Office of the Washington State Auditor
Pat McCarthy

April 25, 2022

Board of Commissioners
Newport Hospital and Health Services
Newport, 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 Newport Hospital and Health Services 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

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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

Access Letter Requires Authorization before disclosure.

Pend Oreille County Public Hospital District No. 1
doing business as
Newport Hospital and Health Services

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2020 and 2019

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Table of Contents

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Newport, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Pend Oreille County Public Hospital District No. 1 doing business as Newport Hospital and Health Services (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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of changes in the District's total other postemployment benefits liability and related ratios on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide 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 March 10, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the year ended December 31, 2020. We issued a similar report for the year ended December 31, 2019, dated August 21, 2020, which has not been included with the 2020 financial and compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
March 10, 2022

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Statements of Net Position
December 31, 2020 and 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2020	2019
Current assets		
Cash and cash equivalents	**$ 19,647,836**	$ 4,550,715
Receivables:		
Patient accounts, net	**3,760,476**	5,494,430
Taxation for maintenance and operations	**40,452**	35,797
Taxation restricted for bond principal and interest	**54,483**	48,780
Estimated third-party payor settlements	**1,436,000**	234,000
Other	**69,601**	74,619
Inventories	**835,790**	652,344
Prepaid expenses	**2,250,463**	472,435
Total current assets	**28,095,101**	11,563,120
Noncurrent assets		
Cash and cash equivalents board designated as to use for capital acquisitions	**2,836,116**	2,724,192
Cash and cash equivalents restricted for debt service	**44,405**	559,682
Investment board designated as to use for capital acquisitions	**1,853,528**	-
Investment pledged as collateral for note payable	**2,368,291**	4,171,521
Capital assets, net	**22,002,538**	23,173,412
Total noncurrent assets	**29,104,878**	30,628,807
Deferred outflows of resources, other postemployment benefits	**1,187,355**	491,963
Total assets	**$ 58,387,334**	$ 42,683,890

See accompanying notes to basic financial statements.

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Statements of Net Position (Continued)
December 31, 2020 and 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2020	2019
Current liabilities		
Accounts payable	**$ 1,083,819**	$ 815,144
Accrued compensation and related liabilities	**990,854**	882,416
Accrued leave	**1,329,734**	1,209,830
Accrued interest payable	**29,845**	30,633
Unearned revenue	**211,680**	67,824
Estimated third-party payor settlements	**111,667**	71,946
Current maturities of long-term debt	**2,702,668**	711,372
Medicare accelerated payments	**5,462,244**	-
Total current liabilities	**11,922,511**	3,789,165
Noncurrent liabilities		
Long-term debt, less current maturities	**8,619,090**	11,337,634
Other postemployment benefits liability	**4,702,579**	3,432,559
Paycheck Protection Program loan	**4,814,205**	-
Total noncurrent liabilities	**18,135,874**	14,770,193
Total liabilities	**30,058,385**	18,559,358
Deferred inflows of resources, other postemployment benefits	**4,593,904**	5,160,193
Net position		
Net investment in capital assets	**10,657,210**	11,100,030
Restricted	**4,320,707**	4,779,983
Unrestricted	**8,757,128**	3,084,326
Total net position	**23,735,045**	18,964,339
Total liabilities, deferred inflows of resources, and net position	**$ 58,387,334**	$ 42,683,890

See accompanying notes to basic financial statements.

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

		2020		**2019**
Operating revenues				
Net patient service revenue	**$**	**39,754,724**	$	40,600,638
Grants		**130,117**		193,847
Other		**433,875**		369,570
Total operating revenues		**40,318,716**		41,164,055
Operating expenses				
Salaries and wages		**21,270,347**		20,614,016
Employee benefits		**5,605,871**		5,390,442
Other postemployment benefits		**8,338**		462,826
Professional fees		**1,350,195**		1,822,053
Purchased services, other		**2,463,578**		2,139,073
Purchased services, information technology		**1,434,535**		1,173,076
Supplies		**4,842,013**		4,402,882
Utilities		**627,001**		631,319
Rentals and leases		**94,599**		91,071
Repairs and maintenance		**290,843**		269,543
Depreciation		**2,527,630**		1,954,934
Insurance		**281,742**		271,975
Other		**1,001,139**		805,402
Total operating expenses		**41,797,831**		40,028,612
Operating income (loss)		**(1,479,115)**		1,135,443
Nonoperating revenues (expenses)				
Taxation for maintenance and operations		**515,036**		486,653
Taxation for bond principal and interest		**678,502**		678,145
Contributions		**186,184**		135,040
Investment income		**106,936**		77,700
Interest expense		**(449,596)**		(479,610)
Gain on disposal of capital assets		**7,150**		5,814
CARES Act Provider Relief Fund		**4,586,628**		-
COVID-19 grants		**618,981**		-
Total nonoperating revenues, net		**6,249,821**		903,742
Change in net position		**4,770,706**		2,039,185
Net position, beginning of year		**18,964,339**		16,925,154
Net position, end of year	**$**	**23,735,045**	$	18,964,339

