



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

December 24, 2020

Board of Commissioners
Samaritan Healthcare
Moses Lake, 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 Samaritan Healthcare 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

Americans with Disabilities

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Grant County Public Hospital District No. 1 DBA Samaritan Healthcare

Financial Statements and Supplemental
Information

Years Ended December 31, 2019 and 2018



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Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

Board of Commissioners
Grant County Public Hospital District No. 1 DBA Samaritan Healthcare
Moses Lake, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Grant County Public Hospital District No. 1 DBA Samaritan Healthcare (the "District"), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grant County Public Hospital District No. 1 DBA Samaritan Healthcare, as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 10 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 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. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

May 25, 2020
Spokane, Washington

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis Years Ended December 31, 2019 and 2018

Our discussion and analysis of the financial performance of Grant County Public Hospital District No. 1 DBA Samaritan Healthcare (the "District") provides an overview of the District's financial activities for the fiscal years ended December 31, 2019, 2018, and 2017. Please read it in conjunction with the District's financial statements, which begin on page 11.

Financial Highlights

- The District's net position increased by \$7,073,133 in the past year from \$77,316,826 at December 31, 2018, to \$84,389,959 at December 31, 2019. In the prior year, the District's net position increased by \$13,494,235 from \$63,822,591 at December 31, 2017, to \$77,316,826 at December 31, 2018.
- Gross patient revenue increased by 11.1% from \$240,639,713 in fiscal year 2018 to \$267,247,255 in fiscal year 2019. Revenue deductions increased by 10.6% in the past year from \$154,263,717 to \$170,622,411. Operating expenses increased by (37.0)% in the past year from \$154,263,717 to \$97,170,296 in fiscal year 2019. In the prior year, gross patient revenue increased by 11.2% from \$216,378,956 in the fiscal year 2017 to \$240,639,713 in the fiscal year 2018. Revenue deductions increased by 10.4% in the past year from \$139,699,025 to \$154,263,717 in fiscal year 2018.

Using This Annual Report

The District's financial statements consist of three statements: statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These financial statements and the related notes to the financial statements provide information about the activities of the District, including resources held by the District.

The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

Our analysis of the District's finances begins on page 5. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statements of net position and statements of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

The two statements referred to above report the District's net position and its changes. The District's net position—the difference between assets and liabilities—is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are indicators of whether its financial health is improving or deteriorating. Readers should also consider other nonfinancial factors such as changes in the District's patient base, measures of quality of the service it provides to the community, and local economic factors to assess the overall health of the District.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2019 and 2018

The Statements of Cash Flows

The final required statements are the statements of cash flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. They provide answers to such questions as, "Where did cash come from?", "What was cash used for?", and "What was the change in cash balances during the reporting period?"

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2019 and 2018

The District's Net Position

The District's net position is the difference between the assets and liabilities reported in the statements of net position on pages 10 and 11. The District's net position increased from December 31, 2018, to December 31, 2019, by \$7,073,133, as detailed in the following table:

Condensed Statements of Net Position at December 31 (In Thousands)

| December 31, | | | | 2019 - 2018 | | 2018 - 2017 | |
|---|-------------------|------------------|------------------|-----------------|-------------|-----------------|--------------|
| | 2019 | 2018 | 2017 | \$ Change | % Change | \$ Change | % Change |
| Assets: | | | | | | | |
| Current assets and other assets | \$ 53,163 | \$ 67,002 | \$ 63,766 | \$(13,839) | (21)% | \$ 3,236 | 5 % |
| Capital assets | 51,568 | 31,769 | 29,665 | 19,799 | 62 % | 2,104 | 7 % |
| TOTAL ASSETS | \$ 104,731 | \$ 98,771 | \$ 93,431 | \$ 5,960 | 6 % | \$ 5,340 | 6 % |
| Liabilities: | | | | | | | |
| Other liabilities | \$ 14,811 | \$ 13,976 | \$ 13,434 | \$ 835 | 6 % | \$ 542 | 4 % |
| Long-term liabilities | 5,530 | 7,478 | 15,880 | (1,948) | (26)% | (8,402) | (53)% |
| Total liabilities | 20,341 | 21,454 | 29,314 | (1,113) | (5)% | (7,860) | (27)% |
| Deferred inflows of resources | - | - | 294 | - | - % | (294) | (100)% |
| Net position: | | | | | | | |
| Net investment in capital assets | 47,286 | 25,372 | 21,295 | 21,914 | 86 % | 4,077 | 19 % |
| Restricted | 1,980 | 1,980 | 1,661 | - | - % | 319 | 19 % |
| Unrestricted | 35,124 | 49,965 | 40,867 | (14,841) | (30)% | 9,098 | 22 % |
| Total net position | 84,390 | 77,317 | 63,823 | 7,073 | 9 % | 13,494 | 21 % |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | \$ 104,731 | \$ 98,771 | \$ 93,431 | \$ 5,960 | 6 % | \$ 5,340 | 6 % |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2019 and 2018

Condensed Statements of Revenues, Expenses, and Changes in Net Position (In Thousands)

| | | | | | 2019 - 2018 | | 2018 - 2017 | |
|---|-----------|-----------|-----------|-----------|-------------|-----------|-------------|--|
| Years Ended December 31, | 2019 | 2018 | 2017 | \$ Change | % Change | \$ Change | % Change | |
| Operating revenue: | | | | | | | | |
| Net patient service revenue | \$ 96,625 | \$ 86,376 | \$ 76,691 | \$ 10,249 | 12 % | \$ 9,685 | 13 % | |
| Other operating revenue | 3,838 | 2,958 | 2,532 | 880 | 30 % | 426 | 17 % | |
| Total operating revenue | 100,463 | 89,334 | 79,223 | 11,129 | 12 % | 10,111 | 13 % | |
| Operating expenses: | | | | | | | | |
| Salaries and wages | 47,187 | 40,530 | 35,700 | 6,657 | 16 % | 4,830 | 14 % | |
| Employee benefits | 11,686 | 10,160 | 9,494 | 1,526 | 15 % | 666 | 7 % | |
| OPEB funding expense | - | - | 718 | - | - % | (718) | (100)% | |
| Professional fees | 5,971 | 5,579 | 4,630 | 392 | 7 % | 949 | 20 % | |
| Supplies | 14,135 | 12,160 | 11,076 | 1,975 | 16 % | 1,084 | 10 % | |
| Purchased services | 4,534 | 4,453 | 5,233 | 81 | 2 % | (780) | (15)% | |
| Utilities | 574 | 637 | 700 | (63) | (10)% | (63) | (9)% | |
| Repairs and maintenance | 2,804 | 2,775 | 2,577 | 29 | 1 % | 198 | 8 % | |
| Insurance | 476 | 481 | 394 | (5) | (1)% | 87 | 22 % | |
| Other | 3,349 | 2,743 | 2,181 | 606 | 22 % | 562 | 26 % | |
| Rent | 1,349 | 933 | 986 | 416 | 45 % | (53) | (5)% | |
| Depreciation | 5,105 | 4,601 | 4,400 | 504 | 11 % | 201 | 5 % | |
| Total operating expenses | 97,170 | 85,052 | 78,089 | 12,118 | 14 % | 6,963 | 9 % | |
| Operating income | 3,293 | 4,282 | 1,134 | (989) | (23)% | 3,148 | 278 % | |
| Nonoperating revenue - Net | 3,780 | 9,372 | 2,608 | (5,592) | (60)% | 6,764 | 259 % | |
| Increase in net position | 7,073 | 13,654 | 3,742 | (6,581) | (48)% | 9,912 | 265 % | |
| Net position at beginning | 77,317 | 63,823 | 66,146 | 13,494 | 21 % | (2,323) | (4)% | |
| Change in accounting principle or restatement | - | (160) | (6,065) | 160 | (100)% | 5,905 | 100 % | |
| Net position at end | \$ 84,390 | \$ 77,317 | \$ 63,823 | \$ 7,073 | 9 % | \$ 13,494 | 21 % | |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2019 and 2018

