Office of the Washington State Auditor
Pat McCarthy

December 23, 2021

Board of Commissioners
Lake Chelan Community Hospital & Clinics
Chelan, 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 Lake Chelan Community Hospital & Clinics for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health

Financial Statements and
Required Supplementary Information

Years Ended December 31, 2020 and 2019

LAKE CHELAN
HEALTH

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Years Ended December 31, 2020 and 2019

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Independent Auditor's Report

Board of Commissioners
Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health
Chelan, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (the "District") as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health, as of December 31, 2020 and 2019, and the changes in its net position and 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 8, the Schedule of Proportionate Share of the Net Pension Liability on page 49, the Schedule of Employer Contributions on page 50, and the Schedule of Changes in Total OPEB Liability and Related Ratios - Other Post Employment Benefits on page 51, 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 September 17, 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, grant agreements, and other matters. The purpose of that report is solely 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 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.

Wipfli LLP

Wipfli LLP

September 17, 2021
Spokane, Washington

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Management's Discussion and Analysis

Years Ended December 31, 2020 and 2019

Introduction

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (the "District"), offers readers of our financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the District's financial statements, including the notes thereto.

The District is a non-profit, municipal corporation, which underwent new branding during the year ended December 31, 2020, the District is now doing business as Lake Chelan Health (formerly Lake Chelan Community Hospital). Lake Chelan Health includes the hospital, a clinic, and an ambulance service. The District is a Critical Access Hospital (CAH) licensed for 22 beds, but held to 25 bed in-patient CAH requirements. The District serves a population base of over 10,000. The hospital has operated since 1948 and became a hospital district in 1969. The current facility was constructed in 1972 with a third floor added to the hospital in 1994.

CAH status for the hospital has a favorable impact on District finances. Medicare and Medicaid reimbursement is cost-based and, therefore, typically higher than what the District would otherwise receive under a fixed prospective payment system (PPS). The District also received tax revenue representing approximately 7.4% of 2020's gross patient receipts: $865,160 general hospital levy, $955,568 Emergency Medical Services (EMS) levy, and $1,145,972 bond levy.

The District is governed by a five member elected Board of Commissioners. Day-to-day operations are managed by the Chief Executive Officer. The District employed 192 full-time equivalents (FTEs) on December 31, 2020, and had an annual payroll of approximately $20.0 million, including benefits and employer-paid payroll taxes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The financial statements are comprised of the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the District's finances.

Required Financial Statements

The District's financial statements report information of the District using accounting methods similar to those used by private-sector healthcare organizations. These statements offer short-term and long-term information about its activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the revenue and expenses for the years ended December 31, 2020 and 2019, are accounted for in the statements of revenues, expenses, and changes in net position. These statements can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statements are the statements of cash flows, which report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Comparisons of Actual to Budget and Prior Year Performance

Net patient service revenue was $22,320,227 in 2020, which was a decrease from the prior year of $2,496,332 and a decrease of about 17.1% from budgeted net patient service revenue of $26,936,000. The net decrease is attributed to the changes in total patient services revenue as reflected in the total patient services gross revenue table below. Total gross patient service revenue was under budget by 24.05% and 11.14% in 2020 and 2019, respectively.

	Actual	Budget	Variance
Ambulance	$ 1,980,085	$ 2,196,000	-9.83 %
Med Surg	1,437,357	1,563,000	-8.04 %
Surgery	2,966,646	3,291,400	-9.87 %
Emergency Room	5,639,437	6,317,600	-10.73 %
Anesthesiology	729,806	1,673,500	-56.39 %
Labor & Delivery	697,153	913,000	-23.64 %
Respiratory Therapy	252,711	549,000	-53.97 %
Rehab	1,287,178	1,278,800	0.66 %
Laboratory	3,056,196	2,871,400	6.44 %
Radiology	4,775,187	5,675,200	-15.86 %
Sanctuary	1,689,742	4,398,400	-61.58 %
Pharmacy	2,734,346	3,591,200	-23.86 %
All others	10,150,024	14,921,020	-31.97 %
Totals	$ 37,395,868	$ 49,239,520	-24.05 %

Financial Analysis of the District

Overall, the District had an increase in net position of $1,790,407 and a decrease of $224,912 in 2020 and 2019, respectively. The statements of net position show an increase of $10,650,050 in total assets and deferred outflows of resources from 2020 to 2019. The filed Medicare cost report indicates the Medicare and Medicaid settlements to be in the amount of $1,322,491 payable in 2020. Capital assets show an increase of $1,125,080 from 2019 to 2020. Noncurrent liabilities increased $9,052,686 while current liabilities had a decrease of $87,888 from 2019 to 2020. Overall, long-term debt and capital lease obligations (including current portions) increased $3,180,477 from 2019 to 2020.

The increase in noncurrent liabilities was in part due to the receipt of $3,381,000 from the Paycheck Protection Program (PPP) loan. The loan was fully forgiven in July 2021. More information about the District's PPP loan is presented in Note 7 to the financial statements.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2020 and 2019

Financial Analysis of the District (Continued)

Condensed financial information for the years ended December 31, 2020, 2019, and 2018, is as follows:

Condensed Statements of Net Position (In Thousands)

				2020-2019		2019-2018	
December 31,	2020	2019	2018	$ Change	% Change	$ Change	% Change
Assets:							
Other assets	$ 9,093	$ 9,552	$ 5,619	$ (459)	(4.81)%	$ 3,933	69.99 %
Capital assets	39,220	28,652	31,523	10,568	36.88 %	(2,871)	(9.11)%
Total assets	$ 48,313	$ 38,204	$ 37,142	$ 10,109	26.46 %	$ 1,062	2.86 %
Deferred outflows of resources	$ 903	$ 363	$ 383	$ 540	148.76 %	$ (20)	(5.22)%
Liabilities:							
Other liabilities	$ 4,696	$ 4,784	$ 2,737	$ (88)	(1.84)%	$ 2,047	74.79 %
Long-term liabilities	35,172	26,120	26,947	9,052	34.66 %	(827)	(3.07)%
Total liabilities	$ 39,868	$ 30,904	$ 29,684	$ 8,964	29.01 %	$ 1,220	4.11 %
Deferred inflows of resources	$ 110	$ 215	$ 168	$ (105)	(48.84)%	$ 47	27.98 %
Net position:							
Net investment in capital assets	$ (16,626)	$ 763	$ 1,301	$ (17,389)	(2,279.03)%	$ (538)	(41.35)%
Unrestricted	25,864	6,685	6,372	19,179	286.90 %	313	4.91 %
Total net position	$ 9,238	$ 7,448	$ 7,673	$ 1,790	24.03 %	$ (225)	(2.93)%

