



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pacific County Public Hospital District 2

(Willapa Harbor Hospital)

For the period January 1, 2019 through December 31, 2020

Published April 28, 2022

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

April 28, 2022

Board of Commissioners
Willapa Harbor Hospital
South Bend, Washington

Report on Financial Statements

Please find attached our report on Willapa Harbor Hospital's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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

Willapa Harbor Hospital January 1, 2019 through December 31, 2020

Board of Commissioners
Willapa Harbor Hospital
South Bend, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Willapa Harbor Hospital, 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, and have issued our report thereon dated April 21, 2022.

The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

As discussed in Note 2 to the financial statements, during the year ended December 31, 2020, the District implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*.

As discussed in Note 17 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy, State Auditor

Olympia, WA

April 21, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Willapa Harbor Hospital January 1, 2019 through December 31, 2020

Board of Commissioners
Willapa Harbor Hospital
South Bend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Willapa Harbor Hospital, 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 on page 10.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Willapa Harbor Hospital, as of December 31, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2020, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

April 21, 2022

FINANCIAL SECTION

Willapa Harbor Hospital January 1, 2019 through December 31, 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020 and 2019
Statement of Revenues, Expenses and Changes in Net Position – 2020 and 2019
Statement of Cash Flows – 2020 and 2019
Statement of Net Position – Fiduciary Fund – 2020 and 2019
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2020 and 2019
Notes to Financial Statements – 2020 and 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability – Willapa Harbor Retirement Plan– 2020
and 2019
Schedule of Employer Contributions – Willapa Harbor Retirement Plan – 2020 and 2019
Schedule of Investment Returns – Willapa Harbor Retirement Plan – 2020 and 2019
Schedule of Changes in the District's Total OPEB Liability and Related Ratios – 2020
and 2019

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Statements of Net Position

December 31,	2020	2019
Assets:		
Cash and cash equivalents	\$ 16,441,262	\$ 4,868,586
Receivables:		
Patient accounts - Net	1,879,166	2,213,593
Estimated third-party payor settlements	581,709	153,239
Taxes receivable	41,346	49,771
Other	31,061	32,893
Inventories	178,304	182,196
Prepaid expenses	103,775	68,629
Total current assets	19,256,623	7,568,907
Noncurrent assets:		
Cash and cash equivalents - Restricted for debt service and capital acquisition	862,181	723,229
Capital assets:		
Nondepreciable capital assets	656,670	71,859
Depreciable capital assets - Net	1,991,651	1,980,228
Total capital assets	2,648,321	2,052,087
Total noncurrent assets	3,510,502	2,775,316
Total assets	22,767,125	10,344,223
Deferred outflows of resources:		
Pension plan	376,941	286,414
Other post employment benefits (OPEB)	479,811	10,351
Deferred charge on debt refunding	4,516	9,936
Total deferred outflows of resources	861,268	306,701
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 23,628,393	\$ 10,650,924

See accompanying notes to financial statements.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Statements of Net Position (Continued)

December 31,	2020	2019
Liabilities:		
Current liabilities:		
Current maturities - Long-term debt	\$ 393,322	\$ 383,842
Current portion - Capital lease obligations	298,953	94,641
Current portion - Accrued compensated absences	1,045,682	899,820
Payroll and related liabilities	196,757	582,756
Accounts payable	444,596	357,573
Refundable advance - Current portion	2,023,221	-
Accrued interest	5,097	2,329
Unearned revenue	827,238	-
Current portion - Paycheck Protection Program loan	266,322	-
Current portion - OPEB Liability	10,351	5,089
Total current liabilities	5,511,539	2,326,050
Noncurrent liabilities:		
Long-term debt - Less current maturities	4,608	397,539
Capital lease obligations - Less current maturities	1,043,361	80,496
Accrued compensated absences - Less current portion	416,236	274,116
Refundable advance - Net of current portion	3,372,034	-
Paycheck Protection Program loan - Net of current portion	2,099,878	-
Net pension liability	2,642,121	2,610,012
OPEB liability - Net of current portion	2,798,156	2,070,357
Total noncurrent liabilities	12,376,394	5,432,520
Total liabilities	17,887,933	7,758,570
Deferred inflows of resources:		
Pension plan	127,515	216,464
OPEB	115,907	128,505
Total deferred inflows of resources	243,422	344,969
Net position:		
Net investment in capital assets	916,007	1,095,569
Restricted	862,181	729,849
Unrestricted	3,718,850	721,967
Total net position	5,497,038	2,547,385
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 23,628,393	\$ 10,650,924

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31,	2020	2019
Operating revenue:		
Net patient service revenue	\$ 19,952,742	\$ 20,490,085
Other operating revenue	873,668	505,333
Total operating revenue	20,826,410	20,995,418
Operating expenses:		
Salaries and wages	12,004,821	11,345,264
Employee benefits	3,360,172	3,081,956
Other post employment benefits	251,003	217,905
Professional fees	1,879,513	1,411,404
Supplies	1,782,136	1,404,434
Purchased services	1,780,223	2,137,020
Utilities	387,094	350,541
Repairs and maintenance	96,764	86,904
Insurance	112,269	79,178
Other	641,080	558,990
Rent	148,920	147,632
Depreciation	529,774	551,277
Total operating expenses	22,973,769	21,372,505
Loss from operations	(2,147,359)	(377,087)
Nonoperating revenue (expenses):		
Property taxes for maintenance and operations	887,309	1,021,243
Property taxes for bond principal and interest	-	64,751
Contributions received	27,541	14,669
Grants	4,180,761	180,314
Interest income	55,096	132,724
Interest expense	(53,695)	(47,323)
Total nonoperating revenue - Net	5,097,012	1,366,378
Change in net position	2,949,653	989,291
Net position - Beginning of the year	2,547,385	1,558,094
Net position - End of the year	\$ 5,497,038	\$ 2,547,385