Operating Income

Gross patient service revenue increased by \$26,607,542 compared with an increase of \$16,358,694 in revenue deductions in 2019. The inpatient portion of gross revenue increased by \$3,194,305 in 2019 was the result of increased medical surgical revenue and pharmacy revenue. The increase in revenue deductions was the result of the increased contractual allowance related to the District's accounts receivable. The outpatient portion of gross revenue increased by \$21,538,286 in 2019, primarily because of increased activity from the operating room, emergency, and laboratory department. The clinic portion of gross revenue was \$15,638,392, which was an increase of \$1,874,951 in 2019.

Total operating expenses increased by \$12,117,489 from 2018 to 2019. This change was caused mostly by increases in salaries and benefits of \$8,183,429, and supply expenses of \$1,974,812. Salaries and benefits increased because of the effect of written-off amounts related to other post-employment benefits. This is a non-recurring charge to operating expense; the 2018 to 2019 increase would be approximately \$2,000,000 not including this one-time write off. The cost centers that saw the largest increase in salaries and benefits were the mother baby unit, nursing administration, and med-surg. Supply expenses increased primarily because of increased purchases of implants and pharmaceuticals sold to patients.

Gross patient service revenue increased by \$24,260,757 compared with an increase of \$14,575,872 in revenue deductions in 2018. The inpatient portion of gross revenue increased by \$10,061,947 in 2018 because the inpatient census grew by 7.4% from the prior year. The increase in revenue deductions was the result of the increased contractual allowance related to the District's accounts receivable. Outpatient portion of gross revenue increased by \$11,438,486 in 2018, primarily because of increased activity from the operating room, radiology, and laboratory department. The clinic portion of gross revenue increased by \$2,760,324 in 2018.

Total operating expenses increased by \$6,964,394 from 2017 to 2018. This change was caused mostly by increases in salaries and benefits of \$5,494,789, supply expenses of \$1,084,273, and professional fees of \$949,042. Salaries and benefits increased because of elevated full-time equivalents, increased average hourly rate and benefits associated with them, mainly health insurance cost. The cost centers that saw the largest increase in salaries and benefits were the clinic, operating room, and administrative and general functions. Supply expenses increased primarily because of the increased purchases of drugs sold to patients, laboratory supplies, and education program supplies. Professional fees increased primarily as a result of utilizing additional medical professionals in podiatry, post-care general consulting, and clinic services.

Nonoperating Revenue (Expenses)

For the year 2019, nonoperating revenue consisted primarily of property tax revenue. The District received \$2,422,312 in property tax revenue. During 2018, property tax revenue received by the District totaled \$2,324,059. During 2017, property tax revenue received by the District totaled \$2,254,451. In addition, the District received grant and contribution revenue in the amount of \$37,868 in 2019, \$286,685 in 2018, and \$232,128 in 2017. The District also incurred interest expense of \$245,890 in 2019, \$334,497 in 2018, and \$423,313 in 2017.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2019 and 2018

The District's Cash Flows

Changes in the District's cash flows are consistent with the changes in the operating income and nonoperating revenue and expenses as previously mentioned.

Capital Assets and Accumulated Depreciation

As of December 31, 2019, the District had \$51,568,194 invested in capital assets, net of accumulated depreciation. The historical cost of and additions to capital assets and the changes in accumulated depreciation for the year ended December 31, 2019, are detailed in the following table:

| | Balance at January 1, 2019 | Additions | Retirements | Transfers | Balance at December 31, 2019 |
|--------------------------------|----------------------------------|---------------|-------------|--------------|------------------------------------|
| Land and improvements | \$ 1,488,621 | \$ - | \$ - | \$ 9,709,301 | \$ 11,197,922 |
| Building and improvements | 55,255,771 | 113,481 | - | 7,215,753 | 62,585,005 |
| Fixed equipment | 242,403 | - | - | - | 242,403 |
| Moveable equipment | 31,676,818 | 1,773,461 | (316,896) | 2,181,504 | 35,314,887 |
| Subtotals | 88,663,613 | 1,886,942 | (316,896) | 19,106,558 | 109,340,217 |
| Less: Accumulated depreciation | 59,695,617 | 5,104,482 | (316,896) | - | 64,483,203 |
| Subtotals | 28,967,996 | (3,217,540) | - | 19,106,558 | 44,857,014 |
| Construction in progress | 2,800,951 | 23,016,787 | - | (19,106,558) | 6,711,180 |
| Capital assets - Net | \$ 31,768,947 | \$ 19,799,247 | \$ - | \$ - | \$ 51,568,194 |

Noncurrent Liabilities

At year-end 2019, the District's noncurrent liabilities consisted of series 1998, 2005, and 2007 bonds with an aggregate balance in the amount of \$4,282,392 and other noncurrent liabilities in the amount of \$2,912,793. Total noncurrent liabilities as of December 31, 2019, were \$7,195,185. Of this amount, \$2,618,680 is due in various installments over the next 12-month period.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2019 and 2018

Economic Factors Affecting 2019 and the Next Year

There are many significant factors affecting the financial performance of the healthcare providers and the industry in general. Furthermore, see note 15 on page 39 for details regarding important subsequent events.

The District is located in central Washington, 100 miles west of Spokane, Washington. The District covers about 35% of Grant County, including Moses Lake, Washington. The District's population is approximately 57,000, but the hospital's total service area covers over 90,000 residents. Although the local economy is concentrated in agriculture, Grant County unemployment was at 8.3% in 2018 and 5.0% in 2019. That is compared with a Washington state average unemployment rate of 4.3%.

Leadership – The senior leadership team consists of a chief executive officer, chief administrative officer, chief nursing officer/chief quality officer, chief human resources officer, and chief medical officer. Assignments are underway to reallocate and refocus to address the shift from volume to value.

Patient Safety and Value Focus – The District has significantly increased its focus on and execution of patient safety and patient satisfaction by appointing a chief nursing officer/chief quality officer, and a quality director and staffing the data analytics supporting these functions. Further, the District has appointed a director of patient experience to work directly on the service elements that directly affect patient and family satisfaction.