Financial Analysis of the District (Continued)

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

				2020-2019		2019-2018	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Operating revenue:							
Net patient service revenue	$ 22,320	$ 24,817	$ 26,213	$ (2,497)	(10.06)%	$ (1,396)	(5.33)%
Other operating revenue	670	772	640	(102)	(13.21)%	132	20.63 %
Total operating revenue	22,990	25,589	26,853	(2,599)	(10.16)%	(1,264)	(4.71)%
Operating expenses:							
Salaries, wages, and benefits	19,949	20,606	20,690	(657)	(3.19)%	(84)	(0.41)%
Supplies	2,100	2,316	2,249	(216)	(9.33)%	67	2.98 %
Professional fees and purchased services	3,511	2,658	2,784	853	32.09 %	(126)	(4.53)%
Other operating expenses	2,143	2,180	2,082	(37)	(1.70)%	98	4.71 %
Depreciation and amortization	660	781	817	(121)	(15.49)%	(36)	(4.41)%
Total operating expenses	28,363	28,541	28,622	(178)	(0.62)%	(81)	(0.28)%
Operating loss	(5,373)	(2,952)	(1,769)	(2,421)	82.01 %	(1,183)	66.87 %
Nonoperating revenue - Net	7,163	2,402	1,564	4,761	198.21 %	838	53.58 %
Capital contributions	-	325	21	(325)	(100.00)%	304	1,447.62 %
Excess (deficit) of revenue over expenses	1,790	(225)	(184)	2,015	(895.56)%	(41)	22.28 %
Net position at beginning of year	7,448	7,673	7,550	(225)	(2.93)%	123	1.63 %
Restatement	-	-	307	-	- %	(307)	- %
Net position at end of year	$ 9,238	$ 7,448	$ 7,673	$ 1,790	24.03 %	$ (225)	(2.93)%

Capital Assets and Debt Administration

The District spent $1,310,116 and $809,711 on capital expenditures in 2020 and 2019, respectively. The majority of the expenditures in 2020 and 2019 were related to construction in progress and equipment purchases.

The District incurred $3,856,308 and $0 in new long-term debt and capital lease obligations in 2020 and 2019, respectively, resulting in total outstanding long-term debt and capital lease obligation balances of $29,744,829 and $26,564,352 (including current portions). The District also made principal payments on its long-term debt and capital lease obligations of $669,682 and $688,045 during 2020 and 2019, respectively. The new long-term debt was made up of $3,381,000 from the PPP loan, which was fully forgiven in July 2021.

More information about the District's capital assets, debt instruments, and commitments is presented in Notes 6 and 7 to the financial statements.

Contacting Lake Chelan Health's Finance Management

This financial report provides the District's patients, citizens, taxpayers, investors, and creditors with a general overview of the District's finances and shows 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:

503 East Highland Avenue
Chelan, Washington 98816

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Net Position

December 31,	2020	2019
Current assets:		
Cash and cash equivalents	$ 3,727,719	$ 1,396,898
Receivables:		
Patient accounts - Net	3,487,856	7,109,297
Taxes	52,308	87,183
Estimated third-party payor settlements	1,322,491	497,443
Other	63,586	68,298
Inventories	223,231	207,950
Prepaids	215,647	184,692
Total current assets	9,092,838	9,551,761
Noncurrent assets:		
Nondepreciable capital assets	8,066,323	6,673,152
Depreciable capital assets - Net	2,294,199	2,562,290
Restricted for capital purchases - Unspent bond proceeds	17,847,168	18,766,857
Internally designated cash and cash equivalents	10,415,639	7,735
Net pension asset	597,508	641,548
Total noncurrent assets	39,220,837	28,651,582
Total assets	48,313,675	38,203,343
Deferred outflows of resources:		
Deferred charge on bond refunding	269,699	288,963
Related to net pensions	113,191	74,088
Related to other post-employment benefits	519,879	-
Total deferred outflows of resources	902,769	363,051
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 49,216,444	$ 38,566,394

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Net Position (Continued)

December 31,	2020	2019
Current liabilities:		
Current maturities of long-term debt	$ 535,000	$ 475,000
Current portion of capital lease obligations	89,951	175,197
Current portion of compensated absences	208,399	698,292
Accounts payable	1,515,397	2,355,003
Line of credit	-	350,000
Accrued payroll and related expenses	782,135	632,000
Current portion of Medicare refundable advance	1,466,722	-
Interest payable	98,384	98,384
Total current liabilities	4,695,988	4,783,876
Noncurrent liabilities:		
Long-term debt - Less current maturities	25,240,481	25,776,630
Capital lease obligations - Less current portion	498,397	137,525
Paycheck protection program loan payable	3,381,000	-
Medicare refundable advance - Less current portion	3,355,686	-
Compensated absences - Less current portion	500,113	205,390
Liability for other post-employment benefits	2,196,554	-
Total noncurrent liabilities	35,172,231	26,119,545
Total liabilities	39,868,219	30,903,421
Deferred inflows of resources - Related to pensions	109,778	214,933
Net position:		
Net investment in capital assets	(16,625,745)	763,146
Unrestricted	25,864,192	6,684,894
Total net position	9,238,447	7,448,040
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 49,216,444	$ 38,566,394

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31,	2020	2019
Operating revenue:		
Net patient service revenue	$ 22,320,227	$ 24,816,559
Other operating income	669,852	772,404
Total operating revenue	22,990,079	25,588,963
Operating expenses:		
Salaries and wages	15,116,551	17,122,593
Employee benefits	4,832,061	3,483,072
Professional fees	607,179	562,571
Supplies	2,099,657	2,315,694
Purchased services - Utilities	208,795	231,131
Purchased services - Other	2,694,744	1,864,310
Insurance	282,367	271,443
Repairs and maintenance	782,366	762,627
Rent	395,848	400,259
Other	683,009	746,088
Depreciation and amortization	660,344	780,924
Total operating expenses	28,362,921	28,540,712
Operating loss	(5,372,842)	(2,951,749)
Nonoperating revenue (expenses):		
Property taxes for operations	1,820,728	1,770,120
Grants and contributions - Noncapital	5,292,547	269,077
Investment earnings	131,915	490,171
Taxes for debt service payments	1,145,972	1,078,172
Interest expense	(1,235,213)	(1,246,513)
Gain on disposal of assets	7,300	40,810
Total nonoperating income - Net	7,163,249	2,401,837
Excess (deficit) of revenue over expenses	1,790,407	(549,912)
Capital contributions	-	325,000
Change in net position	1,790,407	(224,912)
Net position - Beginning of year	7,448,040	7,672,952
Net position - End of year	$ 9,238,447	$ 7,448,040