See accompanying notes to basic financial statements.

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

		2020		2019
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from and on behalf of patients	**$**	**40,470,255**	$	40,340,216
Cash received from electronic health records incentive payment		**-**		100,575
Cash received from operating grants		**130,117**		193,847
Cash received from other revenue		**438,893**		455,619
Cash paid to and on behalf of employees		**(26,647,875)**		(25,756,835)
Cash paid to suppliers and contractors		**(14,078,444)**		(11,870,274)
Net cash provided by operating activities		**312,946**		3,463,148
Cash flows from noncapital financing activities				
Cash received from taxation for maintenance and operations		**510,381**		485,942
Contributions		**186,184**		135,040
Medicare accelarated payments		**5,462,244**		-
CARES Act Provider Relief Fund		**4,586,628**		-
COVID-19 grants		**618,981**		-
Paycheck Protection Program loan		**4,814,205**		-
Net cash provided by noncapital financing activities		**16,178,623**		620,982
Cash flows from capital and related financing activities				
Cash received from taxation for bond principal and interest		**672,799**		671,792
Principal paid on long-term debt		**(727,248)**		(823,389)
Interest paid on long-term debt		**(450,384)**		(480,372)
Purchase of capital assets		**(1,349,606)**		(6,487,289)
Net cash used in capital and related financing activities		**(1,854,439)**		(7,119,258)
Cash flows from investing activities				
Purchase of investments		**(50,298)**		(49,685)
Interest received		**106,936**		77,700
Net cash provided by investing activities		**56,638**		28,015
Net increase (decrease) in cash and cash equivalents		**14,693,768**		(3,007,113)
Cash and cash equivalents, beginning of year		**7,834,589**		10,841,702
Cash and cash equivalents, end of year	**$**	**22,528,357**	$	7,834,589

See accompanying notes to basic financial statements.

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

		2020		2019
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Cash and cash equivalents	**$**	**19,647,836**	$	4,550,715
Cash and cash equivalents board designated as to use for capital acquisitions		**2,836,116**		2,724,192
Cash and cash equivalents restricted for debt service		**44,405**		559,682
Total cash and cash equivalents	**$**	**22,528,357**	$	7,834,589
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	**$**	**(1,479,115)**	$	1,135,443
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation		**2,527,630**		1,954,934
Provision for bad debts		**813,523**		1,235,300
(Increase) decrease in assets and deferred outflows of resources:				
Receivables:				
Patient accounts, net		**920,431**		(1,903,328)
Estimated third-party payor settlements		**(1,202,000)**		619,452
Electronic health records incentive payment		**-**		100,575
Other		**5,018**		86,049
Inventories		**(183,446)**		(67,511)
Prepaid expenses		**(1,778,028)**		(107,364)
Deferred outflows of resources, other postemployment benefits		**(695,392)**		21,813
Increase (decrease) in liabilities and deferred inflows of resources:				
Accounts payable		**268,675**		(89,005)
Accrued compensation and related liabilities		**108,438**		128,090
Accrued leave		**119,904**		119,533
Unearned revenue		**143,856**		(283,792)
Estimated third-party payor settlements		**39,721**		71,946
Other postemployment benefits liability		**1,270,020**		(4,470,829)
Deferred inflows of resources, other postemployment benefits		**(566,289)**		4,911,842
Net cash provided by operating activities	**$**	**312,946**	$	3,463,148

See accompanying notes to basic financial statements.