Demand for Services – Demand for services in the District's service area has both positive and negative inputs. The volumes are likely to increase in the future because of the aging of the population and the continued growth of the population and industries in Grant County. Grant County and the Moses Lake area continue to attract light and heavy industries to the area. Samaritan Healthcare has become very involved with the Grant County Economic Development Council and the Moses Lake Chamber of Commerce to better understand the healthcare and services needs of new employers and their employees. Samaritan Healthcare is also impacted by the state and national drives to reduce readmissions and push end-of-life care out of the hospital as well as to manage population health, which should have the effect of reducing use rates.

Strategic Plan – The District reevaluates its strategic plan annually and holds long-term strategic planning to address macro changes every five years. The plan addresses the strategic and operational adjustments that the District must make in its shift from volume to value. The shortage of primary care, internal medicine, and specialty providers, including cardiology, oncology, general, and orthopedic surgery, in Grant County continues to be the largest factor hindering growth. One of the priorities of the strategic plan will be enhanced primary and specialty care provider recruitment as a means of reducing the out-migration of patients because of a lack of provider availability. Caring for the patients in the local community is a clear priority.

Medicare Regulations – A growing federal deficit may increase pressures to reduce reimbursement to providers. The risk to hospitals is that reimbursement updates will not keep up with inflation. The District has some protection, since it is designated as a sole community provider and has in the short term several favorable provisions in the Medicare regulations.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Management's Discussion and Analysis (Continued)
Years Ended December 31, 2019 and 2018

Economic Factors Affecting 2019 and the Next Year (Continued)

Information Systems – A key element of the strategic plan is the development of a long-range information systems plan. The goal is to provide more current and accurate information to physicians and caregivers to help treat our patients on a more timely basis and more efficiently across the continuum of care. The District has plans to update its accounting and health information systems in the near future.

Labor Availability – Many hospitals across the country are experiencing difficulty in filling positions, especially in primary care, nursing, pharmacy, and imaging. The District is experiencing few shortages in healthcare labor and is generally able to successfully recruit clinical positions including physicians, nurses, and other technical positions.

Employed Physician Compensation – Samaritan Healthcare's provider compensation plan is based on the following: market-based compensation, pay based on relative value units (RVU) productivity using the Medical Group Management Association (MGMA) database as a benchmark, and rewarding providers for improving the quality and satisfaction for the care provided to their patients. The District annually reviews and adjusts the provider compensation plan to market and to address the shift from volume to value.

Pharmaceutical Costs – The District continues to participate in the 340B Drug Program in conjunction with local, regional, and national pharmacies, which has significantly improved Samaritan Healthcare's drug acquisition costs. The continued escalation in the cost of new drugs remains a challenge to hospitals and a major source of increased costs of health insurance premiums.

Technology Costs – The future advances in new drugs, implantable supplies, and technology, especially in the areas of surgical and imaging services, will be significant. These technologies can lead to significant cost increases for hospitals. The District will continually have to evaluate these technologies and ensure that they are reimbursed appropriately from various payors and have a business case for using the service and/or supplies.

HIPAA – The Health Insurance Portability and Accountability Act (HIPAA), among other things, established electronic transaction sets and standards, privacy regulations, and security regulations over patient information and how it is utilized. HIPAA has added a significant cost implication and administrative burden to hospitals. These regulations continue to become more restrictive and create more administrative costs to monitor and implement. HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. HIPAA compliance is an integral component of Samaritan Healthcare's compliance work plan.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, creditors, and members of our community with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions regarding this report or for additional financial information, please contact the District's administrative office at 801 East Wheeler Road, Moses Lake, WA 98837.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Statements of Net Position

| December 31, | 2019 | 2018 |
|---|----------------|---------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 7,809,794 | \$ 17,354,898 |
| Receivables: | | |
| Patient accounts - Net | 13,495,999 | 11,958,078 |
| Taxes receivable | 258,247 | 262,419 |
| Other | 425,954 | 15,144 |
| Inventories | 2,014,831 | 1,695,404 |
| Prepaid expenses | 973,146 | 1,136,309 |
| Total current assets | 24,977,971 | 32,422,252 |
| Noncurrent assets: | | |
| Nondepreciable capital assets | 17,353,258 | 3,733,728 |
| Depreciable capital assets - Net | 34,214,936 | 28,035,219 |
| Restricted assets: | | |
| Under trust indenture for bond redemption and interest less amount required for current liabilities | 1,279,825 | 1,279,825 |
| Donor restricted for endowment | 700,000 | 700,000 |
| Board designated for capital improvements and other reserves | 26,205,265 | 32,599,615 |
| Total noncurrent assets | 79,753,284 | 66,348,387 |
| TOTAL ASSETS | \$ 104,731,255 | \$ 98,770,639 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Statements of Net Position (Continued)

| December 31, | 2019 | 2018 |
|---|----------------|---------------|
| Current liabilities: | | |
| Current maturities - Long-term debt | \$ 953,737 | \$ 2,110,568 |
| Current portion - Accrued compensated absences | 1,664,943 | 1,512,467 |
| Accounts payable and accrued expenses | 6,271,917 | 2,506,241 |
| Payroll and related liabilities | 1,970,273 | 2,835,200 |
| Accrued interest payable | 21,301 | 3,792 |
| Estimated third-party payor settlements | 4,882,620 | 7,118,596 |
| Total current liabilities | 15,764,791 | 16,086,864 |
| Noncurrent liabilities: | | |
| Long-term debt - Less current maturities | 3,328,655 | 4,286,793 |
| Accrued compensated absences - Less current portion | 554,981 | 504,156 |
| Other accrued liabilities - Estimated malpractice costs | 692,869 | 576,000 |
| Total noncurrent liabilities | 4,576,505 | 5,366,949 |
| Total liabilities | 20,341,296 | 21,453,813 |
| Net position: | | |
| Net investment in capital assets | 47,285,802 | 25,371,586 |
| Restricted for: | | |
| Debt service | 1,279,825 | 1,279,825 |
| Nonexpendable permanent endowment | 700,000 | 700,000 |
| Unrestricted | 35,124,332 | 49,965,415 |
| Total net position | 84,389,959 | 77,316,826 |
| TOTAL LIABILITIES AND NET POSITION | \$ 104,731,255 | \$ 98,770,639 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Statements of Revenues, Expenses, and Changes in Net Position