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 25,253,954	\$ 20,361,182
Receipts from other operating activities	873,668	614,031
Payments to employees	(15,224,379)	(14,542,248)
Payments to supplies, contractors, and others	(7,158,228)	(6,027,595)
Net cash provided by operating activities	3,745,015	405,370
Cash flows from noncapital financing activities:		
Cash received from taxation for maintenance and operations	887,309	1,024,620
Provider Relief Fund receipts	5,007,999	-
Proceeds from Paycheck Protection Program loan	2,366,200	-
Noncapital grants	29,373	180,314
Net cash provided by noncapital financing activities	8,290,881	1,204,934
Cash flows from capital and related financing activities:		
Cash received from taxation for bond principal and interest	8,425	70,980
Purchase of capital assets	(918,332)	(139,086)
Principal paid on long-term debt and capital leases	(485,617)	(540,621)
Proceeds from long-term debt and capital leases	1,056,126	-
Interest paid on long-term debt and capital leases	(39,966)	(37,096)
Net cash used in capital and related financing activities	(379,364)	(645,823)
Cash flows from investing activities - Interest received	55,096	132,724
Increase in cash and cash equivalents	11,711,628	1,097,205
Cash and cash equivalents at beginning of year	5,591,815	4,494,610
Cash and cash equivalents at end of year	\$ 17,303,443	\$ 5,591,815
Reconciliation:		
Cash and cash equivalents - Unrestricted	\$ 16,441,262	\$ 4,868,586
Cash and cash equivalents - Restricted for debt service and capital acquisition	862,181	723,229
Cash and cash equivalents at end of year	\$ 17,303,443	\$ 5,591,815

See accompanying notes to financial statements.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Statements of Cash Flows (Continued)

Years Ended December 31,	2020	2019
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (2,147,359)	\$ (377,087)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	529,774	551,277
Provision for bad debts	1,260,601	802,264
Pension expense	(147,368)	(179,632)
OPEB expense	251,003	207,554
Changes in assets and liabilities:		
Receivables:		
Patient accounts receivable - Net	(926,174)	(625,023)
Other	-	99,450
Inventories	3,892	(17,888)
Prepaid expenses	(35,146)	(4,428)
Accounts payable	87,024	30,072
Payroll and related liabilities	(385,999)	70,890
Accrued compensated absences	287,982	4,065
Medicare refundable advance	5,395,255	-
Estimated third-party payor settlements	(428,470)	(156,144)
Total adjustments	5,892,374	782,457
Net cash provided by operating activities	\$ 3,745,015	\$ 405,370
Supplemental cash flow information:		
Noncash capital financing included in capital lease obligations payable	\$ 207,676	\$ 95,688

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Statements of Fiduciary Net Position - Pension Plan

Pension trust fund

December 31,	2020	2019
Assets:		
Guaranteed investment contracts	\$ 24,350	\$ 23,803
Pooled separate accounts	4,576,319	4,570,750
Employee contributions receivable	1,308	1,539
TOTAL ASSETS	4,601,977	4,596,092
NET POSITION - RESTRICTED FOR PENSION BENEFITS	\$ 4,601,977	\$ 4,596,092

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Statements of Changes in Fiduciary Net Position - Pension Plan

Pension trust fund

Years Ended December 31,	2020	2019
Additions:		
Employer contributions	\$ 360,000	\$ 360,000
Employee contributions	35,837	51,932
Investment income	102,123	221,151
Total additions	497,960	633,083
Deductions:		
Benefit payments	482,404	330,769
Financial service fees	9,671	9,671
Total deductions	492,075	340,440
Change in net position	5,885	292,643
Net position at beginning of year	4,596,092	4,303,449
Net position at end of year	\$ 4,601,977	\$ 4,596,092

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital (the "District"), founded in 1954, is located in South Bend, Washington. The District operates Willapa Harbor Hospital and Willapa Medical Clinic; a 10-bed critical access hospital and a rural health clinic, respectively.

The District provides healthcare services to patients in north Pacific County. The services provided include an acute care hospital, inpatient and outpatient surgery, emergency room, primary care physician, and the related ancillary procedures (laboratory, imaging, therapy, etc.).

An elected, five-member Board of Commissioners (the "Board") governs the District. The Board appoints a chief executive officer to oversee the District's daily operations as well as its approximately 156 employees.

Fiduciary Component Unit - Pension Plan

The District sponsors and contributes to the Pacific County Public Hospital District 2 – Willapa Harbor Retirement Plan (the "Plan"), a single-employer defined benefit pension plan that is governed by the District's Board of Commissioners. The Plan is a fiduciary component unit of the District.

Related Organization

Willapa Independent Senior Housing d/b/a The Alder House (the "Corporation"), formed in 1994, is a separate tax-exempt Washington corporation. The Corporation is not considered an entity that must be consolidated with the District for financial statement purposes. The Corporation owns and operates an assisted living facility for the elderly. The Corporation is governed by a five-member board of which three are community members, one is a District Commissioner, and one is the District's administrator. The District has agreed to lease land adjacent to its facilities for \$100 per month for 52 years. The Corporation is not considered a component unit of the District.

Financial Statement Presentation

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

The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 of the Revised Code of Washington (RCW) and the Washington State Department of Health 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 a liability is incurred, regardless of the timing of the cash flows.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Tax Status

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

Use Estimates

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

Cash and Cash Equivalents

All cash receipts are deposited directly to the District's depository accounts with the Pacific County Treasurer. Periodically, such cash is transferred to the operating accounts, and warrants are issued by the District against these accounts. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of three months or less to be cash and cash equivalents.

Restricted Assets

Restricted assets are comprised of unused cash and cash equivalents derived from the collection of taxes required to pay principal and interest on general obligation bonds and borrowings to finance capital purchases.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for co-pay 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. The District does not have a policy to charge interest on past due accounts. The carrying amounts of patient receivables are reduced by allowances that reflect management's estimate of the amounts that will not be collected.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient receivables. 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 the allowance for uncollectible accounts based on its assessment of historical collection experience and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts or bad debt and a credit to patient receivables.

Patient receivables are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for uncollectible accounts.

Property Taxes

Property taxes 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 fiscal year. Amounts levied are based on assessed property values as of October 1.

Any property tax balances due to the County after the payment due dates are considered delinquent.

