premiums paid by employers and employees. Premiums are charged to operations as they are incurred. The District recognized dividends of approximately \$36,000 and \$63,000, from the Public Hospital District Workers’ Compensation Fund, which was included with other operating revenues in the statements of revenues, expenses, and changes in net position in 2019 and 2018, respectively. Workers’ compensation expense was approximately \$126,000 and \$122,000 in 2019 and 2018, respectively.

***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.

***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.

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

*Industry regulations (continued)* – 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.

**10. Concentration of Risks:**

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

The mix of receivables from patients follows:

	2019	2018
Medicare	37 %	31 %
Medicaid	16	16
Other third-party payors	22	26
Patients	25	27
	100 %	100 %

*Collective bargaining units* – Effective May 1, 2017, the District renewed its contract with a labor union. As of both December 31, 2019 and 2018, approximately 58 percent of the District's employees were represented under a collective bargaining agreement with United Food & Commercial Workers Union Local 21. The contract is effective through August 31, 2020.

**11. COVID-19 Pandemic:**

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Washington temporarily suspending all elective surgeries and other elective procedures. In addition, the District has experienced declines in volumes of outpatient and ancillary services, such as radiology, laboratory, emergency department, and clinic visits.

In April 2020, the District received approximately \$3,950,000 of funding from the CARES Act Provider Relief Fund. Additional distributions from the CARES Act Provider Relief Fund are expected based on announcements by the United States Department of Health and Human Services.

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

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**11. COVID-19 Pandemic (continued):**

The District also entered into a loan for \$2,499,500 in May 2020 as part of the Small Business Administration Paycheck Protection Program, also a part of the federal government's response to the pandemic. The loan bears interest at 1 percent and matures in May 2022. The loan has the potential to be forgiven in full or in part based on certain payroll and other costs incurred in the eight-week period following the date of first disbursement of the loan funds.

As of December 31, 2019, the District had unrestricted reserves representing 102 days of operating expenses. As of May 31, 2020, the District had unrestricted reserves representing 263 days of operating expenses.

The District has also received Medicare accelerated payments of \$3,929,687 subsequent to year end. The Medicare accelerated payments will begin to be repaid within 120 days of receipt.

The District has also implemented cost containment efforts in response to COVID-19.

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

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

**12. Subsequent Events:**

In April 2020, the District entered into a financing agreement with Alliance Funding Group in the amount of \$1,050,000 to finance the purchase of a new boiler. In April 2020, the District began making monthly payments of \$16,194, which will continue through March 2026.

In May 2020, the Board of Commissioners approved the purchase of a chemistry analyzer for \$329,780, which will be paid for using operating income.



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  
Okanogan County Public Hospital District No. 4  
doing business as North Valley Hospital  
Tonasket, 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 Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 18, 2020.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
June 18, 2020

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2019**

Prior-Year Number	Description	Current Status
2018-001	Manual Journal Entries	Resolved

## **SUPPLEMENTAL SCHEDULES**

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Schedule of Divisional Statement of Net Position**  
**December 31, 2019**

<b>ASSETS</b>	<b>Hospital Division</b>	<b>LTC Division</b>	<b>Eliminations</b>	<b>Totals</b>
<i>Current assets</i>				
Cash and cash equivalents	\$ 4,997,567	\$ 318,972	\$ -	\$ 5,316,539
Receivables:				
Patient accounts	2,722,952	143,682	-	2,866,634
Taxes	34,878	-	-	34,878
Taxes restricted for debt service	57,467	-	-	57,467
Estimated third-party payor settlements	50,274	-	-	50,274
Other	103,704	7,112	-	110,816
Cash and cash equivalents, restricted for debt service	848,505	-	-	848,505
Inventories	350,911	44,625	-	395,536
Prepaid expenses	151,149	47,948	-	199,097
Total current assets	9,317,407	562,339	-	9,879,746
<i>Noncurrent assets</i>				
Due from long-term care division	5,168,182	-	(5,168,182)	-
Capital assets, net of accumulated depreciation	10,974,182	335,003	-	11,309,185
Total noncurrent assets	16,142,364	335,003	(5,168,182)	11,309,185
<b>Total assets</b>	<b>\$ 25,459,771</b>	<b>\$ 897,342</b>	<b>\$ (5,168,182)</b>	<b>\$ 21,188,931</b>