| Years Ended December 31, | 2019 | 2018 |
|---|---------------|---------------|
| Operating revenue: | | |
| Net patient service revenue | \$ 96,624,844 | \$ 86,375,996 |
| Other operating revenue | 3,838,468 | 2,958,599 |
| Total operating revenue | 100,463,312 | 89,334,595 |
| Operating expenses: | | |
| Salaries and wages | 47,186,591 | 40,529,636 |
| Employee benefits | 11,686,191 | 10,159,717 |
| Professional fees | 5,970,487 | 5,578,918 |
| Supplies | 14,135,296 | 12,160,484 |
| Purchased services | 4,534,154 | 4,453,159 |
| Utilities | 573,909 | 637,204 |
| Repairs and maintenance | 2,804,330 | 2,774,976 |
| Insurance | 476,410 | 480,857 |
| Other | 3,349,232 | 2,742,972 |
| Rent | 1,349,214 | 933,257 |
| Depreciation | 5,104,482 | 4,601,627 |
| Total operating expenses | 97,170,296 | 85,052,807 |
| Income from operations | 3,293,016 | 4,281,788 |
| Nonoperating revenue (expenses): | | |
| Discharge of OPEB liabilities | - | 6,783,309 |
| Tax revenue | 2,422,312 | 2,324,059 |
| Investment income - Net of fees | 1,551,640 | 389,692 |
| Grants and contributions | 37,868 | 286,685 |
| Other nonoperating revenue | - | 33,989 |
| Gain (loss) on disposal of assets | 14,187 | (110,787) |
| Interest expense | (245,890) | (334,497) |
| Total nonoperating revenue - Net | 3,780,117 | 9,372,450 |
| Increase in net position | 7,073,133 | 13,654,238 |
| Net position at beginning of the year, as previously stated | 77,316,826 | 63,822,591 |
| Restatement | - | (160,003) |
| Net position at beginning of the year, as restated | 77,316,826 | 63,662,588 |
| Net position at end of the year | \$ 84,389,959 | \$ 77,316,826 |

See accompanying notes to financial statements.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Statements of Cash Flows

| Years Ended December 31, | 2019 | 2018 |
|---|---------------|---------------|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | \$ 92,850,947 | \$ 88,473,376 |
| Receipts from other operating activities | 3,238,215 | 2,943,455 |
| Payments to employees | (59,534,408) | (49,674,207) |
| Payments to suppliers, contractors, and others | (29,466,751) | (30,744,637) |
| Net cash provided by operating activities | 7,088,003 | 10,997,987 |
| Cash flows from noncapital financing activities: | | |
| Property tax | 2,426,484 | 2,319,469 |
| Contribution and donation income | 37,868 | 109,318 |
| Grant income | 189,443 | 177,367 |
| Other miscellaneous nonoperating proceeds | - | 33,989 |
| Net cash provided by noncapital financing activities | 2,653,795 | 2,640,143 |
| Cash flows from capital and related financing activities: | | |
| Principal paid on long-term debt | (2,114,969) | (1,972,509) |
| Interest paid on long-term debt | (228,381) | (393,127) |
| Purchase of capital assets | (24,903,729) | (6,865,971) |
| Proceeds from disposal and sale of capital assets | 14,187 | 49,891 |
| Net cash used in capital and related financing activities | (27,232,892) | (9,181,716) |
| Cash flows from investing activities: | | |
| Investment income | 1,675,912 | 487,756 |
| (Purchase) sale of investments and changes in value | 6,394,350 | (803,512) |
| Investment fund professional fees paid | (124,272) | (98,067) |
| Net cash provided by (used in) investing activities | 7,945,990 | (413,823) |
| Increase (decrease) in cash and cash equivalents | (9,545,104) | 4,042,591 |
| Cash and cash equivalents - Beginning of year | 17,354,898 | 13,312,307 |
| Cash and cash equivalents - End of year | \$ 7,809,794 | \$ 17,354,898 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Statements of Cash Flows (Continued)

| Years Ended December 31, | 2019 | 2018 |
|---|--------------|---------------|
| Reconciliation of income from operations to net cash provided by operating activities: | | |
| Income from operations | \$ 3,293,016 | \$ 4,281,788 |
| Adjustments to reconcile income from operations to net cash provided by (used in) operating activities: | | |
| Depreciation | 5,104,482 | 4,601,627 |
| Provision for bad debts | 1,079,148 | 458,832 |
| Changes in operating assets and liabilities: | | |
| Receivables: | | |
| Patient accounts - Net | (2,617,069) | 1,276,388 |
| Other | (600,253) | (15,144) |
| Inventories | (319,427) | 91,120 |
| Prepaid expenses | 163,163 | (439,083) |
| Accounts payable | 3,882,545 | (634,846) |
| Payroll and related liabilities | (864,927) | 777,866 |
| Estimated third-party payor settlements | (2,235,976) | 362,160 |
| Accrued compensated absences | 203,301 | 237,279 |
| Total adjustments | 3,794,987 | 6,716,199 |
| Net cash provided by operating activities | \$ 7,088,003 | \$ 10,997,987 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Grant County Public Hospital District No. 1 DBA Samaritan Healthcare (the "District") operates a licensed 50-bed acute care hospital and rural health clinic in Moses Lake, Washington, as provided for under the laws of the state of Washington for Washington state municipal corporations. The District was created to operate and manage matters covering Grant County's healthcare functions.

The Board of Commissioners that governs the District consists of five community members elected to six-year terms. The District is not a component unit of Grant County. The District does not operate any component units.

Financial Statement Presentation

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

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 Revised Code of Washington (RCW) and the Department of Health in the *Accounting and Reporting Manual for Hospitals*.

The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Tax Status

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements.

Use of Estimates in Preparation of Financial Statements

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments. For purposes of the statements of cash flows, the District considers all cash and cash investments with maturity dates of three months or less as cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or, if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for doubtful accounts, which reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable.

In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts for which patients are personally responsible, through a reduction of gross revenue and a credit to an allowance for doubtful accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful 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 doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts 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.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the average-cost method.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Capital Assets

Capital assets are recorded at historical cost or, in the case of donated items, at acquisition value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the financial statements. The District policy is to capitalize assets with a cost of \$5,000 and over.

| | |
|-------------------------------------|---------------|
| Land improvements | 3 to 20 years |
| Buildings and building improvements | 5 to 40 years |
| Fixed equipment | 3 to 25 years |
| Major movable equipment | 3 to 20 years |

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the accompanying statements of revenues, expenses, and changes in net position. During 2019 and 2018, the District determined that no evaluations of recoverability were necessary.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

The District's policy is to permit employees to accumulate earned but unused "paid time off" (PTO) and sick pay benefits. All PTO is accrued when incurred at varying rates depending on the employee's position and contract.

Nurses and all other employees accrue PTO, except exempt employees, who accrue both PTO and sick pay. Unused PTO is accumulated and paid to the employee when the employee terminates employment with the District. Accrued PTO was reported as a current and noncurrent liability in both 2019 and 2018. There is no liability for unpaid accumulated sick leave for exempt employees, since the District does not have a policy to pay any amounts when employees separate from service with the District.

Estimated Malpractice Costs

The provision for estimated medical malpractice costs includes estimates of the ultimate costs of both reported claims and claims incurred but not reported.

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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The District has obtained medical malpractice insurance coverage from an insurance carrier on a claims-made basis. A claims-made insurance policy represents a transfer of risk within the policy limits to the insurance carrier for asserted claims and incidents reported to the insurance carrier. A claims-made insurance policy does not represent a transfer of risk for claims and incidents not reported to the insurance carrier during the policy period. Consequently, a healthcare organization insured under a claims-made policy recognizes the estimated cost of the claims and incidents not reported to the insurance carrier as of the end of the reporting period. Management estimates that the cost of any claims and incidents not reported to the insurance carrier as of December 31, 2019 and 2018, will not have a significant effect on the financial statements.