Inventories

Inventories are recorded at the lower of cost or net realizable value, using the First In, First Out (FIFO) cost flow assumption. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Fair Value Measurement

Assets or liabilities measured and reported at fair value are classified and disclosed in one of the three following categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value Measurement (Continued)

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs, other than quoted prices, those are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Capital Assets

Capital assets are recorded at cost, except for donated assets, which are valued at their acquisition value, an entry price, 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 and amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating revenue (expenses). Depreciation and amortization have been computed on the straight-line method over the following estimated useful service lives. The District's policy is to capitalize assets with a cost of \$5,000 and over.

Land improvements	8 to 25 years
Buildings and building improvements	5 to 40 years
Movable equipment	3 to 20 years
Fixed equipment	5 to 20 years
Software	3 to 5 years

Compensated Absences

All paid time-off (PTO) is accrued when incurred at varying rates depending on the employee's position and contract.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

The District's employees earn paid leave time (PTO, vacation, sick leave, extended illness bank, holiday, etc.) at varying rates depending on the number of hours worked and years of service. Employees accrue paid leave from the date of hire but may not utilize it until they have completed a ninety-day probationary period. PTO, vacation, holiday, personal days and eligible sick leave earned, but not used, are paid upon separation from employment. The related liability is accrued during the period in which it is earned. Accrued paid leave was reported as a current and noncurrent liability in both 2020 and 2019.

Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the pension net position of the Willapa Harbor Retirement Plan (the "Plan"), and additions to/deductions from the Plan's pension 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.

Post-Employment Benefits Other Than Pensions (OPEB)

The total OPEB liability is measured at 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.

Net Position

Net position is reported in three categories:

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

Restricted - This category consists of noncapital assets whose use is restricted, reduced by liabilities, and deferred inflows of resources related to those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

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

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

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, including grants for specific operating activities associated with providing healthcare services, the District's principal activity. Nonexchange revenue, including grants, property taxes, and contributions, received for purposes other than capital asset acquisition is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or willing to pay for services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Charity

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

Grants and Contributions

From time to time, the District receives grants from the State of Washington as well as contributions from individual 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.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Grants and Contributions (Continued)

Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as other operating revenue. Amounts restricted to capital acquisitions are reported as other operating revenue and expenses.

Subsequent Events

Subsequent events have been evaluated through the date of the accountant's report, which is the date the financial statements were available to be issued (see Note 16).

Note 2: Accounting and Reporting Changes

Management adopted new accounting guidance GASB Statement No.84, *Fiduciary Activities* that establishes standards of accounting and financial reporting for fiduciary activities. There was no restatement of beginning net position required.

Management adopted new accounting guidance GASB Statement No.88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* that establishes standards for disclosing information in the notes to government financial statements related to debt. There was no restatement of beginning net position required.

Note 3: Compliance

Management believes the District is in substantial compliance with current laws and regulation through the year ended December 31, 2020.

Note 4: Cash and Cash Equivalents and Investments

Deposits

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be refunded to it. The District does not have a deposit policy for custodial credit risk. The District's deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple-financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Participation in Local Government Investment Pool (LGIP)

The District is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 4: Cash and Cash Equivalents and Investments (Continued)

The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee. Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB Statement No. 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

The carrying amount of cash and cash equivalents was as follows at December 31:

	2020	2019
Cash on deposit with County Treasurer	\$ 16,441,262	\$ 4,868,586
Cash - Restricted	862,181	723,229
Totals	\$ 17,303,443	\$ 5,591,815

Investments

RCW Chapter 39 authorizes municipal governments to invest their funds in a variety of investments, including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments.

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

Employees' Retirement System

The District's governing body has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the District's investments; all investment decisions are subject to Washington law and the investment policy established by the governing body. The District's investments are held by an independent trust company. The Plan categorizes its fair value measurements within the fair value hierarchy established by GAAP. The Plan had guaranteed investment contracts of \$24,350 at December 31, 2020, and \$23,803 at December 31, 2019, that were stated at fair value using a level three measurement (Level 3), which was determined using consensus pricing.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 4: Cash and Cash Equivalents and Investments (Continued)

As of December 31, the Plan had the following investments:

<i>Fair value at December 31,</i>	2020	2019
Pooled separate accounts	\$ 4,576,319	\$ 4,570,750
Guaranteed investment contracts	24,350	23,803
Totals	\$ 4,600,669	\$ 4,594,553

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets of liabilities in inactive markets;
- Inputs other than quotes prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level or any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 4: Cash and Cash Equivalents and Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2020:

	December 31, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled separate accounts	\$ 4,576,319	\$ -	\$ 4,576,319	\$ -
Guaranteed investment contracts	24,350	-	-	24,350
Total investments at fair value	\$ 4,600,669	\$ -	\$ 4,576,319	\$ 24,350

Note 5: Restricted Net Position

Restricted net position at December 31 consisted of the following:

	2020	2019
Restricted net position:		
Cash and cash equivalents - Restricted for debt service and capital acquisition	\$ 862,181	\$ 723,229
Taxes receivable for current debt service	-	6,620
Total restricted net position	\$ 862,181	\$ 729,849

Note 6: 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 Pacific county. No single patient balance was more than five percent of the total receivables at year-end.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 6: Patient Accounts Receivable (Continued)

The mix of patient receivables at December 31 was:

	2020	2019
Receivable from patients and their insurance carriers	\$ 2,371,755	\$ 2,909,463
Receivable from Medicare	1,443,607	1,416,991
Receivable from Medicaid	92,162	48,514
Patient accounts receivable	3,907,524	4,374,968
Less:		
Contractual adjustments	1,266,503	817,946
Allowance for uncollectible amounts	761,855	1,343,429
Patient accounts receivable - Net	\$ 1,879,166	\$ 2,213,593

The District did not maintain a material allowance for bad debts from third-party payors, nor did it have significant write-offs from third-party payors.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 7: Net Patient Service Revenue

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

	2020	2019
Gross patient revenue:		
Inpatient services	\$ 3,576,259	\$ 3,227,823
Outpatient services	30,247,696	32,322,554
Physician clinics	1,502,458	1,567,247
Total gross patient service revenue	35,326,413	37,117,624
Less:		
Medicare contractual adjustments	6,903,358	7,990,187
Medicaid contractual adjustments	3,734,112	4,318,275
Other contractual adjustments	3,475,600	3,516,813
Provision for bad debts	1,260,601	802,264
Total adjustments	15,373,671	16,627,539
Net patient service revenue	\$ 19,952,742	\$ 20,490,085

Note 8: Property Taxes

The District received approximately 2.50% of its financial support from property taxes for both of the years ended December 31, 2020 and 2019.