See accompanying notes to the financial statements.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash flows for operating activities:		
Received from patient services	$ 29,939,028	$ 20,774,807
Received from other operating revenue	674,564	903,293
Paid to and on behalf of employees	(18,417,190)	(20,796,293)
Paid for supplies, fees, and other operating expenses	(8,639,807)	(6,241,229)
Net cash provided by (used in) operating activities	3,556,595	(5,359,422)
Cash flows from noncapital financing activities:		
Received from property tax for operations	1,855,603	1,743,732
Proceeds from line of credit	-	350,000
Repayments on line of credit	(350,000)	-
Received from donations and grants	5,292,546	269,077
Paid for interest on noncapital debt	(7,116)	(12,600)
Proceeds from Paycheck Protection Program loan	3,381,000	-
Net cash provided by noncapital financing activities	10,172,033	2,350,209
Cash flows for capital and related financing activities:		
Paid on long-term debt obligations	(470,000)	(500,000)
Paid on capital lease obligations	(199,682)	(188,045)
Paid for long-term debt and capital lease interest	(1,214,981)	(1,140,155)
Proceeds from bond tax levy	1,145,972	1,078,172
Received from grants and contributions	-	325,000
Proceeds from the sale of assets	7,300	40,810
Purchase of capital assets	(1,310,116)	(809,711)
Net cash used in capital and related financing activities	(2,041,507)	(1,193,929)
Cash flows provided by investing activities - Interest received	131,915	490,171
Net increase (decrease) in cash and cash equivalents	11,819,036	(3,712,971)
Cash and cash equivalents - Beginning of year	20,171,490	23,884,461
Cash and cash equivalents - End of year	$ 31,990,526	$ 20,171,490
Cash and cash equivalents:		
Current assets	$ 3,727,719	$ 1,396,898
Noncurrent assets	28,262,807	18,774,592
Total cash and cash equivalents	$ 31,990,526	$ 20,171,490

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Cash Flows (Continued)

Years Ended December 31,	2020	2019
Reconciliation of loss from operations to net cash used in operating activities:		
Operating loss	$ (5,372,842)	$ (2,951,749)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	660,344	780,924
Provision for bad debt	(1,201,071)	2,739,717
Pension expense	(100,218)	(124,847)
Other post-employment benefit expense	1,676,675	-
Changes in assets and liabilities:		
Receivables:		
Patient accounts	4,822,512	(6,022,154)
Estimated third-party payor settlements	(825,048)	(759,315)
Other	4,712	130,889
Inventories	(15,281)	(27,803)
Prepaids	(30,955)	13,923
Accounts payable	(839,606)	926,774
Accrued payroll and related expenses	150,135	94,409
Compensated absences	(195,170)	(160,190)
Medicare refundable advances	4,822,408	-
Total adjustments	8,929,437	(2,407,673)
Net cash provided by (used in) operating activities	$ 3,556,595	$ (5,359,422)
Noncash capital and related financing activities:		
Equipment acquired or upgraded under capital lease	$ 475,308	$ -
Capital purchases included in accounts payable	524,054	963,765

See accompanying notes to the financial statements.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (the “District”) owns and operates a 22-bed acute care hospital and the Lake Chelan Clinic in Chelan, Washington. The District provides acute care and clinical services to patients in the Chelan market. The services include acute care, hospital inpatient and outpatient surgery, obstetrics, ambulance, emergency room, physician, behavioral health, chemical dependency, and the related ancillary procedures (lab, x-ray, therapy, etc.) associated with those services.

Basis of Accounting and Financial Statement Presentation

The accounting policies of the District conform to accounting principles generally accepted in the United States (GAAP) as applicable to proprietary funds of governments. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States for establishing governmental accounting and financial reporting principles. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under 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.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly 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 revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

All cash receipts are deposited directly into the District's depository bank account. Periodically, such cash is transferred to the Chelan County Treasurer who acts as the District’s Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. At the direction of the District, the County Treasurer invests cash in certificates of deposit, money market funds, and other short-term investments until it is necessary to redeem warrants. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of 90 days or less as cash and cash equivalents.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy

Patient receivables 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 accounts receivable are applied to the specific claim identified on the remittance advice or statement.

Patient accounts receivable are recorded in the accompanying statements of net position, net of contractual adjustments and an allowance for doubtful accounts, which reflects management's 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 patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectability 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 that the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the provision for bad debts.

Property Taxes

The District has the authority to impose taxes on property within the boundaries of the healthcare district. Taxes are received from Chelan County (the "County"). Ad Valorem taxes and per-parcel assessments are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same year. Taxes are payable in two equal installments on April 30 and October 31.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at lower of cost or net realizable value, utilizing the first-in, first-out cost flow assumption. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Capital Assets

Capital acquisitions are recorded at cost or, if donated, at acquisition value at the date of donation. The District capitalizes all assets with a cost of $5,000 or greater. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. 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 with depreciation expense in the accompanying financial statements.

Land improvements	3 to 52 years
Buildings and building improvements	5 to 40 years
Major movable equipment	3 to 20 years
Software	3 to 5 years

Compensated Absences

The Annual Leave (AL) program at the District provides eligible personnel with appropriate compensation during sick time, holidays, and vacation time. The District accrues annual leave for compensated absences as an expense and liability when earned based on the employee's status. The maximum allowable amount of AL time for each employee is 300 hours. A payout of 40 hours is available to employees within their anniversary month upon request and approval. Employees who terminate their employment, with proper notice, are eligible to be paid unused accrued AL hours at the regular rate of pay upon completion. The sick leave program provides employees with appropriate compensation for illnesses for themselves or an eligible family member. The maximum allowable balance of sick leave is 160 hours. The District does not pay out any unused sick leave hours.

Pension Plan

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Washington State Department of Retirement Systems - LEOFF Plan 2 (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1: Summary of Significant Accounting Policies (Continued)

Post-Employment Benefits Other Than Pensions (OPEB)

The total Post-Employment Benefits Other Than Pensions (OPEB) liability is measured as the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position report a separate section of deferred outflows of resources, which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The District has three items that qualify for reporting in this category. The District also refunded debt and the deferred outflow is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District reports deferred outflows of resources related to pensions for its proportionate share of collective deferred outflows of resources of the Plan. Other amounts reported as deferred outflows of resources related to OPEB transactions including changes in actuarial assumptions and contributions made after the measurement date.

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. The District reports deferred inflows of resources related to pensions for its proportionate share of collective deferred inflows of resources of the Plan.

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. Retrospective 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 unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position is reported in two 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 and accounts payable used to build, acquire, or improve those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category.

Unrestricted: This category consists of the remaining net position that does not meet the definition of the preceding category. When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first.

Grants and Contributions

From time to time, the District receives grants from Chelan County and the State of Washington, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its 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.

