



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements Audit Report**

# **San Juan County Public Hospital District No. 1**

**(Inter Island Medical Center and San Juan  
Emergency Medical Services)**

**For the period January 1, 2019 through December 31, 2019**

*Published April 22, 2021*

Report No. 1028120



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

April 22, 2021

Board of Commissioners  
Inter Island Medical Center and San Juan Emergency Medical Services  
Friday Harbor, Washington

**Report on Financial Statements**

Please find attached our report on Inter Island Medical Center and San Juan Emergency Medical Services' financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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

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## INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

### **Inter Island Medical Center and San Juan Emergency Medical Services January 1, 2019 through December 31, 2019**

Board of Commissioners  
Inter Island Medical Center and San Juan Emergency Medical Services  
Friday Harbor, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Inter Island Medical Center and San Juan Emergency Medical Services, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 14, 2021.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 8 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 8.

## **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 opinions on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

April 14, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Inter Island Medical Center and San Juan Emergency Medical Services January 1, 2019 through December 31, 2019**

Board of Commissioners  
Inter Island Medical Center and San Juan Emergency Medical Services  
Friday Harbor, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Inter Island Medical Center and San Juan Emergency Medical Services, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, Inter Island Medical Center and San Juan Emergency Medical Services has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of Inter Island Medical Center and San Juan Emergency Medical Services, and its changes in cash and investments, for the year ended December 31, 2019, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Inter Island Medical Center and San Juan Emergency Medical Services, as of December 31, 2019, or the changes in financial position or cash flows thereof for



the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

### **Matters of Emphasis**

As discussed in Note 8 to the 2019 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the District is unknown. Management’s plans in response to this matter are also described in Note 8. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2021 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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Pat McCarthy

State Auditor

Olympia, WA

April 14, 2021

## **FINANCIAL SECTION**

### **Inter Island Medical Center and San Juan Emergency Medical Services January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2019

**San Juan County Public Hospital District No. 1**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

**Beginning Cash and Investments**

30810	Reserved	116,325
30880	Unreserved	1,668,658
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	2,855,013
320	Licenses and Permits	-
330	Intergovernmental Revenues	987,575
340	Charges for Goods and Services	474,469
350	Fines and Penalties	-
360	Miscellaneous Revenues	60,605
Total Revenues:		4,377,662

**Expenditures**

520	Public Safety	2,160,910
560	Social Services	1,391,598
Total Expenditures:		3,552,508
Excess (Deficiency) Revenues over Expenditures:		825,154

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	3,549
591-593, 599	Debt Service	116,496
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		120,045

**Increase (Decrease) in Cash and Investments:** **705,109**

**Ending Cash and Investments**

5081000	Reserved	116,325
5088000	Unreserved	2,373,766
<b>Total Ending Cash and Investments</b>		<b>2,490,091</b>

**San Juan County Public Hospital District No. 1**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<u>Custodial</u>
308	Beginning Cash and Investments	9,949
388 & 588	Net Adjustments	-
310-390	Additions	37,200
510-590	Deductions	26,370
	Net Increase (Decrease) in Cash and Investments:	10,830
508	Ending Cash and Investments	20,779

*The accompanying notes are an integral part of this statement.*

**San Juan County Public Hospital District No. 1**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2019**

**Note 1 - Summary of Significant Accounting Policies**

The San Juan County Public Hospital District No. 1 was incorporated in 1990 and operates under the laws of the state of Washington applicable to a Public Hospital District and is governed by a five-member board. The District is a junior taxing district of San Juan County providing medical services to county residents within its geographical boundaries. Tax revenues from the tax levy subsidize Peace Island Medical Center with its emergency care, charity care, and emergency services provided by physician services. San Juan Island Emergency Medical Services (EMS) which provides emergency medical care and ambulance service receives a separate tax levy. EMS became a part of the District on January 1, 1995.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The following fund type is used:

GOVERNMENTAL FUND TYPE:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

FIDUCIARY FUND TYPE:

Custodial Fund

These funds are used to account for assets that the District holds on behalf of others in a custodial capacity.