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

For 2020, the District's regular tax levy was \$0.605772 per \$1,000 on the assessed valuation of \$834,594,536, for a total regular levy of \$505,574. There were no additional levies for debt service in 2020.

For 2019, the District's regular tax levy was \$0.647081 per \$1,000 on the assessed valuation of \$767,927,532, for a total regular levy of \$496,912. The District's special tax levy was \$0.049140 per \$1,000 on the total assessed valuation of \$1,017,505,165 for a total special levy of \$50,000. There were no additional levies for debt service in 2019.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 9: Reimbursement Arrangements With Third-Party Payors

Hospital

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Medicare - The District is designated as a critical access hospital (CAH). Under this designation, inpatient and outpatient hospital services rendered to Medicare program beneficiaries are paid based on a cost-reimbursement methodology, with the exception of certain lab and mammography services, which remain on a fee schedule. Professional services provided by physicians and other clinicians are reimbursed based on prospectively determined fee schedules.

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

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

Other Nonacute Services

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

Accounting for Medicare and Medicaid Contractual Arrangements

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

Laws and Regulations

These laws and regulations include but are not necessarily limited to matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and billing regulations.

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 9: Reimbursement Arrangements With Third-Party Payors (Continued)

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments.

Government activity with respect to investigations and allegations concerning possible violations of such regulations by healthcare providers has increased. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes the District is in 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.

CMS has implemented a project using recovery audit contractors (RAC) as part of its further efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to healthcare providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District may either accept or appeal the RAC's findings. RAC reviews of the District's Medicare claims are anticipated; however, the outcomes of such reviews are unknown, and any financial impact cannot be reasonably estimated at December 31, 2020.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 10: Capital Assets

Capital asset balances and activity were as follows for the year ended December 31, 2020:

	Balance at January 1, 2020	Additions	Retirements	Transfers	Balance at December 31, 2020
Nondepreciable capital assets:					
Land	\$ 34,261	\$ -	\$ -	\$ -	\$ 34,261
Construction in progress	37,598	584,811	-	-	622,409
Total nondepreciable assets	71,859	584,811	-	-	656,670
Depreciable capital assets:					
Land improvements	200,810	-	-	-	200,810
Buildings	7,127,073	168,735	-	-	7,295,808
Fixed equipment	555,280	38,248	-	-	593,528
Movable equipment	4,775,398	334,214	-	-	5,109,612
Total depreciable assets	12,658,561	541,197	-	-	13,199,758
Total assets before depreciation	12,730,420	1,126,008	-	-	13,856,428
Less accumulated depreciation for:					
Land improvements	199,072	1,738	-	-	200,810
Buildings	5,856,209	259,384	-	-	6,115,593
Fixed equipment	463,333	16,024	-	-	479,357
Movable equipment	4,159,719	252,628	-	-	4,412,347
Total accumulated depreciation	10,678,333	529,774	-	-	11,208,107
Capital assets - Net	\$ 2,052,087	\$ 596,234	\$ -	\$ -	\$ 2,648,321

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 10: Capital Assets (Continued)

Capital asset balances and activity were as follows for the year ended December 31, 2019:

	Balance at January 1, 2019	Additions	Retirements	Transfers	Balance at December 31, 2019
Nondepreciable capital assets:					
Land	\$ 34,261	\$ -	\$ -	\$ -	\$ 34,261
Construction in progress	-	37,598	-	-	37,598
Total nondepreciable assets	34,261	37,598	-	-	71,859
Depreciable capital assets:					
Land improvements	200,810	-	-	-	200,810
Buildings	7,127,073	-	-	-	7,127,073
Fixed equipment	555,280	-	-	-	555,280
Movable equipment	4,578,221	197,177	-	-	4,775,398
Total depreciable assets	12,461,384	197,177	-	-	12,658,561
Total assets before depreciation	12,495,645	234,775	-	-	12,730,420
Less accumulated depreciation for:					
Land improvements	196,927	2,145	-	-	199,072
Buildings	5,589,219	266,990	-	-	5,856,209
Fixed equipment	447,947	15,386	-	-	463,333
Movable equipment	3,892,963	266,756	-	-	4,159,719
Total accumulated depreciation	10,127,056	551,277	-	-	10,678,333
Capital assets - Net	\$ 2,368,589	\$ (316,502)	\$ -	\$ -	\$ 2,052,087

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 11: Long-Term Debt

Long-term debt and other noncurrent liabilities consisted of the following:

	Balance at January 1, 2020	Additions	Reductions	Balance at December 31, 2020	Amount Due Within One Year
Direct placements - 2012 UTGO bonds	\$ 770,000	\$ -	\$ (380,000)	\$ 390,000	\$ 390,000
Direct borrowings:					
Note payable	23,387	-	(8,992)	14,395	9,787
PPP loan payable	-	2,366,200	-	2,366,200	266,322
Total direct borrowings	23,387	2,366,200	(8,992)	2,380,595	276,109
Bond discount	(12,006)	-	5,541	(6,465)	(6,465)
Capital lease obligations:					
Olympus capital lease	75,753	-	(25,026)	50,727	24,475
Everbank Fuji Mamo lease	63,406	-	(35,621)	27,785	27,785
GE Government Finance Lease	-	1,263,802	-	1,263,802	246,693
KS bank capital lease	35,978	-	(35,978)	-	-
Total capital lease obligations	175,137	1,263,802	(96,625)	1,342,314	298,953
Other noncurrent liabilities:					
Accrued compensated absences	1,173,936	2,028,085	(1,740,103)	1,461,918	1,045,682
CMS refundable advance	-	5,395,255	-	5,395,255	2,023,221
Net pension liability	2,610,012	32,108	-	2,642,120	-
Other post employment benefits (OPEB) liability	2,075,446	733,061	-	2,808,507	10,351
Total other noncurrent liabilities	5,859,394	8,188,509	(1,740,103)	12,307,800	3,079,254
Total noncurrent liabilities	6,815,912	\$ 11,818,511	\$ (2,220,179)	16,414,244	\$ 4,037,851
Less - Current maturities	<u>1,383,392</u>			<u>4,037,851</u>	
Total noncurrent liabilities - Excluding current maturities	<u>\$ 5,432,520</u>			<u>\$ 12,376,393</u>	