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

a. Reporting Entity

Pend Oreille County Public Hospital District No. 1 doing business as Newport Hospital and Health Services (the District) owns and operates Newport Hospital and Health Services, a 24-bed critical access hospital; River Mountain Village Advanced Care, a 54-bed enhanced care assisted living facility; River Mountain Village, a 42-unit assisted living facility; and Newport Health Center, a physician's clinic. These facilities are located in Newport, Washington. The District provides healthcare services to residents of Pend Oreille County, Washington, and Bonner County, Idaho. The services provided include acute care, assisted living, emergency room, physicians' clinics, and other related procedures (laboratory, imaging, therapy, etc.).

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

b. Component Unit

Newport Hospital and Health Services Foundation – The Newport Hospital and Health Services Foundation (the Foundation) is a separate nonprofit corporation. The District is the sole member of the Foundation, and the Foundation was organized for the sole benefit of the District. Therefore, the Foundation is a component unit of the District. The Foundation has five board members, all of whom are appointed by the District. The Foundation's assets, net assets, and net contributions to the District are included as a blended component unit in the District's financial statements.

c. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Cash receipts are deposited directly to the District's depository accounts at a bank. Periodically, such cash is transferred to the operating accounts against which the District issues warrants.

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

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

c. Summary of Significant Accounting Policies (continued)

Prepaid expenses **–** Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

Investment pledged as collateral for note payable **–** Restricted noncurrent investment is a five-year certificate of deposit pledged as collateral for the Mountain West Bank loan.

Assets board designated as to use **–** Assets designated as to use include cash and cash equivalents and the portion of the five-year certificate of deposit not required as collateral for the Mountain West Bank loan set aside by the Board of Commissioners for future capital improvements over which the Board retains control and could subsequently use for other purposes.

Assets restricted as to use – Assets restricted as to use include cash and cash equivalents restricted for repayment of principal and interest on bond indebtedness and restricted by debt documents for the acquisition of capital assets.

Compensated absences **–** The District's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates each pay period throughout the year. PTO can accumulate up to 1.5 times the employee's annual accrual limit.

The District's employees also earn extended illness benefits (EIB) at 0.0346 hours per hour worked, up to 720 hours. EIB accruals are available for use in the pay period following successful completion of the probationary period. EIB may be accessed immediately for the use of medically qualifying leave for the employee or for family members as designated by the Washington State Family Care Act, as amended under varying circumstances as outlined in the policy. On November 30 of each year, all EIB hours in excess of 720 are reduced by paying the employee for 50 percent of the value of the excess hours and eliminating the remaining 50 percent.

Unearned revenue **–** The District records unearned revenue when it receives consideration before achieving certain criteria that must be met for revenue to be recognized in conformity with generally accepted accounting principles. The District's unearned revenue consists of nonoperating grants.

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

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

c. Summary of Significant Accounting Policies (continued)

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

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

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

Upcoming accounting standards pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the District's year ending December 31, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. This statement is early implemented during 2020 and 2021 for the new electronic health records system. Under the District's specific agreement, costs will be expended as incurred.

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

c. Summary of Significant Accounting Policies (continued)

Subsequent events **–** Subsequent events have been reviewed through March 10, 2022, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

Custodial credit risk – The risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple-financial institution collateral pool administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name at qualified public depositories. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

Credit risk **–** The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a policy specifically requiring or limiting investments of this type.

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

Interest rate risk **–** The possibility that an interest rate change could adversely affect an investment's fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

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

The District has the following recurring fair value measurements:

- A certificate of deposit of $4,221,819 and $4,171,521, as of December 31, 2020 and 2019, respectively, is valued using the market approach based primarily on current market interest rates for similar investments (Level 2 inputs).

3. Patient Accounts Receivable:

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

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

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

	2020	**2019**
Receivables from patients and their insurance carriers	**$ 2,833,143**	$ 3,783,394
Receivables from Medicare	**1,438,936**	2,020,261
Receivables from Medicaid	**539,199**	770,781
Receivables from 340B contract pharmacies	**209,609**	210,378
Total patient accounts receivable	**5,020,887**	6,784,814
Less allowance for uncollectible accounts	**(1,260,411)**	(1,290,384)
Patient accounts receivable, net	**$ 3,760,476**	$ 5,494,430

4. Property Taxes:

The Pend Oreille County Treasurer acts as an agent to collect property taxes levied in Pend Oreille County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the Pend Oreille County Assessor at 100 percent of fair market value. One-fourth of the county is inspected and reappraised each year, resulting in a revaluation of all property every four years.