Net Position

The District's net position is classified into three categories:

Net investment in capital assets: This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build, acquire, or improve those assets.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Restricted: There are two subcategories for restricted assets - restricted for debt service and restricted nonexpendable permanent endowments. First Restricted for debt service consists of net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees in connection with bond agreements, reduced by any liabilities related to those assets. Restricted for nonexpendable permanent endowments consists of net position that equals the principal portion of permanent endowments.

Unrestricted: This category consists of the remaining net position that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first.

Endowment

Endowments are provided to the District on a voluntary basis by individuals and private organizations. Restricted nonexpendable net position represents the Masto Endowment Fund, which is a permanent endowment. Permanent endowments require that the principal or corpus of the endowments be retained in perpetuity. Unless the contributor provides specific instructions, Washington state law permits the District's Board of Commissioners to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Commissioners is required to consider the District's "long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

Operating Revenue and Expenses

The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services. Nonexchange revenue, including taxes, grants, and contributions, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. 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 willing to pay for services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Grants and Contributions

Grants are recorded either as contributions or exchange transactions based on criteria contained in the grant. The District receives grants and contributions from governmental and private entities. Revenue from grants and contributions are recognized when all eligibility requirements, including time restrictions, are met. Amounts that are unrestricted or that are restricted for a specific purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenue and expenses.

Tax Revenue

Property taxes are levied by Grant County on the District's behalf and are intended to finance the District's activities of the same fiscal year. The amount of property tax received is dependent on the assessed real property valuations as of the preceding May 31, the amount requested by the District, and the amount requested by other local taxing authorities. The assessed property is subject to lien on the levy date, and taxes are considered delinquent after October 31.

Subsequent Events

Subsequent events have been evaluated through May 25, 2020, which is the date the financial statements were available to be issued (see note 15).

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 2: Compliance

Management believes the District is in substantial compliance with current laws and regulations through the year ended December 31, 2019.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include but are not necessarily limited to matters such as licensure, accreditation, 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 the District is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. 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.

Note 3: Cash, Cash Equivalents, and Investments

Deposits

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. The District does not have a deposit policy for custodial credit risk. The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple-financial-institution collateral pool administered by the Washington Public Deposit Protection Commission.

Investments

RCW 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 (LGIP); savings accounts in qualified public depositories; and certain other investments.

The District's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Treasury securities, or the Washington State LGIP.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 3: Cash, Cash Equivalents, and Investments (Continued)

Investments (Continued)

Deposits and investments at carrying value consisted of the following at December 31:

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Unrestricted - Cash and investments: | | |
| Demand deposits | \$ 7,770,698 | \$ 17,334,839 |
| Deposits with the Grant County treasurer | 36,089 | 17,859 |
| Petty cash | 3,007 | 2,200 |
| Total unrestricted - Cash and investments | 7,809,794 | 17,354,898 |
| Restricted or board designated - Cash and investments: | | |
| Under trust indenture for bond redemption and interest less amount required for current liabilities | 1,279,825 | 1,279,825 |
| Board designated for capital improvements and other reserves - Includes LGIP investments of \$2,965,018 in 2019 and \$2,453,666 in 2018 | 26,205,265 | 32,599,615 |
| Donor restricted for endowment | 700,000 | 700,000 |
| Total restricted or board-designated - Cash and investments | 28,185,090 | 34,579,440 |
| Total cash and investments | \$ 35,994,884 | \$ 51,934,338 |

Average days to maturity of LGIP assets was 51 days at December 31, 2019.

The LGIP is not registered with the U.S. Securities and Exchange Commission (SEC) as an investment company. It is a voluntary investment vehicle operated by the Washington State Treasurer. Over 530 local governments have participated in the pool since it was started in 1986 to provide safe, liquid, and competitive investment options for local governments pursuant to RCW 43.250. All investments are subject to written policies and procedures adopted by the state treasurer's office. The LGIP is considered extremely low risk. Funds are invested in a portfolio of securities in a manner generally consistent with the SEC's Rule 2A-7 of the Investment Company Act of 1940 as it currently stands. The LGIP functions as a demand deposit account whereby the County receives an allocation of its proportionate share of pooled earnings using an amortized cost methodology. Unrealized gains and losses resulting from changes in the fair values are not distributed to the District.

The LGIP manages a portfolio of securities that meet the maturity, quality, diversification, and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 3: Cash, Cash Equivalents, and Investments (Continued)

Investments (Continued)

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over \$1 million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1 million dollars when notification is made between 9 a.m. and 10 a.m., at the sole discretion of OST. All participants are required to file with the state treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The LGIP is not subject to the fair value hierarchy disclosures.

The composition of investments, reported at fair value by investment type at December 31, 2019, excluding unrestricted cash follows:

| Investment Type | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Not Subject to Fair Value Measurement | Total |
|-----------------------------------|---|-----------|---|---|--|---------------|
| U.S. government treasury bonds | \$ | 5,805,091 | \$ - | \$ - | \$ - | \$ 5,805,091 |
| U.S. government agency bonds | | - | 15,814,689 | - | - | 15,814,689 |
| Mortgage-backed securities | | - | 3,559,123 | - | - | 3,559,123 |
| Other investments | | - | - | - | 3,006,187 | 3,006,187 |
| Totals | \$ | 5,805,091 | \$ 19,373,812 | \$ - | \$ 3,006,187 | \$ 28,185,090 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 3: Cash, Cash Equivalents, and Investments (Continued)

Investments (Continued)

The composition of investments, reported at fair value by investment type at December 31, 2018, excluding unrestricted cash follows:

| Investment Type | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Not Subject to Fair Value Measurement | Total |
|--|---|-----------|---|---|--|---------------|
| U.S. government treasury bonds | \$ | 5,556,442 | \$ - | \$ - | \$ - | 5,556,442 |
| U.S. government agency bonds | | - | 17,453,593 | - | - | 17,453,593 |
| Mortgage-backed securities | | - | 8,383,499 | - | - | 8,383,499 |
| Grant County WA PUB UT District #2 Revenue Bond | | - | 285,000 | - | - | 285,000 |
| Other investments | | - | - | - | 2,900,906 | 2,900,906 |
| Totals | \$ | 5,556,442 | \$ 26,122,092 | \$ - | \$ 2,900,906 | \$ 34,579,440 |

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates could affect the fair value of an investment. The District periodically reviews with its investment advisors the duration of the most significant investment accounts. Based on the forecasts of interest rates, the District adjusts the duration of the portfolio to achieve management's desired outcome. At December 31, 2019 and 2018, the District had the following investments and maturities, all of which were held in the District's name by a custodial bank that is an agent of the District:

| Investment Type | Investment Maturities | | | | |
|--------------------------------|-----------------------|---------------------|---------------|--------------|-----------------------|
| | Fair Value 2019 | Less Than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
| U.S. government treasury bonds | \$ 5,805,091 | \$ 1,387,650 | \$ 3,910,216 | \$ 507,225 | \$ - |
| U.S. government agency bonds | 15,814,689 | 2,237,158 | 6,324,033 | 5,445,927 | 1,807,571 |
| Mortgage-backed securities | 3,559,123 | - | 829,069 | 1,580,267 | 1,149,787 |
| Washington State LGIP | 2,965,019 | - | 2,965,019 | - | - |
| Totals | \$ 28,143,922 | \$ 3,624,808 | \$ 14,028,337 | \$ 7,533,419 | \$ 2,957,358 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 3: Cash, Cash Equivalents, and Investments (Continued)