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 11: Long-Term Debt (Continued)

Long-term debt and other noncurrent liabilities consisted of the following:

	Balance at January 1, 2019	Additions	Reductions	Balance at December 31, 2019	Amount Due Within One Year
Direct placements - 2012 UTGO bonds	\$ 1,145,000	\$ -	\$ (375,000)	\$ 770,000	\$ 380,000
Direct borrowings - Note payable	32,433	-	(9,046)	23,387	9,845
Bond discount	(17,547)	-	5,541	(12,006)	(6,003)
Total bonds and note payable	1,159,886	-	(378,505)	781,381	383,842
Capital lease obligations:					
Olympus capital lease	-	95,688	(19,935)	75,753	23,042
BioMeriex capital lease	8,050	-	(8,050)	-	-
Everbank Fuji Mamo lease	97,462	-	(34,056)	63,406	35,621
Kingsbridge capital lease	25,173	-	(25,173)	-	-
KS bank capital lease	105,339	-	(69,361)	35,978	35,978
Total capital lease obligations	236,024	95,688	(156,575)	175,137	94,641
Other noncurrent liabilities:					
Accrued compensated absences	1,169,871	1,235,365	(1,231,300)	1,173,936	899,820
Net pension liability	2,718,439	-	(108,427)	2,610,012	-
Other post employment OPEB liability	1,991,135	84,311	-	2,075,446	5,089
Total other noncurrent liabilities	5,879,445	1,319,676	(1,339,727)	5,859,394	904,909
Total noncurrent liabilities	7,275,355	\$ 1,415,364	\$ (1,874,807)	6,815,912	\$ 1,383,392
Less - Current maturities	<u>1,416,951</u>			<u>1,383,392</u>	
Total noncurrent liabilities - Excluding current maturities	\$ 5,858,404			\$ 5,432,520	

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 11: Long-Term Debt (Continued)

The terms and due dates of the District's long-term debt at December 31, 2020 and 2019, follow:

Direct placements:

Unlimited tax general obligation (UTGO) bond, dated February 2, 2012, in the original amount of \$3,535,000, due in annual installments of \$390,000 in 2021, plus semiannual interest from 2.75% to 3.00%. The District issued the bonds to refund a portion of the outstanding 2001 UTGO bonds; all previously issued to pay costs of capital improvements and to finance expansion of the District's facilities. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. The 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. At December 31, 2020, there was a liability balance of \$390,000. In addition, there was a discount related to the bonds that had a balance of \$6,465 as of December 31, 2020.

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 applied for and was approved for a loan of \$2,366,200 that may be partially or fully forgiven based on the level of employee retention and if utilized for payroll costs, mortgage obligations, rent, or utilities within a specified covered period and in accordance with the terms and conditions of the PPP loan. The portion of the loan that is not forgiven, if any, will have a maturity of August 2022, and will bear interest at 1%. The District applied for loan forgiveness and the loan balance was forgiven entirely in May 2021.

Note payable to Dr. Hing dated May 10, 2002, in the original amount of \$110,000, payable in monthly installments of \$955, including interest at 8.5% through April 2022, secured by property. At December 31, 2020, there was a liability balance of \$14,395.

Capital lease obligations:

Capital lease obligation payable to Olympus dated January 2019, payments of \$2,249 due monthly, including interest at 6% through January 2023, secured by a microbiology analyzer. The capital asset cost was \$95,688 and the accumulated depreciation was \$45,851 at December 31, 2020. At December 31, 2020, there was a liability balance of \$50,727.

Capital lease obligation payable to Everbank dated July 2017, payments of \$3,145 due monthly, including interest at 4.5% through September 2021, secured by a mammography machine. The capital asset cost was \$175,048 and the accumulated depreciation was \$148,831 at December 31, 2020. At December 31, 2020, there was a liability balance of \$27,785.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 11: Long-Term Debt (Continued)

Capital lease obligation payable to GE dated September 2020, with variable principal and interest payments through 2025, capital assets cost were \$1,321,922 and the accumulated depreciation was \$18,689 at December 31, 2020. At December 31, 2020, there was a liability balance of \$1,263,802.

Capital lease obligation payable to Kansas State Bank dated December 2015, payments of \$36,871 due bi-annually, including interest at 4.92% through December 2020, secured by equipment. The cost of leased assets were \$475,829 and the accumulated depreciation was \$214,123 at December 31, 2020. The lease was paid in full during 2020.

Scheduled principal and interest payments are as follows for the years ending December 31:

Direct Placements				Direct Borrowings			
	Principal	Interest	Total	Principal	Interest	Total	
2021	\$ 390,000	\$ 11,700	\$ 401,700	\$ 2,375,987	\$ 713	\$ 2,376,700	
2022	-	-	-	4,608	67	4,675	
Totals	\$ 390,000	\$ 11,700	\$ 401,700	\$ 2,380,595	\$ 780	\$ 2,381,375	

Capital lease obligations	Principal and interest payments
2021	\$ 346,519
2022	318,210
2023	294,467
2024	291,218
2025	242,682
Less: Amounts attributable to interest	(150,782)
Total	\$ 1,342,314

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 11: Long-Term Debt (Continued)

CMS Advance

The CMS advance liability consists of advanced payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The District received \$5,395,255 in an advanced payment during April 2020, which will be recouped through the Medicare claims processed beginning 365 days after the date of issuance of the advanced payment. This recoupment process will continue until the balance of the advanced payment has been recouped or for 29 months from the date that the advanced payment was issued, at which point any remaining unpaid balance is due. The advanced payments balance is non-interest-bearing through the 29-month repayment period. The outstanding balance at December 31, 2020, was \$5,395,255.