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 health care services, the District's principal activity. Other operating revenue includes retail revenue from the District's cafeteria, pharmacy, class registration fees, health information, and laboratory services. Nonexchange revenue, including taxes, interest income, grants, and contributions, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services.

Note 1: Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred.

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 on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

Subsequent Events

Subsequent events have been evaluated through September 17, 2021, which is the date the financial statements were available to be issued. As a part of this evaluation, no events were determined to require adjustment to the accompanying financial statements. Subsequent to year-end, in March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result of the pandemic, there are evolving federal and state regulatory requirements and laws that will affect the District's operations. The District is incorporating processes to comply with the evolving regulatory requirements and laws.

Note 2: Cash and Cash Equivalents

Chapter 39 RCW, 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 (WSLGIP); savings accounts in qualified public depositories; and certain other investments.

Average days to maturity of WSLGIP assets was 51 days at December 31, 2020.

The WSLGIP is not registered with the 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 WSLGIP 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 WSLGIP functions as a demand deposit account where the County receives an allocation of its proportionate share of pooled earnings using an amortized cost methodology. Unrealized gains and losses due to changes in the fair values are not distributed to the District.

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

The WSLGIP 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 one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one 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 one 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 WSLGIP does not impose liquidity fees or redemption gates on participant withdrawals. The WSLGIP is not subject to the fair value measurement.

Custodial Credit Risk - The risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a deposit policy for custodial credit risk. The District's deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the WSLGIP.

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

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Notes to Financial Statements

Note 2: Cash and Cash Equivalents (Continued)

Cash and cash equivalents consisted of the following at December 31:

		2020		2019
Cash - Non-designated	$	3,727,719	$	1,396,898
Internally designated:				
Internally designated for Emergency Medical Services		577,701		7,559
Internally designated for public health emergency		9,837,938		176
Total internally-designated cash and cash equivalents		10,415,639		7,735
Restricted for capital acquisitions - Unspent bond proceeds and reinvested interest income		17,847,168		18,766,857
Totals	$	31,990,526	$	20,171,490

Unspent bond proceeds are deposited with the WSLGIP.

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

		2020		2019
Patient accounts receivable	$	6,810,160	$	15,368,092
Less:				
Allowance for contractual adjustments		2,413,695		5,321,736
Allowance for doubtful accounts		908,609		2,937,059
Patient accounts receivable - Net	$	3,487,856	$	7,109,297

Note 4: Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. Gross hospital revenue billed under the Medicare and Medicaid programs totaled approximately $22,862,000 and $28,870,000 in 2020 and 2019, respectively. A summary of the basis of reimbursement with major third-party payors follows:

Medicare and Medicaid - The District is designated as a CAH. As a CAH, the District's inpatient, swing bed, and outpatient hospital services are paid based on a cost reimbursement method, with the exception of certain types of laboratory and therapy services, which are reimbursed on a prospectively determined fee schedule. Professional services provided by physicians, Emergency Medical Services (EMS), and other clinicians continue to be reimbursed on prospectively determined fee schedules.

Physician and Professional Services in Rural Health Clinic - 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.

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

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. The District's cost reports have been final settled by Medicare and Medicaid fiscal intermediaries through December 31, 2016.

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to matters, such as licensure, accreditation, government health care 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 health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in 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.

Note 4: Reimbursement Arrangements With Third-Party Payors (Continued)

Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) as part of CMS's efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. As of December 31, 2020, the District has not been notified by the RAC of any potential significant reimbursement adjustments.

Note 5: Property Taxes

The District received $2,966,700 and $2,848,292 or approximately 9.45% and 10.13% of its financial support from property taxes for the years ended December 31, 2020 and 2019, respectively.

Chapter 70.44.060(6) RCW limits a public hospital district's annual regular levy rate to a rate of $0.75 per $1,000 of assessed value. Districts may also levy taxes at a lower rate. Districts that levy less than the maximum rate can use the unused levy capacity in a future year. A district may also ask its voters to authorize an amount that exceeds the established levy limits.

For 2020, the District's regular tax levy was $0.23 per $1,000 on the total assessed valuation of $3,634,184,827 for a total regular levy of $865,160. In addition, the District's EMS tax levy was $0.26 per $1,000 on the total assessed valuation for a total EMS levy of $955,568. The District's bond tax levy was $0.34 per $1,000 on the total assessed valuation of $3,353,504,822 for a total bond levy of $1,145,972.

For 2019, the District's regular tax levy was $0.23 per $1,000 on the total assessed valuation of $3,375,188,547 for a total regular levy of $817,867. In addition, the District's EMS tax levy was $0.27 per $1,000 on the total assessed valuation for a total EMS levy of $952,253. The District introduced a bond tax levy in 2019, which was $0.33 per $1,000 on the total assessed valuation of $3,353,504,822 for a total bond levy of $1,078,172.

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

Note 6: Capital Assets

Capital asset balances and activity consisted of the following:

	Balance January 1, 2020	Additions	Deletions	Transfers	Balance December 31, 2020
Nondepreciable capital assets:					
Land	$ 4,168,630	$ -	$ -	$ -	$ 4,168,630
Construction in progress	2,504,522	1,509,197	-	(116,026)	3,897,693
Total nondepreciable capital assets	6,673,152	1,509,197	-	(116,026)	8,066,323
Depreciable capital assets:					
Land improvements	619,271	-	-	-	619,271
Buildings and fixed equipment	6,090,285	-	-	32,244	6,122,529
Major movable equipment	6,534,240	206,139	(123,025)	22,063	6,639,417
Software	1,937,435	70,088	-	61,719	2,069,242
Total depreciable capital assets	15,181,231	276,227	(123,025)	116,026	15,450,459
Accumulated depreciation	(12,618,941)	(660,344)	123,025	-	(13,156,260)
Total depreciable capital assets - Net	2,562,290	(384,117)	-	116,026	2,294,199
Capital assets - Net	$ 9,235,442	$ 1,125,080	$ -	$ -	$ 10,360,522

Construction in progress consisted primarily of capital planning related to the new hospital construction. At December 31, 2020, there was balance of $3,897,693 with estimated remaining costs to complete of $40,602,307.