Interest Rate Risk (Continued)

| Investment Type | Fair Value 2018 | Investment Maturities | | | |
|--|----------------------|-----------------------|----------------------|---------------------|-----------------------|
| | | Less Than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
| U.S. government treasury bonds | \$ 5,556,442 | \$ 1,068,167 | \$ 3,604,179 | \$ 884,097 | \$ - |
| U.S. government agency bonds | 17,453,593 | 3,424,202 | 6,213,332 | 6,770,283 | 1,045,775 |
| Mortgage-backed securities | 8,383,499 | 548,257 | 3,700,748 | 2,006,081 | 2,128,413 |
| Grant County WA PUB UT District #2 Revenue Bond | 285,000 | 285,000 | - | - | - |
| Washington State LGIP | 2,452,527 | - | 2,452,527 | - | - |
| Totals | \$ 34,131,061 | \$ 5,325,626 | \$ 15,970,786 | \$ 9,660,461 | \$ 3,174,188 |

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits might not be recovered. All securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

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 measured by assignment of a rating by a nationally recognized statistical rating organization. The District adheres to the state of Washington's regulations on investing. Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record; and bankers' acceptances. The U.S. government agency bonds were rated AA+ by Standard & Poor's Corporation or AAA by Moody's Corporation. The mortgage-backed securities secured by FHLMC (Freddie Mac) were rated AA+ by Standard & Poor's Corporation or AAA by Moody's Corporation. The Washington State LGIP was unrated as of December 31, 2019 and 2018.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 3: Cash, Cash Equivalents, and Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an entity's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer. Of the total investments of \$28,185,090, the U.S. government agency bonds had \$8,964,757, or 31.8%, invested by FNMA (Fannie Mae) at December 31, 2019. The mortgage-backed securities had \$3,411,941, or 12.1%, invested by Freddie Mac. In the prior year, of the total investments of \$34,579,440 the U.S government agency bonds had \$11,188,280, or 32.4%, invested by Fannie Mae at December 31, 2018. The mortgage-backed securities had \$7,337,712, or 21.2%, invested by Freddie Mac.

Note 4: 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 Grant County. No single patient composes more than five percent of total receivables at year-end. The mix of patient receivables at December 31, 2019 and 2018, follows:

| | 2019 | 2018 |
|-----------------------------------|---------------|---------------|
| Patient accounts receivable | \$ 37,902,912 | \$ 35,285,843 |
| Less: | | |
| Contractual allowance | 18,010,831 | 16,422,452 |
| Allowance for doubtful accounts | 6,396,082 | 6,905,313 |
| Patient accounts receivable - Net | \$ 13,495,999 | \$ 11,958,078 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 5: Net Patient Service Revenue

The following table sets forth the detail of patient service revenue - net of contractual adjustments, discounts, and provision for bad debts for the years ended December 31:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Gross patient service revenue: | | |
| Inpatient services | \$ 96,927,482 | \$ 93,733,177 |
| Outpatient services | 154,681,381 | 133,143,095 |
| Physician clinics | 15,638,392 | 13,763,441 |
| Total gross patient service revenue | 267,247,255 | 240,639,713 |
| Less: | | |
| Contractual adjustments | 163,541,619 | 147,726,652 |
| Provision for bad debts | 2,816,302 | 3,217,158 |
| Charity care | 4,264,490 | 3,319,907 |
| Total deductions in revenue | 170,622,411 | 154,263,717 |
| Net patient service revenue | \$ 96,624,844 | \$ 86,375,996 |

The following table reflects the percentage of gross patient service revenue by payor source for the years ended December 31:

| | 2019 | 2018 |
|---|-------------|-------------|
| Medicare | 33% | 32% |
| Medicaid | 31% | 32% |
| Commercial and other third-party payors | 33% | 33% |
| Self-pay | 3% | 3% |
| Totals | 100% | 100% |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 6: Reimbursement Arrangements With Third-Party Payors

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.

Hospital

Medicare - Inpatient and outpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. Charges and program billings are also subject to review by various organizations including the Recovery Audit Contractor Program.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The District is reimbursed at a tentative rate, with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

Others - The District also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the District on these agreements includes prospectively determined rates per discharge, discounts from established rates, and other payment methods.

Other Nonacute Services

Physician and Professional Services - Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology. Under federal law, the rural health clinics are also entitled to receive a wraparound payment for the difference between the cost and the amount paid by Medicaid managed-care plans. All other physician and professional services rendered to Medicare and Medicaid beneficiaries are paid based on prospectively determined fee schedules.

Accounting for Medicare and Medicaid Contractual Arrangements

The District is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 6: Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and 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 limited to matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and billing regulations.

Government activity with respect to investigations and allegations concerning possible violations of such regulations by healthcare providers has increased. 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 repayment for patient services previously billed. Management believes the District is in substantial compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the District, 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.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to healthcare providers and were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District may either accept or appeal the RAC's findings. RAC reviews of the District's Medicare claims are anticipated; however, the outcomes of such reviews are unknown, and any financial impact could not be reasonably estimated at December 31, 2019.

Note 7: Property Taxes

The District received approximately 1% of its financial support from property taxes for both years ended December 31, 2019 and 2018. These funds were used to support operations. Property taxes are levied by Grant County on the District's behalf on January 1 and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding May 31. The assessed property is subject to lien on the levy date, and taxes are considered delinquent after October 31. The taxes are collected by the county and remitted to the District. Taxes estimated to be collectible are recorded as revenue in the year receivable by the District.

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 need to be authorized by vote of eligible voters.

For 2019, the District tax levy for operations was \$0.54 per \$1,000 of assessed value of \$4,727,357,885.

For 2018, the District tax levy for operations was \$0.54 per \$1,000 of assessed value of \$4,288,872,470.