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

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

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

For 2020, the District's M&O tax levy was 0.376041 per $1,000 on a total assessed valuation of $1,311,081,544, for a total M&O levy of $493,020. For 2019, the District's M&O levy was 0.388407 per $1,000 on a total assessed valuation of $1,224,860,862, for a total M&O levy of $475,745.

For 2020, the District's bond levy was 0.509260 per $1,000 on a total assessed valuation of $1,290,635,707, for a total bond levy of $657,269. For 2019, the District's bond levy was 0.543215 per $1,000 on a total assessed valuation of $1,255,016,823, for a total bond levy of $681,744.

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

5. Capital Assets:

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

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

5. Capital Assets (continued):

Capital additions, retirements, transfers, and balances follow:

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
Capital assets not being depreciated					
Land	$ 826,321	$ -	$ -	$ -	**$ 826,321**
Construction in progress	49,522	-	-	-	**49,522**
Total capital assets not being depreciated	875,843	-	-	-	**875,843**
Capital assets being depreciated					
Land improvements	2,485,123	-	-	-	**2,485,123**
Buildings	24,241,654	43,594	-	-	**24,285,248**
Fixed equipment	7,290,802	131,786	-	-	**7,422,588**
Movable equipment	10,437,783	1,181,376	(160,757)	-	**11,458,402**
Total capital assets being depreciated	44,455,362	1,356,756	(160,757)	-	**45,651,361**
Less accumulated depreciation for					
Land improvements	676,575	179,209	-	-	**855,784**
Buildings	12,788,941	1,060,656	-	-	**13,849,597**
Fixed equipment	1,099,701	478,798	-	-	**1,578,499**
Movable equipment	7,592,576	808,967	(160,757)	-	**8,240,786**
Total accumulated depreciation	22,157,793	2,527,630	(160,757)	-	**24,524,666**
Total capital assets being depreciated, net	22,297,569	(1,170,874)	-	-	**21,126,695**
Capital assets, net	**$ 23,173,412**	**$ (1,170,874)**	**$ -**	**$ -**	**$ 22,002,538**

5. Capital Assets (continued):

Capital additions, retirements, transfers, and balances follow:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
Capital assets not being depreciated					
Land	$ 779,523	$ 46,798	$ -	$ -	**$ 826,321**
Construction in progress	7,533,449	4,680,733	-	(12,164,660)	**49,522**
Total capital assets not being depreciated	8,312,972	4,727,531	-	(12,164,660)	**875,843**
Capital assets being depreciated					
Land improvements	1,091,472	21,947	-	1,371,704	**2,485,123**
Buildings	18,732,874	99,768	-	5,409,012	**24,241,654**
Fixed equipment	2,523,343	11,104	(617)	4,756,972	**7,290,802**
Movable equipment	9,278,202	584,363	(51,754)	626,972	**10,437,783**
Total capital assets being depreciated	31,625,891	717,182	(52,371)	12,164,660	**44,455,362**
Less accumulated depreciation for					
Land improvements	546,202	130,373	-	-	**676,575**
Buildings	11,914,307	874,634	-	-	**12,788,941**
Fixed equipment	819,435	280,883	(617)	-	**1,099,701**
Movable equipment	6,974,787	669,044	(51,255)	-	**7,592,576**
Total accumulated depreciation	20,254,731	1,954,934	(51,872)	-	**22,157,793**
Total capital assets being depreciated, net	11,371,160	(1,237,752)	(499)	12,164,660	**22,297,569**
Capital assets, net	**$ 19,684,132**	**$ 3,489,779**	**$ (499)**	**$ -**	**$ 23,173,412**

Construction in progress as of December 31, 2020, consisted of preliminary planning work for potential remodeling projects relating to older building sections. The project is in the initial preliminary stage and the estimated date of completion and costs to complete cannot be determined at this time.