Note 6: Capital Assets (Continued)

Capital asset balances and activity consisted of the following:

	Balance January 1, 2019	Additions	Deletions	Transfers	Balance December 31, 2019
Nondepreciable capital assets:					
Land	$ 4,168,630	$ -	$ -	$ -	$ 4,168,630
Construction in progress	1,220,887	1,283,635	-	-	2,504,522
Total nondepreciable capital assets	5,389,517	1,283,635	-	-	6,673,152
Depreciable capital assets:					
Land improvements	619,271	-	-	-	619,271
Buildings and fixed equipment	6,090,285	-	-	-	6,090,285
Major movable equipment	6,247,363	464,993	(178,116)	-	6,534,240
Software	1,912,587	24,848	-	-	1,937,435
Total depreciable capital assets	14,869,506	489,841	(178,116)	-	15,181,231
Accumulated depreciation	(12,037,969)	(759,088)	178,116	-	(12,618,941)
Total depreciable capital assets - Net	2,831,537	(269,247)	-	-	2,562,290
Capital assets - Net	$ 8,221,054	$ 1,014,388	$ -	$ -	$ 9,235,442

Note 7: Long-Term Debt, Capital Lease Obligations, and Other Noncurrent Liabilities

Long-term debt and capital lease obligations and activity were as follows for the years ended December 31:

	January 1, 2020	Additions	Reductions	December 31, 2020	Amounts Due Within One Year
Long-term debt:					
Direct placements					
2013 LTGO Bond	$ 6,435,000	$ -	$ (320,000)	$ 6,115,000	$ 335,000
2018 UTGO Bond	19,100,000	-	(155,000)	18,945,000	200,000
Bond premium (discount):					
2013 LTGO Bond discount	(77,346)	-	5,156	(72,190)	-
2018 UTGO Bond premium	793,976	-	(6,305)	787,671	-
Total direct placements	26,251,630	-	(476,149)	25,775,481	535,000
Direct borrowings					
PPP Loan	-	3,381,000	-	3,381,000	-
Total direct borrowings	-	3,381,000	-	3,381,000	-
Total long-term debt	26,251,630	3,381,000	(476,149)	29,156,481	535,000
Capital lease obligations:					
Stryker - OR System	46,594	475,308	(71,081)	450,821	26,125
Olympus	26,997	-	(26,997)	-	-
Philips - Ultrasound	141,175	-	(32,611)	108,564	34,865
Siemens - CT Scan	97,956	-	(68,993)	28,963	28,961
Total capital lease obligations	312,722	475,308	(199,682)	588,348	89,951
Total long-term debt and capital lease obligations	$ 26,564,352	$ 3,856,308	$ (675,831)	$ 29,744,829	$ 624,951

Note 7: Long-Term Debt, Capital Lease Obligations, and Other Noncurrent Liabilities
(Continued)

Long-term debt and capital lease obligations and activity were as follows for the years ended December 31:

	January 1, 2019	Additions	Reductions	December 31, 2019	Amounts Due Within One Year
Long-term debt:					
Direct placements					
2013 LTGO Bond	$ 6,750,000	$ -	$ (315,000)	$ 6,435,000	$ 320,000
2018 UTGO Bond	19,285,000	-	(185,000)	19,100,000	155,000
Bond premium (discount):					
2013 LTGO Bond discount	(82,502)	-	5,156	(77,346)	-
2018 UTGO Bond premium	801,502	-	(7,526)	793,976	-
Total direct placements	26,754,000	-	(502,370)	26,251,630	475,000
Total long-term debt	26,754,000	-	(502,370)	26,251,630	475,000
Capital lease obligations:					
Stryker - OR System	90,210	-	(43,616)	46,594	46,594
Olympus	69,601	-	(42,604)	26,997	26,997
Philips - Ultrasound	171,680	-	(30,505)	141,175	32,611
Siemens - CT Scan	166,234	-	(68,278)	97,956	68,995
Americorp	3,040	-	(3,040)	-	-
Total capital lease obligations	500,765	-	(188,043)	312,722	175,197
Total long-term debt and capital lease obligations	$ 27,254,765	$ -	$ (690,413)	$ 26,564,352	$ 650,197

The terms and due dates of the District's long-term debt, including capital lease obligations, at December 31, 2020, are as follows:

Direct Placements

2013 Limited Tax General Obligation (LTGO) Bond, dated June 12, 2013, due in varying annual principal installments of $215,000 in 2013 to $565,000 in 2034 payable December 1 each year, plus interest at varying rates from 4% to 4.25%, payable each June 1 and December 1 each year; bonds maturing on or after December 1, 2013, are subject to optional redemption prior to their stated maturity dates on or after June 1, 2023, at par plus accrued interest to the date of such redemption, secured by tax revenue.

Note 7: Long-Term Debt, Capital Lease Obligations, and Other Noncurrent Liabilities
(Continued)

Direct Placements (Continued)

2018 Unlimited Tax General Obligation (UTGO) Bond, dated December 27, 2018, due in varying annual principal installments of $185,000 in 2019 to $1,810,000 in 2043 payable December 1 each year, plus interest at varying rates from 3.5% to 5%, payable each June 1 and December 1 each year. Unspent proceeds from the 2018 UTGO Bonds are kept with the Chelan County Treasurer who monitors that expenditures are appropriate for purpose of the new hospital (see Note 2), secured by tax revenue.

Legal Debt Margin - The District is subject to a general obligation debt limit of 2.5% of the assessed value of all taxable property within the District. That amount for the 2020 tax collection year was $90,854,621 and the District's outstanding general obligation debt was $6,042,810 or 6.65% of the debt limit.

Direct Borrowings

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and to provide an incentive to retain their employees during the COVID-19 crisis. The District was granted a $3,381,000 loan under the PPP administered by a SBA approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The District is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The District has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA. No forgiveness income has been recorded for the year ended December 31, 2020. The District applied for forgiveness of the PPP loan in March 2021 and received forgiveness in July 2021.

Capital Lease Obligations

- Stryker (OR System) - Due in monthly installments of $3,921 (increasing to $11,411 in February 2022) through January 2025, including interest at about 4.91% collateralized by equipment at a cost of $675,079, with accumulated depreciation of $199,771.
- Olympus (Scopes) - Due in monthly installments of $3,057 in 2015 through July 2020, including interest at about 3.27% collateralized by equipment at a cost of $176,479, with accumulated depreciation of $176,479.
- Olympus (Reprocessor) - Due in monthly installments of $670 in 2015 through October 2020, including interest at about 8.10% collateralized by equipment at a cost of $35,467, with accumulated depreciation of $35,467.
- Siemens (CT Scan) - Due in monthly installments of $5,807 in 2016 through May 2021, including interest at about 1.04% collateralized by equipment at a cost of $339,366, with accumulated depreciation of $259,383.

Note 7: Long-Term Debt, Capital Lease Obligations, and Other Noncurrent Liabilities (Continued)

Capital Lease Obligations (Continued)

- Americorp Financial (Mini C Arm) - Due in monthly installments of $1,029 in 2014 through April 2019, including interest at about 0.76% collateralized by equipment at a cost of $50,042, with accumulated depreciation of $50,042.
- Philips (Ultrasound) - Due in monthly installments, including principal and imputed interest, of $3,423 through October 2023, collateralized by equipment at a cost of $174,131, with accumulated depreciation of $72,610.