Property taxes are considered delinquent on the day following each payment due date.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 8: Capital Assets

Capital assets balances and activity were as follows at December 31, 2019:

| | Balance at January 1, 2019 | Additions | Retirements | Transfers | Balance at December 31, 2019 |
|--|----------------------------------|---------------|-------------|--------------|------------------------------------|
| Nondepreciable capital assets: | | | | | |
| Land | \$ 932,777 | \$ - | \$ - | \$ 9,709,301 | \$ 10,642,078 |
| Construction in progress | 2,800,951 | 23,016,787 | - | (19,106,558) | 6,711,180 |
| Total nondepreciable capital assets | 3,733,728 | 23,016,787 | - | (9,397,257) | 17,353,258 |
| Depreciable capital assets: | | | | | |
| Land improvements | 555,844 | - | - | - | 555,844 |
| Buildings and improvements | 55,255,771 | 113,481 | - | 7,215,753 | 62,585,005 |
| Fixed equipment | 242,403 | - | - | - | 242,403 |
| Major movable equipment | 31,676,818 | 1,773,461 | (316,896) | 2,181,504 | 35,314,887 |
| Total depreciable capital assets | 87,730,836 | 1,886,942 | (316,896) | 9,397,257 | 98,698,139 |
| Total capital assets before depreciation | 91,464,564 | 24,903,729 | (316,896) | - | 116,051,397 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 305,336 | 50,070 | - | - | 355,406 |
| Buildings and improvements | 36,904,203 | 2,366,739 | - | - | 39,270,942 |
| Fixed equipment | 181,279 | 12,514 | - | - | 193,793 |
| Major moveable equipment | 22,304,799 | 2,675,159 | (316,896) | - | 24,663,062 |
| Total accumulated depreciation | 59,695,617 | 5,104,482 | (316,896) | - | 64,483,203 |
| Capital assets - Net | \$ 31,768,947 | \$ 19,799,247 | \$ - | \$ - | \$ 51,568,194 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 8: Capital Assets (Continued)

Capital assets balances and activity were as follows at December 31, 2018:

| | Balance at January 1, 2018 | Additions | Retirements | Transfers | Balance at December 31, 2018 |
|--|----------------------------------|--------------|--------------|-------------|------------------------------------|
| Nondepreciable capital assets: | | | | | |
| Land | \$ 932,777 | \$ - | \$ - | \$ - | \$ 932,777 |
| Construction in progress | 954,572 | 3,629,591 | - | (1,783,212) | 2,800,951 |
| Total nondepreciable capital assets | 1,887,349 | 3,629,591 | - | (1,783,212) | 3,733,728 |
| Depreciable capital assets: | | | | | |
| Land improvements | 555,844 | - | - | - | 555,844 |
| Buildings and improvements | 53,476,366 | 137,952 | - | 1,641,453 | 55,255,771 |
| Fixed equipment | 242,403 | - | - | - | 242,403 |
| Major moveable equipment | 30,228,148 | 3,098,428 | (1,791,517) | 141,759 | 31,676,818 |
| Total depreciable capital assets | 84,502,761 | 3,236,380 | (1,791,517) | 1,783,212 | 87,730,836 |
| Total capital assets before depreciation | 86,390,110 | 6,865,971 | (1,791,517) | - | 91,464,564 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 251,100 | 54,236 | - | - | 305,336 |
| Buildings and improvements | 34,855,869 | 2,048,334 | - | - | 36,904,203 |
| Fixed equipment | 164,150 | 17,129 | - | - | 181,279 |
| Major moveable equipment | 21,453,710 | 2,481,928 | (1,630,839) | - | 22,304,799 |
| Total accumulated depreciation | 56,724,829 | 4,601,627 | (1,630,839) | - | 59,695,617 |
| Capital assets - Net | \$ 29,665,281 | \$ 2,264,344 | \$ (160,678) | \$ - | \$ 31,768,947 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 9: Long-Term Debt

Long-term debt and other noncurrent liabilities consisted of the following at December 31, 2019:

| | Balance at January 1, 2019 | Additions | Reductions | Balance at December 31, 2019 | Amounts Due Within One Year |
|---|----------------------------------|---------------------|-----------------------|------------------------------------|-----------------------------------|
| Bonds payable: | | | | | |
| Special revenue bonds | \$ 1,215,000 | \$ - | \$ (1,215,000) | \$ - | \$ - |
| LTGO bonds | 4,628,046 | - | (817,017) | 3,811,029 | 867,222 |
| Bonds from direct placements | 554,315 | - | (82,952) | 471,363 | 86,515 |
| Total bonds payable | 6,397,361 | - | (2,114,969) | 4,282,392 | 953,737 |
| Other noncurrent liabilities: | | | | | |
| Accrued compensated absences | 2,016,623 | 2,815,533 | (2,612,232) | 2,219,924 | 1,664,943 |
| Estimated malpractice costs | 576,000 | 116,869 | - | 692,869 | - |
| Total other noncurrent liabilities | 2,592,623 | 2,932,402 | (2,612,232) | 2,912,793 | 1,664,943 |
| Total noncurrent liabilities | \$ 8,989,984 | \$ 2,932,402 | \$ (4,727,201) | \$ 7,195,185 | \$ 2,618,680 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 9: Long-Term Debt (Continued)

Long-term debt and other noncurrent liabilities consisted of the following at December 31, 2018:

| | Balance at January 1, 2018 | Additions | Reductions | Balance at December 31, 2018 | Amounts Due Within One Year |
|---|----------------------------------|---------------------|------------------------|------------------------------------|-----------------------------------|
| Bonds payable: | | | | | |
| Special revenue bonds | \$ 2,370,000 | \$ - | \$ (1,155,000) | \$ 1,215,000 | \$ 1,215,000 |
| LTGO bonds | 5,366,341 | - | (738,295) | 4,628,046 | 812,616 |
| Bonds from direct placements | 633,850 | - | (79,535) | 554,315 | 82,952 |
| Total bonds payable | 8,370,191 | - | (1,972,830) | 6,397,361 | 2,110,568 |
| Other noncurrent liabilities: | | | | | |
| Accrued compensated absences | 1,779,343 | 2,811,531 | (2,574,251) | 2,016,623 | 1,512,467 |
| Estimated malpractice costs | 576,000 | - | - | 576,000 | - |
| OPEB | 6,489,463 | - | (6,489,463) | - | - |
| Total other noncurrent liabilities | 8,844,806 | 2,811,531 | (9,063,714) | 2,592,623 | 1,512,467 |
| Total noncurrent liabilities | \$ 17,214,997 | \$ 2,811,531 | \$ (11,036,544) | \$ 8,989,984 | \$ 3,623,035 |

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 9: Long-Term Debt (Continued)

The terms and due dates of the District's long-term debt at December 31, 2019 and 2018, were as follows:

Special Revenue Bonds

The District issued revenue bonds dated December 1, 1998, to pay the costs associated with acquiring, equipping, constructing, and improving the District's facilities. The bonds are special obligations of the District, payable solely from revenue derived from District operations, and are not general obligations or indebtedness payable from tax revenue. The District is required to transfer monthly to a bond fund one-sixth of the next ensuing 6 months' interest requirements and one-twelfth of the next ensuing 12 months' principal payments. The District is required to maintain at least 70 days of cash on hand and maintain a debt coverage ratio of at least 1.25 to 1. The revenue bonds dated December 1, 1998, are due in principal installments that range from \$1,155,000 and \$1,215,000 with interest of 5.25%. The 1998 revenue bonds had a liability balance of \$0 and \$1,215,000 as of December 31, 2019 and 2018, respectively.

Limited Tax General Obligation (LTGO) Bonds

LTGO 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 on the taxable property within the District. The District issued LTGO bonds dated March 19, 2007, in the amount of \$9,995,000. The proceeds from the bonds were used to advance refund a portion of the District's outstanding 1998 revenue bonds. The 2007 bonds are due in principal installments that range from \$760,000 to \$1,040,000 with interest ranging from 4.05% to 5.55%. There was a liability balance of \$3,805,000 and \$4,619,401 for the 2007 LTGO bonds as of December 31, 2019 and 2018, respectively. In addition, there was a premium related to the 2007 LTGO bonds that had a balance of \$6,029 and \$8,645 as of December 31, 2019 and 2018, respectively. The 2007 bonds and related premium have a maturity date of December 1, 2023.