## **Note 1 - Summary of Significant Accounting Policies, continued**

### B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law, the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

### C. Cash and Investments

See Note 3, *Deposits and Investments*.

### D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

### E. Compensated Absences

The District has adopted a “paid time off” (PTO) concept for vacation and sick leave. PTO may be accumulated up to 50 days and is payable upon separation or retirement. Employees may cash out up to 50% of annual PTO, subject to budgetary constraints. Payments are recognized as expenditures when paid. The value of accrued vacation and PTO leave benefits was \$150,451 at December 31, 2019.

### F. Long-Term Debt

See Note 5, *Debt Service Requirements*.

### G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Board of Commissioners. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$116,325 reserved for debt service.

## **Note 2 – Budget Compliance**

### A. Budgets

The District adopts annual appropriated budgets for the fund. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

**Note 2 – Budget Compliance, continued**

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
District General/IIMC	\$ 2,056,560	\$ 1,391,598	\$ 664,962
SJIEMS	\$ 4,180,529	\$ 2,459,093	\$ 1,721,436
Total General Fund	\$ 6,237,089	\$ 3,850,691	\$ 2,386,398

Budgeted amounts are authorized to be transferred between departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District’s legislative body.

Note: The table above includes transfers between funds that are consolidated for reporting purposes on the Fund Resources and Uses Arising from Cash Transactions financial statement. As such, actual expenditures in the table above do not match reported expenditures on the Fund Resources and Uses Arising from Cash Transactions financial statement. The variances reported are due to \$178,137 transferred from the District General/IIMC fund to the SJIEMS fund as reimbursement for wages and benefits paid by EMS.

**Note 3 – Deposits and Investments**

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District’s deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered, or held by the District or its agent in the government’s name.

It is the District’s policy to invest all temporary cash surpluses. Deposits and Investments by type at December 31, 2019, are as follows:



**Note 3 – Deposits and Investments, continued**

	12/31/2019
Bank deposits	\$ 29,252
Cash held by San Juan County Treasurer	2,138,618
Local Government Investment Pool	343,000
Total Cash and Investments	<u>2,510,870</u>

**Note 4 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes, and \$0.50 for EMS. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

The District’s regular tax levy was \$0.38127 per thousand on a total assessed valuation of \$3,479,832,081 for a regular levy of \$1,326,657.

The EMS regular tax levy was \$0.43535 per thousand on a total assessed valuation of \$3,479,832,081 for a regular levy of \$1,514,833.

**Note 5 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District’s debt transactions for year ended December 31, 2019.

The debt service requirements for the general obligation bond are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 94,947	\$ 21,379	\$ 116,326
2021	98,061	18,265	116,326
2022	101,214	15,112	116,326
2023	104,468	11,858	116,326
2024	107,799	**	107,799
2025-2026	<u>209,954</u>	<u>**</u>	<u>209,954</u>
TOTALS	<u>\$ 716,443</u>	<u>\$ 66,614</u>	<u>\$ 783,057</u>

\*\* The 2012 General Obligation Bond was issued December 19, 2012, in the amount of \$2,000,000. The bond is tax exempt and requires monthly payments of principal and interest in the amount of \$9,694 through November 30, 2022, when the interest rate will reset. Future interest obligations cannot be calculated due to the expected adjustment of the interest rate in 2022. The bond matures November 1, 2026.

**Note 6 – Pension Plans**

Substantially all District’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees’ Retirement System (PERS), Plans 2 and 3, LEOFF Plan 2.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2019 (the measurement date of the plans), the District’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$ 8,340	0.001163%	\$ 44,721
PERS 2/3	12,276	0.001503%	14,599
<b>Total Net Pension Liability</b>			<b>\$ 59,321</b>
LEOFF 2	\$ 43,280	0.023474%	\$ (543,821)

LEOFF Plan 2

The District also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

**Note 7 – Risk Management**

The District and EMS purchase insurance through VFIS (an A+ rated and Washington admitted commercial carrier) for coverage on the buildings, business personal property, business income, general liability, management liability, excess liability, and board and officer coverage, as summarized below. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in the past several years.