6. Long-term Debt:

A schedule of changes in the District's long-term debt follows:

	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Amount Due Within One Year
Long-term debt					
HFU loan payable	$ 386,615	$ -	$ (9,239)	$ 377,376	**$ 9,377**
Mountain West Bank loan	2,755,406	-	(387,115)	2,368,291	**2,368,291**
2018 UTGO Bond	8,605,000	-	(315,000)	8,290,000	**325,000**
2018 UTGO Bond Premium	301,985	-	(15,894)	286,091	-
Total long-term debt	**$ 12,049,006**	**$ -**	**$ (727,248)**	**$ 11,321,758**	**$ 2,702,668**

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amount Due Within One Year
Long-term debt					
2012 LTGO payable	$ 119,924	$ -	$ (119,924)	$ -	**$ -**
HFU loan payable	395,717	-	(9,102)	386,615	**9,236**
Mountain West Bank loan	3,128,875	-	(373,469)	2,755,406	**387,136**
2018 UTGO Bond	8,910,000	-	(305,000)	8,605,000	**315,000**
2018 UTGO Bond Premium	317,879	-	(15,894)	301,985	-
Total long-term debt	**$ 12,872,395**	**$ -**	**$ (823,389)**	**$ 12,049,006**	**$ 711,372**

The terms and due dates of the District's long-term debt are as follows:

- Limited Tax General Obligation and Refunding Bonds (LTGO), dated February 15, 2012, in the original amount of $2,400,000. The bonds were paid off in 2019.

- Note payable to the Housing and Finance Unit of the Washington Department of Community, Trade and Economic Development (HFU) dated May 30, 2000, in the original amount of $550,000, payable in annual installments of $15,038, including interest at 1.5 percent, through April 1, 2052.

  The note is collateralized by property owned by the District.

- Note payable to Mountain West Bank dated May 25, 2016, in the original amount of $4,000,000, payable in monthly installments of $40,000, including interest at 3.6 percent, through April 10, 2021, and one balloon payment of $2,443,293, including interest, on May 10, 2021. The District refinanced the loan on May 7, 2021, via a note payable in the amount of $2,236,407, payable in monthly installments of $39,454, including interest at 2.25 percent, through May 10, 2026.

  The note is collateralized by a certificate of deposit.

6. Long-term Debt (continued):

- Unlimited Tax General Obligation Bonds (UTGO), dated March 27, 2018, in the original amount of $9,865,000 for the purpose of the construction of an assisted living facility. The bonds are payable in semiannual interest payments at 3.81 percent and annual principal installments ranging from $325,000 to $650,000 through December 1, 2038.

The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. UTGO bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2018 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

Aggregate annual principal and interest payments over the terms of long-term debt are as follows:

Years Ending	Notes Payable			UTGO Bonds			Total Long-Term Debt		
December 31,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	$ 2,377,668	$ 39,292	$ **2,416,960**	$ 325,000	$ 358,144	$ **683,144**	$ 2,702,668	$ 397,436	$ **3,100,104**
2022	9,518	5,520	**15,038**	335,000	345,144	**680,144**	344,518	350,664	**695,182**
2023	9,661	5,377	**15,038**	350,000	331,744	**681,744**	359,661	337,121	**696,782**
2024	9,806	5,232	**15,038**	365,000	317,744	**682,744**	374,806	322,976	**697,782**
2025	9,953	5,085	**15,038**	380,000	303,144	**683,144**	389,953	308,229	**698,182**
2026-2030	52,049	23,141	**75,190**	2,080,000	1,319,806	**3,399,806**	2,132,049	1,342,947	**3,474,996**
2031-2035	56,071	19,119	**75,190**	2,595,000	816,200	**3,411,200**	2,651,071	835,319	**3,486,390**
2036-2040	60,405	14,785	**75,190**	1,860,000	189,000	**2,049,000**	1,920,405	203,785	**2,124,190**
2041-2045	65,073	10,117	**75,190**	-	-	-	65,073	10,117	**75,190**
2046-2050	70,102	5,088	**75,190**	-	-	-	70,102	5,088	**75,190**
2051-2052	25,361	541	**25,902**	-	-	-	25,361	541	**25,902**
	$ 2,745,667	$ 133,297	$ 2,878,964	$ 8,290,000	$ 3,980,926	$ 12,270,926	$ 11,035,667	$ 4,114,223	$ 15,149,890

7. Paycheck Protection Program (PPP) Note Payable:

In April 2020, the District was granted a loan in the form of a note payable from Mountain West Bank in the aggregate amount of $4,814,205, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020.

The District applied for PPP loan forgiveness during fiscal year 2021, and forgiveness was approved as of July 23, 2021. The loan forgiveness will be recorded as a Gain on Forgiveness of Paycheck Protection Program Note Payable in the statements of revenues, expenses, and changes in net position for the year ending December 31, 2021.