Bonds From Direct Placements

The District's outstanding debt from direct placements are LTGO bonds, which 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 on the taxable property within the District. The District issued LTGO bonds from direct placement dated July 27, 2005, to provide funds to pay the costs of certain equipment and facility renovations. The 2005 bonds are due through December 2024 in principal payments ranging from \$79,536 to \$102,364 with interest of 4.25%. There was a liability balance of \$471,363 and \$554,315 for the 2005 LTGO bonds as of December 31, 2019 and 2018, respectively.

Grant County Public Hospital District No. 1

DBA Samaritan Healthcare

Notes to Financial Statements

Note 9: Long-Term Debt (Continued)

Principal maturities of long-term debt for succeeding years are as follows for the years ending December 31:

| | <u>Bonds Payable</u> | | <u>Bonds from Direct Placements</u> | | |
|--------|----------------------|------------|-------------------------------------|-----------|--------------|
| | Principal | Interest | Principal | Interest | Total |
| 2020 | \$ 867,222 | \$ 156,583 | \$ 86,515 | \$ 19,123 | \$ 1,129,443 |
| 2021 | 922,222 | 121,550 | 90,231 | 15,407 | 1,149,410 |
| 2022 | 981,585 | 83,830 | 94,106 | 11,532 | 1,171,053 |
| 2023 | 1,040,000 | 43,160 | 98,147 | 7,490 | 1,188,797 |
| 2024 | - | - | 102,364 | 3,275 | 105,639 |
| Totals | \$ 3,811,029 | \$ 405,123 | \$ 471,363 | \$ 56,827 | \$ 4,744,342 |

Estimated Malpractice Costs

The provision for estimated medical malpractice costs includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. There was a liability balance of \$692,869 for estimated malpractice costs for both years ended December 31, 2019 and 2018.

Accrued Compensated Absences

The District had a total compensated absences liability of \$2,219,924 and \$2,016,623 for the years ended December 31, 2019 and 2018, respectively. Of this total, it is estimated that approximately \$1,665,000 was current and \$555,000 was noncurrent at December 31, 2019, and that approximately \$1,512,000 was current and \$504,000 was noncurrent at December 31, 2018.

Note 10: Retirement Plan

The District provides a deferred compensation 457(b) plan for District employees to defer eligible compensation, up to certain limitations. For the year ended December 31, 2019, employees could voluntarily contribute, through salary reductions, up to \$18,000 of their annual wages. Employee contributions are always 100% vested. For those employees participating in the 457(b) plan, the District may contribute on behalf of the employee 4.45% of the first \$1,000 of monthly earnings, 8.87% of monthly earnings in excess of \$1,000, and \$0.42 per year of service under a plan qualified under Internal Revenue Code Section 401(a). To qualify for contributions made on behalf of the employee by the District, employees must contribute at least 3% of their earnings to the 457(b) plan, and their annual compensation is limited to \$265,000. The District's contributions are 100% vested after three years. Pension expense totaled approximately \$2,638,000 and \$2,275,000 for the years ended December 31, 2019 and 2018, respectively.

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Notes to Financial Statements

Note 11: Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions. See Note 3 for more details regarding cash, cash equivalents, and investments.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for healthcare provided to the patients. The majority of the District's patients are from Grant County, Washington, and the surrounding area.

The mix of receivables from patients and third-party payors was as follows at December 31:

| | 2019 | 2018 |
|---|-------|-------|
| Medicare | 22 % | 22 % |
| Medicaid | 23 % | 21 % |
| Commercial and other third-party payors | 31 % | 31 % |
| Self-pay | 24 % | 26 % |
| Totals | 100 % | 100 % |

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District has a collateralization agreement with a bank that mitigates custodial credit risk. These deposits, at times, exceed the federally insured limits of \$250,000 per financial institution for demand deposits and an additional \$250,000 per financial institution for time deposits. Deposits exceeding federally insured limits were protected by provisions of RCW 39.58 based on the financial institution's status, determined by the Public Deposit Protection Commission.

Note 12: Risk Management

Medical Malpractice Coverage

The District has professional and general claims through ProSelect insurance Company. Coverage is on a claims-made basis with a retroactive date of July 1, 1985 subject to a limit of \$1,000,000 per claim with an annual aggregate limit of \$5,000,000 with no deductible on the primary coverage. There is also additional primary coverage for employee benefit liability with limits of \$1,000,000 per claim and an annual aggregate limit of \$5,000,000. In addition to the primary professional liability coverage, there is excess medical professional liability coverage with limits of \$20,000,000 per claim and an umbrella policy over general and employee benefit liability with limits of \$20,000,000 subject to a combined aggregate limit of \$20,000,000 and a \$25,000 retained limit. There are known claims as well as unknown incidents which may give rise to claims from services provided to patients that may be asserted. Accrued malpractice losses, in management's opinion, provide an adequate reserve for loss contingencies.

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DBA Samaritan Healthcare

Notes to Financial Statements

Note 12: Risk Management (Continued)

Contingencies

The District is involved in claims arising in the course of business. Based on the status of claims and insurance coverage available, management estimates these claims will be resolved without material adverse effect on the District's future financial position or results from operations.

Healthcare Reform

As a result of recently enacted federal healthcare reform legislation, substantial changes in the United States' healthcare system are anticipated. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of health care costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal healthcare reform legislation does not affect the financial statements for the years ended December 31, 2019 and 2018.

Note 13: Charity Care

The District provides healthcare services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated \$4,264,490 and \$3,319,907 for the years ended December 31, 2019 and 2018, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated approximately \$1,400,000 in 2019 and \$1,100,000 in 2018. The cost was calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care.

Note 14: Functional Expenses

The District provides general healthcare services to residents within its geographic location. Expenses related to providing these services were as follows:

| Years Ended December 31, | 2019 | 2018 |
|-------------------------------|---------------|---------------|
| Healthcare services | \$ 81,229,217 | \$ 69,200,335 |
| Management and administration | 16,186,969 | 16,186,969 |
| Total expenses | \$ 97,416,186 | \$ 85,387,304 |

Grant County Public Hospital District No. 1

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Notes to Financial Statements

Note 15: Subsequent Event

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of the novel coronavirus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, colleges, and universities; canceling public events; and limiting gathering sizes.

The length of time these measures will be in place, and the full extent of the financial impact on the District were unknown at the time these financial statements were available to be issued.

Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance

Board of Commissioners
Grant County Public Hospital District No. 1 DBA Samaritan Healthcare
Moses Lake, Washington

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Grant County Public Hospital District No. 1 DBA Samaritan Healthcare (the "District"), which comprise the statements of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 25, 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 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 the 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 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.

A handwritten signature in black ink that reads "Wipfli LLP". The script is cursive and fluid, with the letters "W", "i", "p", "f", and "l" being particularly prominent and connected.

Wipfli LLP

May 25, 2020
Spokane, Washington