All of the above agreements require return of equipment or accelerated payment of the outstanding obligation if the District violates the agreements.

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

	Direct placements		Direct borrowings	
Years Ending December 31,	Principal	Interest	Principal	Interest
2021	$ 535,000	$ 1,156,119	$ 2,263,370	$ 19,855
2022	570,000	1,138,044	1,117,630	23,982
2023	620,000	1,118,632	-	-
2024	665,000	1,097,971	-	-
2025	720,000	1,072,821	-	-
2026-2030	4,620,000	4,887,427	-	-
2031-2035	6,115,000	3,662,074	-	-
2036-2040	6,170,000	2,236,750	-	-
2041-2045	5,045,000	517,250	-	-
Totals	$ 25,060,000	$ 16,887,088	$ 3,381,000	$ 43,837

Unamortized bond premium/discount - The discount associated with the 2013 LTGO bond issuance and the premium associated with the 2018 UTGO bond issuance are being deferred and amortized using the effective-interest method.

Note 7: Long-Term Debt, Capital Lease Obligations, and Other Noncurrent Liabilities
(Continued)

Principal and interest payments on capital lease obligations are as follows for the years ending December 31:

	Capital Lease Obligations
2021	$ 117,168
2022	170,517
2023	174,583
2024	136,926
2025	58,133
Subtotal	657,327
Less: amount attributable to interest	(68,979)
Total	$ 588,348

*Long-term Compensated Absence*s - All compensated absences with accumulations greater than the minimum annual benefit are considered long-term. Long-term compensated absences are estimated to be $500,113 at December 31, 2020 and 2019. The following represents the compensated absences activity for the District and estimated liability outstanding at December 31:

	Beginning Liability	Additions	Reductions	Ending Liability	Current Portion
2020	$ 903,682	$ -	$ (195,170)	$ 708,512	$ 208,399
2019	1,063,872	261,384	(421,574)	903,682	698,292

Note 8: Line of Credit

The District entered into an unsecured bank line of credit agreement with a commercial bank that provided for maximum borrowing of $350,000 at prime rate plus 0.50% as of December 17, 2019. The line of credit was closed in April 2020.

Note 9: Medicare Refundable Advance

As a result of the COVID-19 pandemic, CMS offered an accelerated and advance payment program, which gave healthcare providers the opportunity to receive an advance on future Medicare payments. The District received a non-interest-bearing advance of $4,822,408 in 2020, which is recorded as a refundable advance in the accompanying statements of net position. Recoupment of the advance is expected to begin 12 months after receipt of the advance in amount equal to approximately 25% of Medicare charges for 11 months, increasing to 50% of Medicare charges for another six months. The District has a Medicare Refundable Advance liability totaling $4,822,408 at December 31, 2020.

Note 10: Operating Leases

The District is committed under various leases for equipment and building spaces. These leases are considered operating leases. Lease expense for the years ended December 31, 2020 and 2019, amounted to $395,848 and $400,259, respectively. Future minimum rental commitments for these leases for the years ending December 31 are as follows:

2022	$	362,133
2023		226,204
2024		66,850
2025		66,850
2025		66,850
Total	$	788,887

Note 11: Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended December 31:

	2020	2019
Gross patient service revenue:		
Inpatient services	$ 8,859,420	$ 10,943,433
Outpatient services	27,341,559	29,698,163
Physician clinics	1,194,889	3,876,816
Total gross patient service revenue	37,395,868	44,518,412
Revenue reductions:		
Contractual adjustments	16,276,712	16,962,136
Provision for bad debt	(1,201,071)	2,739,717
Total deductions	15,075,641	19,701,853
Net patient service revenue	$ 22,320,227	$ 24,816,559

Note 12: Concentration of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. No single patient comprises more than 5% of the total receivables at year-end.

The mix of receivables from patients and third-party payors consisted of the following at December 31:

	2020	2019
Medicare	30 %	52 %
Medicaid	13 %	10 %
Other third-party payors	37 %	24 %
Self-pay	20 %	14 %
Totals	100 %	100 %

Note 13: Charity Care

The District provides health care 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 approximately $577,285 and $710,980 for the years ended December 31, 2020 and 2019, respectively.

Note 14: Risk Management

Professional Liability Insurance

The District is insured by ProSelect Insurance Company (PSIC), a wholly owned subsidiary of Coverys, for payment of liability claims.

Note 14: Risk Management (Continued)

The PSIC policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policy. Although there exists the possibility of claims arising from services provided to patients through December 31, 2020, which have not yet been asserted, the District is unable to determine the ultimate cost if any, of such possible claims and, accordingly, no provision has been made. If there are unreported incidents, which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The PSIC policy's limits provide $1,000,000 per claim of primary coverage with a $5,000,000 annual aggregate limit. PSIC also provides excess coverage of $4,000,000 per claim with $8,000,000 annual aggregate. There are no significant deductible or coinsurance clauses for this policy. Premiums paid by the District to PSIC were and $232,757 for the years ended December 31, 2020 and 2019, respectively.

The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters.

The District carries the commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

Workers' Compensation

The District participates in the self-insured Public Hospital District Workers' Compensation Trust, which is administered by the Washington State Hospital Association. The District pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reinsurance premiums. Amounts paid by the District for workers' compensation expense were $43,694 and $63,495 for 2020 and 2019, respectively.

Unemployment

The District participates in the self-insured Public Hospital District Unemployment Compensation Fund, which is administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses.

Payments by the District charged to unemployment expense were $90,853 and $17,005 for 2020 and 2019, respectively.

Note 15: Lake Chelan Health and Wellness Foundation

Lake Chelan Health and Wellness Foundation (the “Foundation”), formerly Lake Chelan Hospital Foundation, formed in 1981, is a separate tax-exempt Washington corporation. The Foundation is not considered a component unit that must be combined with the District for financial statement purposes. The Foundation has assets and net assets (unaudited) of approximately $3,238,388 and $2,891,143 at December 31, 2020 and 2019, respectively, according to unaudited financial statements. Donations of $66,434 and $334,093 were contributed to the District by the Foundation for the years ended December 31, 2020 and 2019, respectively.

Note 16: Retirement Plans

Defined Contribution Plan - The District has a voluntary contributory money-purchase pension plan that is available to all employees that contribute three percent of their salary to the District’s 403(b) plan. The plan is administered by CPI Qualified Plan Consultants, Inc. Any changes to the plan provisions must be both documented in the board minutes and authorized with a signature from one of the plan representatives. The plan is funded solely by employer contributions in which the District will contribute five percent of the employees’ salary only if certain eligibility criteria are met by the employees, including the contribution to the 403(b) plan. Employees are vested upon deposit. Pension costs include only current service costs, which are accrued and funded on a current basis. Pension plan expense was $293,384 and $529,119 for the years ended December 31, 2020 and 2019.