8. Net Patient Service Revenue:

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

8. Net Patient Service Revenue (continued):

The District's provisions for bad debts and writeoffs have not changed significantly from the prior year. The District's charity care policy was changed during the year ended December 31, 2020, to be compliant with Washington State regulations. The District's uninsured discount policy was unchanged during the years ended December 31, 2020 and 2019.

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

	2020	2019
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	$ **16,723,070**	$ 16,009,371
Medicaid	**11,311,076**	12,491,950
Other third-party payors	**6,648,876**	7,120,548
Patients	**2,521,387**	3,033,325
Proshare	**-**	309,664
340B contract pharmacies	**3,854,220**	3,714,360
	41,058,629	42,679,218
Less:		
Charity care	**(490,382)**	(843,280)
Provision for bad debts	**(813,523)**	(1,235,300)
Net patient service revenue	$ **39,754,724**	$ 40,600,638

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

- *Medicare* – The hospital has been designated a critical access hospital and the clinic has been designated a rural health clinic by Medicare. The hospital and clinic are paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The hospital and clinics are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the hospital and audits thereof by the Medicare administrative contractor. Non-rural health clinic physician services are paid on a fee schedule

- *Medicaid* – The majority of Medicaid beneficiaries are covered through health maintenance organizations operated by commercial insurance companies. The District is reimbursed for inpatient, outpatient, and clinic services on a prospectively determined rate that is based on historical revenues and expenses for the District. Assisted living services are paid on a pre-determined amount per day. Non-rural health clinic physician services are paid on a fee schedule.

8. Net Patient Service Revenue (continued):

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately $30,000 and decreased by approximately $11,000 in 2020 and 2019, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates.

Net patient service revenue increased by approximately $413,000 in 2019 due to the forgiveness by the State of Washington of the rural health clinic Medicaid managed care reconciliation amounts due.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2020 and 2019, were approximately $338,000 and $537,000, respectively. Disproportionate share hospital payments from the state of Washington received to subsidize charity services provided for the years ended December 31, 2020 and 2019, were approximately $42,000 and $27,000, respectively.

9. CARES Act Provider Relief Fund:

The District received approximately $4,587,000 of funding during fiscal year 2020 from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has expended all of these funds in 2020.

10. Retirement Plans:

The District provides benefits through defined contribution retirement plans under Section 401(a) and 403(b) of the Internal Revenue Code (IRC). In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the District to the plan plus investment earnings.

The Public Hospital District No. 1 of Pend Oreille County Money Purchase Thrift Plan (the 401(a) Plan) is available to all employees with at least three months of service and who are making contributions to the 403(b) Plan. The District matches 100 percent of employee contributions up to 6 percent of each employee’s eligible annual compensation. Employees become fully vested in the District’s contributions at the end of three years of service. The District contributed approximately $796,000 and $778,000 in 2020 and 2019, respectively.

10. Retirement Plans (continued):

The Public Hospital District No. 1 of Pend Oreille County IRC Section 403(b) Tax Deferred Annuity Plan (the 403(b) Plan) is available to all benefit eligible employees of the District.

Contributions are based on a percentage of compensations up to the legal maximums. Plan participants made contributions for the years ended December 31, 2020 and 2019, of approximately $1,196,000 and $1,121,000, respectively.

The District also offers a deferred compensation plan under Section 457(b) of the IRC. The name of the plan is The Executive 457(b) Retirement Plan. The plan is voluntary and contributions vest immediately. The plan is available to all employees at least 21 years of age with one year of continuous employment and 800 hours of service during the plan year. Employee contributions are deposited and held with accounts established with Principal Financial Group. Plan participants contributed approximately $18,000 and $23,000 in 2020 and 2019, respectively.

The District has the authority to amend all retirement plans.

11. Other Postemployment Benefits (OPEB):

Plan description – The District provides healthcare programs for employees through the Public Employees Benefits Board (PEBB). Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the PEBB. The PEBB was created within the Health Care Authority (HCA) to administer medical, dental, and life insurance plans for public employees and retirees. The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee. No assets are accumulated in a qualifying trust. The District can cease providing health care through the PEBB with a 60-day notice. The other postemployment benefits liability would be eliminated at this time without any cash obligation.

Benefits provided – The District's retirees may elect coverage through state health and dental insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The healthcare premiums for active employees, which are paid by the District during the employees' working careers, subsidize the health and dental plans of retirees.