Line of credit

The District maintains a line of credit with in the amount of \$500,000. The line of credit was closed on March 26, 2021. As of December 31, 2020, and 2019 there was no outstanding balance.

Note 12: Unemployment and Workers' Compensation

The District insures for unemployment benefits through the Public Hospital District Unemployment Compensation Fund and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both are risk transfer pools administered by the Washington State Hospital Association. Premiums are based on prior claims history and are charged to operations as they are paid. Total unemployment insurance expense was \$6,762 in 2020 and \$7,736 in 2019, and workers' compensation benefits expense was \$60,841 in 2020 and \$58,000 and 2019.

Note 13: Retirement Plans

Defined Contribution Plan

The District provides a defined contribution plan under Section 403(b) of the Internal Revenue Code, which is administered by American Funds. The name of the plan is Willapa Harbor Hospital Employees Retirement Plan ("403(b) Plan"). Benefit terms, including contribution requirements, for the 403(b) Plan are established and amended by the District. The District has approved for all participating employees a three to four percent contribution on all eligible compensation, depending upon their contribution levels. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2019 and 2018, respectively, employee contributions to the 403(b) Plan were approximately \$774,250 and \$644,000, and the District's contributions to the 403(b) Plan were approximately \$408,793 and \$314,000, respectively.

All contributions to the 403(b) Plan are immediately 100 percent vested.

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Defined Benefit Plan

Plan description - The District sponsors and contributes to the Pacific County Public Hospital District 2 – Willapa Harbor Retirement Plan (the "Plan"), a single-employer defined benefit pension plan that is governed by the District's Board of Commissioners and is administered by Principal Financial Group. Actuarial valuations for the Plan are performed annually. Benefit provisions were established and can be amended by the Board of Commissioners.

The Plan is accounted for on the economic resources measurement focus and the accrual basis of accounting. Employer and employee contributions are recognized when earned in the year the contributions are required to be made and benefits and refunds are recognized as an expense and liability when due and payable. Administrative costs are financed through contributions and investment income. The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

Plan membership - Membership consisted of the following:

<i>June 30,</i>	2020	2019
Active plan members	9	10
Inactive plan members entitled but not yet receiving benefits	5	5
Inactive plan members or beneficiaries currently receiving benefits	28	28
Totals	42	43

Benefits Provided - Effective December 31, 2006, no new participants could enter the Plan. Prior to December 31, 2006, all full-time employees of the District age 21 or older with more than six months of eligible service were eligible to participate in the Plan on the first day of the month which coincides with, or next following, their first day of employment.

Pension provisions include death benefits for the surviving spouse. The Plan does not provide a monthly income for disabled participants; however, under certain conditions, employees who become disabled may be eligible to receive their full retirement at age 55 even though they were unable to work up to the retirement age. Benefits vest at 100 percent after six years of service.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Contributions and funding policy - The Plan has not been terminated or settled as defined by GAAP because the Plan participants have received neither lump-sum nor annuity contracts in exchange for their rights to receive pension benefits. Since the Plan has been frozen, there is no annual required contribution, but the unfunded portion (the District's liability) is actuarially calculated each year.

No contributions were required (required contribution rate of zero) during the plan years ended June 30, 2020 and 2019. Contributions of \$360,000 were made to the Plan by the District in both the 2020 and 2019 plan year. The Board of Commissioners established, and has the authority to amend the District's obligation to contribute, but statutory requirements make the District liable for the unfunded portion of the Plan.

Deposits and investments

Investment policy - The Plan's investment policy authorizes the Plan to invest in all investments allowed by State statute. These include deposits/investments in insured commercial banks, savings and loan institutions, interest-bearing obligations of the U.S. Treasury and U.S. agencies, interest-bearing bonds of the State of Washington or any county, township, or municipal corporation of the State of Washington, money market mutual funds whose investments consist of obligations of the U.S. Treasury or U.S. agencies, separate accounts managed by life insurance companies, mutual funds, and Washington Local Agency Investment Funds (created by the State Legislature under the control of the State Treasurer that maintains a \$1 per share value which is equal to the participant's fair value). During the year, there were no changes to the investment policy.

Investment valuations - Investments with a maturity of less than one year when purchased, nonnegotiable certificates of deposit and other nonparticipating investments are stated at cost or amortized cost. All other investments in the Plan are stated at fair value and are recorded as of the trade date. The Plan categorizes the fair value measurements within the fair value hierarchy established by GAAP, as discussed in note 3.

Custodial credit risk for deposits - The Plan's investment policies do not require pledging of collateral for all bank balances in excess of federal depository insurance, since flow-through FDIC insurance is available for each plan member for the Plan's deposits with financial institutions.

Credit risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy limits investment choices by credit rating.

Custodial credit risk for investments - The Plan's investment policy allows the broker/dealer (counterparty) to maintain custody over the investments that they purchase, which exposes the investments to custodial credit risk. The policy requires the broker/dealer that serves as custodian to provide the Plan with an excess Securities Investor Protection Corporation (SIPC) Policy to mitigate the exposure to custodial credit risk. Also, the Plan limits its exposure by requiring the investment broker/custodian to acquire an excess SIPC Policy to provide the same coverage for the portfolio as would be provided by the SIPC.

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Concentration of credit risk - The Plan's investment policy does not limit the plan's assets to reduce the risk of large losses by limiting the percentage of investments which may be held by one issuer. Substantially all of the Plan's assets are held with one issuer.