Deferred Compensation Plans - The District has a voluntary retirement plan, which was established by the District under Section 403(b) of the Internal Revenue Code. The plan is funded solely by employee contributions, which are deposited in employee controlled accounts established with American Mutual Funds.

The District also has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 available to employees who have exceeded the maximum level of contributions to their 403(b) plan. The plan is administered by Cuna Mutual and is funded solely by employee contributions with the fees paid for by the District.

Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement - The District's full-time EMTs and paramedics were included in the Washington State Law Enforcement Officers’ and Fire Fighters’ Plan 2 Retirement System (LEOFF 2) by new legislation effective July 23, 2017. During the year ended December 31, 2020, the District contributed $29,650 to the LEOFF 2 plan for these individuals.

Note 16: Retirement Plans (Continued)

The following table provides further information about the Law Enforcement Officers' and Fire Fighters' Retirement Plan 2 (LEOFF Plan 2) as of the year ended December 31, 2020:

Aggregate pension amounts:

Pension asset	$	597,508
Deferred outflows of resources		74,088
Deferred inflows of resources		109,778
Pension expense		13,577

Certain District employees participate in the following statewide retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), 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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans: LEOFF Plan 1 and LEOFF Plan 2. The District had no employees eligible for, or participating in, LEOFF Plan 1.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Note 16: Retirement Plans (Continued)

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

Actual contribution rates	Employer	Employee
State and local governments	8.15 %	8.75 %
Administrative fee	0.18 %	N/A
Totals	8.33 %	8.75 %

The District's actual contribution to the plan was $43,227 for the year ended December 31, 2020.

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. For the State of Washington's fiscal year ending June 30, 2018, the State contributed $100 to LEOFF Plan 2. The amount recognized by the District as its proportionate share of this amount is $22,349.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA's) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Note 16: Retirement Plans (Continued)

Actuarial Assumptions (Continued)

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

Mortality rates were based on the RP-2000 report's *Combined Healthy Table* and *Combined Disabled Table*, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in assumptions and methods since the last valuation:

- Increased the assumed general salary growth from 3.50% to 8.0% for all systems.
- Updated modeling to reflect providing benefit payments to the date of initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- Updated the cost of living adjustment programming to reflect the 2018 C151 L18 Legislative Session. This law provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit from a one-time permanent 1.5% increase to their monthly retirement benefit.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Note 16: Retirement Plans (Continued)

Estimated Rates of Return by Asset Class

Estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20 %	2.20 %
Tangible assets	7 %	5.10 %
Real estate	18 %	5.80 %
Global equity	32 %	6.30 %
Private equity	23 %	9.30 %
Total	100 %	

Sensitivity of the Net Pension Asset

The table below presents the District's proportionate share of the net pension asset calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

LEOFF Plan 2	Net Pension Asset
1 % Decrease (6.4%)	$ 11,829
Current discount rate (7.4%)	597,508
1 % Increase (8.4%)	1,077,062

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2020, the District reported a total pension asset of $597,508 for its proportionate share of the net pension assets.

Note 16: Retirement Plans (Continued)

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the District were as follows:

LEOFF Plan 2		Net Pension Asset
Employer's proportionate share	$	597,508
State's proportionate share of the net pension asset associated with the employer		22,349
Total	$	619,857

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2019	Proportionate Share 6/30/2020	Change in proportionate share
LEOFF Plan 2	0.027649 %	0.029292 %	0.027649 %

In fiscal year 2019, the state of Washington contributed 39.00 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61.00 percent of employer contributions.

The collective net pension asset was measured as of June 30, 2020, and the actuarial valuation date on which the total pension asset is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the District recognized pension expense of $40,608.

Note 16: Retirement Plans (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LEOFF Plan 2	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 82,675	$ 10,597
Changes of assumptions	866	92,521
Changes in proportion and differences between contributions and proportionate share of contributions	-	6,660
Contributions subsequent to the measurement date	29,650	-
Totals	$ 113,191	$ 109,778

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,	Change in Pension Expense
2021	$ (44,047)
2022	(5,767)
2023	8,988
2024	20,136
2025	(3,871)
Thereafter	(1,676)

Note 17: Other Post Employment Benefits

The District participates in an agent multiple-employer other postemployment benefits plan. In accordance with RCW 41.05.085 and RCW 41.05.022, eligible District retirees and spouses are entitled to subsidies associated with postemployment health benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees.

Note 17: Other Post Employment Benefits (Continued)

The subsidies provided by PEBB include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $183 or 50% of the monthly premiums. The retirees and spouses currently pay the premium minus $183 when the premium was over $366 per month and paid half the premium when the premium was lower than $366.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

As of the valuation date, the membership includes 24.05% active participants, 0 retirees and surviving spouses, and 19 spouses of current retirees.

Total OPEB Liability

	2020
Total OPEB liability	$ 2,196,554
Covered employee payroll	17,270,698
Total OPEB liability as a % of covered employee payroll	12.72 %

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rates below, and then projected to the measurement dates. There have been no significant changes between the valuation date and fiscal year-ends.

	2020
Valuation date	June 30, 2020
Measurement date	December 31, 2019

Note 17: Other Post Employment Benefits (Continued)

Discount Rate

	2020
Discount rate	2.74 %
20-year tax exempt municipal bond yield	2.74 %

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years.

Other Key Actuarial Assumptions

Census date	June 30, 2020
Price inflation	2.75%
Salary increase	3.50%
Actuarial cost method	Entry Age

Changes in Total OPEB Liability

	2020
Beginning of year balance	$ 1,345,063
Changes for the year	
Service cost	222,319
Interest on total OPEB liability	64,263
Effect of assumptions changes or inputs	564,909
End of year balance	$ 2,196,554

Note 17: Other Post Employment Benefits (Continued)

Sensitivity Analysis

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the discount rates of 2.74%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

		2020
1% decrease		1.74 %
Total OPEB liability	$	2,764,110
Discount rate		2.74 %
Total OPEB liability	$	2,196,554
1% increase		3.74 %
Total OPEB liability	$	1,762,186

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the current healthcare cost trend rates, as well as what the District's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. Health care trend rates are disclosed on page 46.

		2020
1% decrease	$	1,675,070
Current trend rate	$	2,196,554
1% increase	$	2,926,569

OPEB Expense

For the years ended December 31, 2020, the District recognized OPEB expense of $331,612.