11. Other Postemployment Benefits (OPEB) (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 $150 or 50 percent of the monthly premiums. As of January 1, 2019, the subsidy increased to $168 per month. As of January 1, 2020, the subsidy increased to $183 per month. The retirees and spouses currently pay the premiums minus $183 when the premium is over $336 per month and pay half the premium when the premium is lower than $336.

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.

Employees covered by the benefit terms – The following employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	**9**	9
Active plan members	**300**	300
Total members	**309**	309

Total OPEB liability – The District's total OPEB liability of $4,702,579 and $3,432,559 were measured as of December 31, 2019 and 2018, respectively, and were determined by an actuarial valuation as of July 1, 2018.

11. Other Postemployment Benefits (OPEB) (continued):

Actuarial assumptions and other inputs – The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation – 2.75 percent
Salary increases – 3.50 percent average, including inflation
Healthcare cost trend rates – as follows:

Year	Claims and Contributions Pre-65	Claims Post-65	Contributions Post-65
2019	6.80%	3.60%	1.10%
2020	6.30%	7.50%	9.20%
2021	6.00%	7.40%	12.30%
2022	5.40%	5.20%	6.80%
2025	5.10%	5.10%	5.30%
2035	5.10%	5.10%	5.20%
2045	5.20%	5.20%	5.30%
2055	5.10%	5.10%	5.20%
2065	5.00%	4.90%	4.90%
2075	4.30%	4.30%	4.30%
2085	4.30%	4.30%	4.30%
2095+	4.30%	4.30%	4.30%

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

Mortality rates were based on the 2018 actuarial valuation for Washington State Public Employees' Retirement System (PERS) (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using Projection Scale BB).

The trend assumptions are used to project medical claims costs. For the non-Medicare group, the same trends are used to project medical contributions. For the Medicare group, the assumptions are adjusted for the post-65 contribution trend to account for the aging of the Medicare population by 1 year every 5 years. It is also adjusted for the post-65 contribution trend in the first four years to account for the set explicit Medicare subsidy in 2018 through 2022. In 2019, the Medicare subsidy amount was $168. In 2020, the Medicare subsidy amount is $183. The Medicare subsidy amount is assumed to remain at $183 through 2022. After 2022, the Medicare subsidy amount is assumed to increase with trend.

The valuation date is July 1, 2018. This is the date as of which the census is gathered and the actuarial valuation is performed. The measurement date is December 31, 2019. This is the date as of which the total OPEB liability is determined. Note that GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

11. Other Postemployment Benefits (OPEB) (continued):

Changes in the total OPEB liability:

	Total OPEB Liability 2020	Total OPEB Liability 2019
Balance, at beginning of year	**$ 3,432,559**	$ 7,903,388
Service cost	**326,044**	744,689
Interest	**153,448**	296,909
Changes of assumptions or other inputs	**822,797**	(5,478,131)
Benefit payments	**(32,269)**	(34,296)
Net changes	**1,270,020**	(4,470,829)
Balance, at end of year	**$ 4,702,579**	$ 3,432,559

Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period. Beginning with fiscal year ending December 31, 2019, the Medicare contribution trend reflects the January 1, 2020, Medicare explicit subsidy increase to $183 per month. The exclusion of the excise tax for high cost or "Cadillac" health plans and the Health Insurer fee from 2021 onwards is first reflected in fiscal year ending December 31, 2020, since the December 20, 2019, enactment of H.R. 1865 is between the December 31, 2018 and December 31, 2019, measurement date.

11. Other Postemployment Benefits (OPEB) (continued):

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the District, as well as what the District's liability would be if it were calculated using a discount rate for the years ended December 31, 2020 and 2019, that is one percentage point lower (1.74 percent and 3.10 percent, respectively), or one percentage point higher (3.74 percent and 5.10 percent, respectively) than the current discount rate:

2020

	1% Decrease 1.74%	Discount Rate 2.74%	1% Increase 3.74%
Total OPEB liability	$ 5,805,005	$ 4,702,579	$ 3,851,944

2019

	1% Decrease 3.10%	Discount Rate 4.10%	1% Increase 5.10%
Total OPEB liability	$ 4,205,978	$ 3,432,559	$ 2,832,527

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

2020

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	$ 3,671,698	$ 4,702,579	$ 6,119,980

2019

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	$ 2,732,456	$ 3,432,559	$ 4,378,255

11. Other Postemployment Benefits (OPEB) (continued):

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the years ended December 31, 2020 and 2019, the District recognized OPEB expense of $8,338 and $462,826, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as follows:

Year Ending December 31,		
2020	$	(431,541)
2021		(431,541)
2022		(431,541)
2023		(431,541)
2024		(431,541)
Thereafter	$	(1,288,456)

12. Risk Management and Contingencies:

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

The District also has excess professional liability insurance with Physicians Insurance A Mutual Company on a "claims-made" basis. The excess malpractice insurance provides $5,000,000 per claim of primary coverage with an aggregate limit of $5,000,000. The policy has no deductible.