Investment rate of return - For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return on Plan investments, net of investment expense, was 5.09% and 2.25%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net pension liability - At June 30, 2020 and 2019, the District reported a net pension liability for the Plan of \$2,642,121 and \$2,610,012, respectively. The Plan net pension liability was measured as of June 30, 2019, and the Plan total pension liability used to calculate the Plan's net pension liability was determined by an actuarial valuation as of that date.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Actuarial assumptions - The total pension liabilities in the June 30, 2020, actuarial valuations were determined using the following actuarial assumptions:

	The Plan
Actuarial valuation date	June 30, 2019
Measurement date	June 30, 2019
Actuarial cost method	Individual Entry Age Normal
Assumptions:	
Expected long-term rate of return	6.50%
Discount rate	Assuming employees continue to contribute 4% of pay and the Hospital contributes the lesser of the actuarially determined contribution and \$360,000 per year to the plan, the plan's projected fiduciary net position is insufficient to make all projected future benefit payments of current plan participants. Projected benefit payments expected to be paid after funds become insufficient are discounted based on the Fidelity General Obligation AA 20-Year Bond Index.
June 30, 2020, and July 1, 2020	6.50%. The expected long-term rate of return was applied to expected benefit payments from 2020 through the last expected benefit payment in 2101.
June 30, 2019, and July 1, 2019	6.50%. The expected long-term rate of return was applied to expected benefit payments from 2019 through the last expected benefit payment in 2101.
Investment rate of return	2.25%

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Long-term expected rate of return - It is the policy of the Plan to invest its funds with care, skill, prudence, and diligence using the "prudent person" standard for managing the overall portfolio. The long-term expected rate of return on the Plan's investments was determined using the building block method in which expected future real rates of return (expected returns, net of Plan investment expense and inflation are developed for each major assets class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then by adding expected inflation. The target allocation and expected arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2020, are summarized in the following table:

<i>Asset Class</i>	Target Allocation	Long-term Expected Real Rate of Return	Expected Money- weighted Rate of Return
Guaranteed income	1 %	2.30 %	0.01 %
Fixed income	34 %	2.50 %	0.86 %
U.S. large cap equities	3 %	5.90 %	0.20 %
U.S. small/mid cap equities	33 %	6.35 %	2.09 %
International equities	13 %	6.00 %	0.75 %
Real estate equities	16 %	3.30 %	0.54 %
Total	100 %		
Inflation			2.25 %
Investment rate of return			6.70 %

Based on the above analysis, management believes the long-term rate of return of 6.50% is reasonable.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Changes in the plan net pension liability - Changes in the net pension liability consisted of the following:

	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance as of June 30, 2019	\$ 7,206,104	\$ 4,596,092	\$ 2,610,012
Changes for the year:			
Service cost incurred	33,424	-	33,424
Interest on total pension liability	453,972	-	453,972
Differences between expected and actual experience	33,001	-	33,001
Changes in assumptions	-	-	-
Benefit payments	(482,403)	(482,403)	-
Contributions - Employer	-	360,000	(360,000)
Contributions - Employees	-	35,837	(35,837)
Net investment income	-	102,123	(102,123)
Administrative expense	-	(9,672)	9,672
Current-year net changes	37,994	5,885	32,109
Balance as of June 30, 2020	\$ 7,244,098	\$ 4,601,977	\$ 2,642,121

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance as of June 30, 2018	\$ 7,021,888	\$ 4,303,449	\$ 2,718,439
Changes for the year:			
Service cost incurred	37,335	-	37,335
Interest on total pension liability	447,860	-	447,860
Differences between actual and expected experience	29,790	-	29,790
Changes in assumptions	-	-	-
Benefit payments	(330,769)	(330,769)	-
Benefit payable	-	-	-
Contributions - Employer	-	360,000	(360,000)
Contributions - Employees	-	51,932	(51,932)
Net investment income	-	221,151	(221,151)
Administrative expense	-	(9,671)	9,671
Current-year net changes	184,216	292,643	(108,427)
Balance as of June 30, 2019	\$ 7,206,104	\$ 4,596,092	\$ 2,610,012

Discount rate sensitivity analysis - The following presents the net pension liability of the District's Plan, calculated using the discount rate, as well as what the District's net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net pension liability as of June 30, 2020	\$ 3,317,705	\$ 2,642,121	\$ 2,062,262
	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Net pension liability as of June 30, 2019	\$ 3,288,913	\$ 2,610,012	\$ 2,027,879

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 13: Retirement Plans (Continued)

Plan pension expense and deferred items summary - The District recognized pension expense of \$212,639 in 2020 and \$180,369 in 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

<i>December 31, 2020</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,171	\$ -
Differences between projected and actual investment earnings	190,770	(127,515)
Contributions received after the measurement date	180,000	N/A
Totals	\$ 376,941	\$ (127,515)

<i>December 31, 2019</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,511	\$ -
Differences between projected and actual investment earnings	97,903	(216,464)
Contributions received after the measurement date	180,000	N/A
Totals	\$ 286,414	\$ (216,464)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized as pension expense as follows:

<i>Years Ending June 30,</i>	Recognized in Pension Expense (Income)
2021	\$ (32,031)
2022	12,173
2023	50,744
2024	38,540
Total	\$ 69,426

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB

Plan Description

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

Benefits Provided

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% of the monthly premiums. As of January 1, 2020, the subsidy was increased to \$183 per month. The retirees and spouses currently pay the premium minus \$150 when the premium is over \$300 per month and pay half the premium when the premium is lower than \$300 per month.

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, who can be expected to have lower average health costs than retirees. For post-65 retirees and spouses, the retiree does not pay the full premium as a result of the subsidy discussed above.

As of July 1, 2018, the membership included 141 active plan members and two retirees or beneficiaries currently receiving benefits.

Total OPEB Liability

	2020	2019
Total OPEB liability	\$2,808,507	\$2,075,446
Covered employee payroll	11,300,919	11,200,302
Total OPEB liability as a percent of covered employee payroll	24.85%	18.53%

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB (Continued)

Total OPEB Liability (Continued)

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	2019
Valuation date	July 1, 2018	July 1, 2018
Measurement date	December 31, 2019	December 31, 2018

Discount Rate

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

	2020	2019
Discount rate	2.74%	4.10%
20-year tax-exempt municipal bond yield	2.74%	4.10%

Actuarial Assumptions

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

Census date	January 1, 2018	January 1, 2018
Price inflation	2.75%	2.75%
Salary increase	3.50%	3.50%
Actuarial cost method	Entry Age	Entry Age

Demographic Assumptions

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2018 actuarial valuation of the Washington State Public Employee Retirement System (PERS) and modified for the District.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB (Continued)

Demographic Assumptions (Continued)

The assumed disability rates under PERS Tiers 2 and 3 from the 2018 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, post-2013, Plans 2 and 3 were used, with less than 30 years of service assumptions from the 2018 actuarial valuation for PERS.