*See accompanying independent auditors' report.*



**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Schedule of Divisional Statement of Net Position (Continued)**  
**December 31, 2019**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>Hospital Division</b>	<b>LTC Division</b>	<b>Eliminations</b>	<b>Totals</b>
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ 631,376	\$ -	\$ -	\$ 631,376
Current maturities of capital lease obligations	143,923	-	-	143,923
Estimated third-party payor settlements	(77,257)	92,555	-	15,298
Accounts payable	561,922	147,818	-	709,740
Accrued compensation and related liabilities	356,009	151,556	-	507,565
Accrued leave	383,166	109,823	-	492,989
Accrued interest payable	39,116	-	-	39,116
Total current liabilities	2,038,255	501,752	-	2,540,007
<i>Noncurrent liabilities</i>				
Due to hospital division	-	5,168,182	(5,168,182)	-
Long-term debt, less current maturities	8,139,835	-	-	8,139,835
Capital lease obligation, less current maturities	788,714	-	-	788,714
Total noncurrent liabilities	8,928,549	5,168,182	(5,168,182)	8,928,549
Total liabilities	10,966,804	5,669,934	(5,168,182)	11,468,556
<i>Deferred inflows of resources, bond refunding</i>	67,503	-	-	67,503
<i>Net position</i>				
Net investment in capital assets	1,163,715	335,003	-	1,498,718
Restricted for debt service	905,972	-	-	905,972
Unrestricted	12,355,777	(5,107,595)	-	7,248,182
Total net position	14,425,464	(4,772,592)	-	9,652,872
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 25,459,771</b>	<b>\$ 897,342</b>	<b>\$ (5,168,182)</b>	<b>\$ 21,188,931</b>

*See accompanying independent auditors' report.*

**Okanogan County Public Hospital District No. 4**  
**doing business as North Valley Hospital**  
**Schedule of Divisional Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2019**

	<b>Hospital Division</b>	<b>LTC Division</b>	<b>Eliminations</b>	<b>Totals</b>
<i>Operating revenues</i>				
Net patient service revenue	\$ 18,189,718	\$ 3,327,375	\$ 2,302	\$ 21,519,395
Other	300,089	856,166	(661,126)	495,129
Total operating revenues	18,489,807	4,183,541	(658,824)	22,014,524
<i>Operating expenses</i>				
Salaries and wages	7,788,829	2,863,122	(658,824)	9,993,127
Employee benefits	1,858,953	632,945	-	2,491,898
Professional fees	3,189,128	-	-	3,189,128
Purchased services	2,418,157	348,301	-	2,766,458
Supplies	1,145,193	492,559	-	1,637,752
Utilities	267,978	86,886	-	354,864
Rentals and leases	334,619	14,190	-	348,809
Repairs and maintenance	360,988	13,690	-	374,678
Depreciation and amortization	1,074,997	58,025	-	1,133,022
Insurance	164,526	12,937	-	177,463
Other	382,869	80,469	-	463,338
Total operating expenses	18,986,237	4,603,124	(658,824)	22,930,537
<i>Operating loss</i>	(496,430)	(419,583)	-	(916,013)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	490,978	-	-	490,978
Taxation for bond principal and interest	775,519	-	-	775,519
Contributions	69,446	1,140	-	70,586
Investment income	90,392	5	-	90,397
Interest expense	(344,301)	-	-	(344,301)
Total nonoperating revenues, net	1,082,034	1,145	-	1,083,179
Change in net position	585,604	(418,438)	-	167,166
Net position, beginning of year	13,839,860	(4,354,154)	-	9,485,706
<b>Net position, end of year</b>	<b>\$ 14,425,464</b>	<b>\$ (4,772,592)</b>	<b>\$ -</b>	<b>\$ 9,652,872</b>

*See accompanying independent auditors' report.*