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

12. Risk Management and Contingencies (continued):

Self-insurance risk pools – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust. The trust is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. In 2014, the trust assessed its financial condition and decided that it had excess financial reserves that it would return to the member districts through dividend distributions. The District recognized dividends of approximately $-0- and $38,000 in 2020 and 2019, respectively, which were offset against unemployment expenses. Unemployment compensation expenses under the plan were approximately $46,000 and $24,000 in 2020 and 2019, respectively.

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

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

13. Concentration of Risks:

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

The mix of receivables from patients follows:

	2020	**2019**
Medicare	**37 %**	37 %
Medicaid	**15**	15
Other third-party payors	**29**	32
Patients	**19**	16
	100 %	100 %

13. Concentration of Risks (continued):

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

Collective bargaining units – As of December 31, 2020 and 2019, approximately 14 percent and 17 percent, respectively, of the District's employees were represented under a collective bargaining agreement with Service Employees International Union Healthcare 1199NW (SEIU). The current contract is effective January 1, 2020 through December 31, 2022.

14. COVID-19 Pandemic:

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

The District received government grants as described in Note 9 above, as part of the federal government's response to the pandemic.

Medicare sequestration has been suspended from May 1, 2020 through March 31, 2022, which will increase Medicare reimbursement by 2 percent.

The District also entered into the PPP loan described in Note 7 above, also a part of the federal government's response to the pandemic.

In April 2020, the District also received Medicare accelerated payments of $5,462,243 to help with short-term liquidity. These funds will be paid back over 17 months beginning in April 2021.

In addition to accepting funding from the CARES Act Provider Relief Fund, elective surgeries were resumed in May 2020 with special policies and procedures in place. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability and Related Ratios
Years Ended December 31, 2017, 2018, 2019, and 2020

	2017	2018	2019	2020
Total OPEB Liability				
Service cost	$ 666,420	$ 651,119	$ 744,689	$ 326,044
Interest on total OPEB liability	233,083	267,679	296,909	153,448
Effect of assumptions, changes, or other inputs	(306,787)	567,858	(5,478,131)	822,797
Expected benefit payments	(22,918)	(26,956)	(34,296)	(32,269)
Net change in total OPEB liability	569,798	1,459,700	(4,470,829)	1,270,020
Total OPEB liability - beginning	5,873,890	6,443,688	7,903,388	3,432,559
Total OPEB liability - ending	$ 6,443,688	$ 7,903,388	$ 3,432,559	$ 4,702,579
Covered-employee payroll	$ 15,465,141	$ 16,964,358	$ 17,663,868	$ 19,122,325
Total OPEB liability as a percentage of covered-employee payroll	42%	47%	19%	25%

Notes to Schedule:

Changes in benefit terms – There are no changes in benefit terms.

Changes in assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period. Beginning with fiscal year ending December 31, 2019, the Medicare contribution trend reflects the January 1, 2020, Medicare explicit subsidy increase to $183 per month. The exclusion of the excise tax for high cost or "Cadillac" health plans and the Health Insurer fee from 2021 onwards are reflected in fiscal year ending December 31, 2020, since the December 20, 2019, enactment of H.R. 1865 is between the December 31, 2018 and December 31, 2019, measurement date.

*GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the District will present information for those years for which information is available.

See accompanying independent auditors' report.

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

Board of Commissioners
Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Newport, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pend Oreille County Public Hospital District No. 1 doing business as Newport Hospital and Health Services (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 10, 2022.

Internal Control Over Financial Reporting

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

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

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

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

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 the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
March 10, 2022

Pend Oreille County Public Hospital District No. 1
doing business as Newport Hospital and Health Services
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020

The audit for the year ended December 31, 2019, reported no audit findings, nor were there any unresolved prior year findings from years ended December 31, 2018, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2020.