Property Coverage

## **Note 7 – Risk Management, continued**

- Buildings – Guaranteed Replacement Cost valuation up to \$2,277,574
- Contents – Blanket Replacement Cost valuation up to \$197,390
- All Risk coverage
- Deductibles- \$250 property/\$1,000 flood/5% earthquake

### Auto

- \$1,000,000 combined single limit
- Physical Damage – agreed value basis; deductibles \$250 collision, \$0 comprehensive
- Coverage Extensions – Hired & Borrowed Vehicles; volunteers/employees insured under Non-Owned Auto Liability

### Crime

- Employee Dishonesty – \$50,000
- Coverage includes Forgery/Alteration, Computer & Identity Fraud

### Portable Equipment

- Blanket coverage – Guaranteed Replacement Cost, \$100 deductible
- Coverage extensions for personal effects, temporarily borrowed portable equipment (\$50,000 limit), watercraft up to 100hp, trailers used for transport of portable equipment

### General Liability

- \$1,000,000 per occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes-Professional Healthcare Liability, Watercraft/Maritime Liability, Contractual and Employers Liability

### Management Liability

- \$1,000,000 per Occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes Employment-related practices, Cyber Liability and Cyber Extortion, Privacy Crisis Management

### Excess Liability

- \$6,000,000 per Occurrence, \$12,000,000 Aggregate

Additionally, the District makes quarterly premium payments to the Washington State Department of Labor and Industries to insure liability arising from risk of loss for job related injuries and illnesses to employees.

In addition, EMS maintains a risk management program which includes documented protocols, policies, and procedures. A state-approved county Medical Program Director provides oversight of the agency. EMS has contracted with a supervising physician who supports field operations regarding patient care and provides quality assurance and quality improvement.

## **Note 8 - Other Disclosures**

### **Contingencies & Litigation**

In October 2015, the Washington State Office of the Attorney General, Medicaid Fraud Control Unit (MFCU) served San Juan Island EMS with a Civil Investigative Demand focusing on submitted claims to the Health Care Authority for air ambulance services. EMS cooperated fully with the investigation and received no substantive communication from the MFCU after April 2016. On September 26, 2019, EMS received a letter from the MFCU summarizing their conclusions of the investigation and proposed settlement. The MFCU alleges EMS improperly submitted claims for fixed-wing air ambulance transport. The MFCU stated in their letter that if EMS was found liable for the alleged improper billings under the Washington State False Claims Act, the maximum liability would well exceed a million dollars. The MFCU proposed a settlement of \$350,000.

EMS has responded to the MFCU challenging their assertions made and conclusions reached. EMS believes the air ambulance transports billed to the Washington Medicaid program were medically necessary, appropriate, and appropriately billed. EMS does not expect a final negotiated settlement to reach or exceed \$350,000, however no liability can be currently estimated.

### **Subsequent Event**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The District closed its offices to the public early in the pandemic. Staffing was diverted from regular activities to COVID-19 ready calls and daily meetings for pandemic management; this response pushed many regular duties of the District to the background. Costs increased as volunteers moved to a shifting model to limit exposure. Supplies expenditures increased for personal protective equipment and hardware that was needed to establish remote working and meeting capability.

COVID restrictions also caused a significant decline in revenue that will not be recouped. A small amount of CARES Act funding was provided to the District but not nearly the amount to cover increased costs and lost revenue.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time. San Juan County and the District did an excellent job preparing for the pandemic and kept the number of cases in the county at a minimum.

**San Juan County Public Hospital District No. 1  
Schedule of Liabilities  
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.11	2010 GO Bond - EMS Building	11/1/2026	806,278	-	89,835	716,443
	<b>Total General Obligation Debt/Liabilities:</b>		<b>806,278</b>	<b>-</b>	<b>89,835</b>	<b>716,443</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated absences		78,829	71,622	-	150,451
264.30	Pension liability		250,576	-	191,255	59,321
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>329,405</b>	<b>71,622</b>	<b>191,255</b>	<b>209,772</b>
	<b>Total Liabilities:</b>		<b>1,135,683</b>	<b>71,622</b>	<b>281,090</b>	<b>926,215</b>

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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