Note 17: Other Post Employment Benefits (Continued)

Schedule of Deferred Inflows and Deferred Outflows of Resources

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 518,605	$ -
Contributions made subsequent to the measurement date	1,274	-
Total	$ 519,879	$ -

Economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

$1,274 reported as deferred outflows related to other postemployment benefits resulting from the Hospital's benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2021.

Other amounts currently reported as deferred outflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

2020	$ 46,304
2021	46,304
2022	46,304
2023	46,304
2024	46,304
Thereafter	$ 287,085

Note that additional future deferred inflows and outflows of resources may impact these numbers.

Note 17: Other Post Employment Benefits (Continued)

Demographic Assumptions

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2019 actuarial valuation of Washington State Public Employee Retirement System (PERS), and modified for the District.

The assumed disability rates under PERS plan 2 from the 2019 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. The disability rate was assumed to be 0% for all ages.

For service retirement, PERS plan 2, with less than 30 years of service assumptions from the 2019 actuarial valuation for PERS.

For mortality, the assumptions from the 2019 actuarial valuation for PERS (Pub G.H-2010 base mortality table, with generational mortality adjustments using long-term MP-2017 generational improvement scale) were used.

For other termination of employment, the assumptions from the 2019 actuarial valuation for PERS were used, but no less than 2% per year.

Retirement eligibility: Members are eligible for service retirement at age 55 with 20 years of service or age 65 with five years of service.

Election assumption: 40% of members are assumed to elect medical benefits upon retirement. 20% of members are assumed to elect dental benefits upon retirement.

Election assumption (spouses): 25% of members are assumed to enroll eligible spouses as of the retirement date.

Medicare coverage: 100% of members are assumed to enroll in Medicare, once eligible, after initial participation.

Spouse age: A male member is assumed to be three years older than his spouse and female member is assumed to be one-year younger than her spouse.

Selection of carrier: All current and future retirees who elect medical and dental coverage are assumed to elect carriers based on the weighted average of selection of carriers by PEBB retirees.

Note 17: Other Post Employment Benefits (Continued)

Health Cost Trend

The health cost trend assumptions used in this valuation, assumed for both current and future retirees, are as follows:

Year Ending	Pre-65 Claims and Contributions	Post-65 Claims	Post-65 Contributions
6/30/2021	6.10 %	5.70 %	8.70 %
6/30/2022	5.40 %	8.90 %	13.40 %
6/30/2023	5.20 %	8.90 %	12.20 %
6/30/2024	5.10 %	5.10 %	5.30 %
6/30/2025	5.10 %	5.10 %	5.30 %
6/30/2035	5.20 %	5.10 %	5.20 %
6/30/2045	5.30 %	5.20 %	5.30 %
6/30/2055	5.10 %	5.10 %	5.20 %
6/30/2065	5.00 %	4.90 %	4.90 %
6/30/2075	4.30 %	4.30 %	4.30 %
6/30/2085	4.30 %	4.30 %	4.30 %
6/30/2095	4.30 %	4.30 %	4.30 %
3/30/2096+	4.30 %	4.30 %	4.30 %

Premium Levels

The assumed annual medical retiree contributions used in the valuation are displayed below. These represent a weighted average of July 1, 2020 to June 30, 2021, PEBB retiree contributions by medical plan, based on overall PEBB current retiree medical plan election. These contributions are assumed for both current retirees and future retirees. Contributions are the same for retirees and spouses of retirees. The contributions exclude the administration charge, the state surcharge reduction, the Limeade administration charge, the Consumer Directed Health Plan employer contribution, the Health Savings Account (HSA) administration fee, and the HSA wellness fee, as these are direct pass-through expenses that are 100% paid by retirees.

Note 17: Other Post Employment Benefits (Continued)

Medical plan:	Subscriber or Spouse Non-Medicare	Subscriber or Spouse Medicare
Weighted average based on current PEBB retirees	$8,240.28	$3,214.48

The assumed annual dental retiree contributions are displayed below. These represent a weighted average of July 1, 2020 to June 30, 2021, PEBB retiree contributions by dental plan, based on overall PEBB current retiree dental plan election. These contributions are assumed for both current retirees and future retirees.

Dental plan:	Subscriber or Spouse Non-Medicare	Subscriber or Spouse Medicare
Weighted average based on current PEBB retirees	$566.22	$566.22

Required Supplementary Information

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Proportionate Share of the Net Pension Liability

LEOFF Plan 2

Last 10 Fiscal Years*

June 30,	2020	2019	2018
Employer's proportion of the net pension asset	0.029292 %	0.027649 %	0.024153 %
Employer's proportionate share of the net pension asset	$ 597,508	$ 641,548	$ 490,351
State's proportionate share of the net pension asset associated with the employer	22,349	20,173	16,461
Totals	$ 619,857	$ 661,721	506,812
Covered payroll	$ 1,011,562	$ 986,978	$ 720,355
Net pension asset as a percentage of covered payroll	59.07 %	65.00 %	68.07 %
Plan fiduciary net position as a percentage of the total pension liability	115.83 %	119.43 %	118.50 %

*Note: The District implemented GASB 68 in 2018. Yearly information will be added until the 10-year requirement is met.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Employer Contributions

LEOFF Plan 2

Last 10 Fiscal Years*

Year Ended December 31,	2020	2019	2018
Contributions in relation to the statutorily or contractually required contributions	$ 41,883	$ 50,977	$ 41,883
Contributions in relation to the statutorily or contractually required contributions	(41,883)	$ (50,977)	$ (41,883)
Contribution deficiency	$ -	$ -	-
Covered employee payroll	$ 1,090,901	$ 986,978	720,355
Contributions as a percentage of covered payroll	3.84 %	5.16 %	5.81 %

*Note: The District implemented GASB 68 in 2018. Yearly information will be added until the 10-year requirement is met.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Changes in Total OPEB Liability and Related Ratios - Other Post Employment Benefits

Total OPEB Liability		2020
Service cost	$	222,319
Interest on total OPEB liability		64,263
Effect of assumption changes or inputs		564,909
Net change in total OPEB liability		851,491
Total OPEB liability, beginning		1,345,063
Total OPEB liability, ending	$	2,196,554
Covered employee payroll	$	17,270,698
Total OPEB liability as a % of covered employee payroll		12.72 %

GASB Statement 75 requires this information to be provided for 10 years. Because this is the first year of participation, 10 years is not available.

Notes to Schedule

There are no changes of benefit terms.

Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.

WIPFLI

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Commissioners
Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health
Chelan, 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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (the "District"), which comprise the statement of net position as of December 31, 2020, 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 September 17, 2021.

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 auditing 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 financial statements. 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.

Wipfli LLP

Wipfli LLP

September 17, 2021
Spokane, Washington