For mortality, the assumptions from the 2018 actuarial valuation for PERS (RP-2000 base mortality table, adjusted by minus one year for both males and females, with generational mortality adjustments using projection scale BB) were used.

For other termination of employment, the assumptions from the 2018 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: Forty percent of members are assumed to elect medical benefits upon retirement. Forty percent of members are assumed to elect dental benefits upon retirement.

Election assumption (spouses): Forty-five percent of members are assumed to enroll eligible spouses as of the retirement date.

Medicare coverage: One hundred percent 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 a 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.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB (Continued)

Changes in Total OPEB Liability

	2020	2019
Beginning-of-year balance	\$ 2,075,446	\$ 1,991,135
Changes for the year:		
Service cost	143,974	156,704
Interest on total OPEB liability	90,786	73,799
Effect of assumptions changes or inputs	508,652	(141,103)
Effect of plan changes	(10,351)	(5,089)
End-of-year balance	\$ 2,808,507	\$ 2,075,446

Sensitivity Analysis

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the discount rate of 2.74% in 2020 and 4.10% in 2019 as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	2020	2019
1% decrease	1.74%	3.10%
Total OPEB liability	\$ 3,500,436	\$ 2,576,007
Discount rate	2.74%	4.10%
Total OPEB liability	\$ 2,808,507	\$ 2,075,446
1% increase	3.74%	5.10%
Total OPEB liability	\$ 2,277,185	\$ 1,690,122

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB (Continued)

Sensitivity Analysis (Continued)

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

<i>December 31,</i>	2020	2019
1% decrease	\$ 2,160,857	\$ 1,622,908
Current trend rate	2,808,507	2,075,446
1% increase	3,710,221	2,695,998

OPEB Expense

OPEB expense recognized for the year ended December 31, 2020, was \$251,003, which was reported as other post employment benefits expense in the statements of revenues, expenses, and changes in net position.

Schedule of Deferred Inflows and Deferred Outflows of Resources

At December 31, 2020, deferred inflows and outflows of resources consisted of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020:		
Changes of assumptions or inputs	\$ 463,237	\$ (115,907)
Contributions made subsequent to the measurement date	16,574	-
Total deferred inflows/outflows of resources	\$ 479,811	\$ (115,907)
2019:		
Changes of assumptions or inputs	\$ -	\$ (128,505)
Contributions made subsequent to the measurement date	10,351	-
Total deferred inflows/outflows of resources	\$ 10,351	\$ (128,505)

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB (Continued)

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

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other post-employment benefits will be recognized in OPEB expense during the years ending December 31 as follows:

2021	\$	32,817
2022		32,817
2023		32,817
2024		32,817
2025		32,817
Thereafter		183,245

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

Health Cost Trend

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

Year	Claims and Contributions Pre-65	Claims Pre-65	Contributions Post-65
6/30/2019	6.80%	3.60%	1.10%
6/30/2020	6.30%	7.50%	9.20%
6/30/2021	6.00%	7.40%	12.30%
6/30/2022	5.40%	5.20%	6.80%
6/30/2025	5.10%	5.10%	5.30%
6/30/2035	5.10%	5.10%	5.20%
6/30/2045	5.20%	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%

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 14: Other Post-Employment Benefits - OPEB (Continued)

Premium Levels

The assumed annual medical retiree contributions used in the valuation are displayed below. These represent a weighted average of 2019 PEBB retiree contributions by medical plan, based on overall PEBB current retiree medical plan elections. 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, since these are direct pass-through expenses that are 100% paid by retirees.

Medical Plan	Subscriber or Spouse	
	Non-Medicare	Medicare
Weighted average based on current PEBB retirees - 2019	\$ 8,053	\$ 3,180
Weighted average based on current PEBB retirees - 2018	8,053	3,180

The assumed annual dental retiree contributions are displayed below. These represent a weighted average of 2019 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	Spouse
Weighted average based on current PEBB retirees - 2019	\$ 547	\$ 547
Weighted average based on current PEBB retirees - 2018	547	547

Participant Averages

The following participant data as of the valuation date was used:

Dental Plan	Attained Age at		
	Hire	Valuation	Count
Actives	36.7	49.0	141
Retirees	N/A	65.0	1

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 15: Commitments and Contingencies

The District has its professional liability insurance coverage with Physicians Insurance. This policy provides protection on a claims-made basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy. If there are occurrences in the current year, these will be covered only 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.

Current coverage is for \$1,000,000 per claim, subject to a \$5,000,000 annual limit, plus an additional \$1,000,000 annual excess coverage. There is no deductible on this policy. It is possible that claims may exceed coverage obtained in any given year.

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

The District is 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 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.

Note 16: Charity Care

The District provides healthcare services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, healthcare 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 to \$347,969 and \$353,448 for the years ended December 31, 2020 and 2019, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated approximately \$236,000 in 2020 and \$220,000 in 2019. The cost was calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care.

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Notes to Financial Statements

Note 17: Subsequent Events

The Alder House

The Alder House, an entity for which the District was engaged in a management services contract, and for whom financial support was provided by the District, was closed during 2021. Management does not expect this circumstance to result in a negative change in the future results of operations, cash flows, or financial condition of the District.

Public Health Emergency

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The District continues to monitor the situation. No impairments were recorded as of the statement of net position date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the District's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Schedule of Changes in the Net Pension Liability and Related Ratios and Contributions

Last 10 Fiscal Years (If Available)

Years Ended December 31,	2020	2019	2018
Measurement date:	June 30, 2020	June 30, 2019	June 30, 2018
Pension liability:			
Service cost incurred	\$ 33,424	\$ 37,335	\$ 35,721
Interest in total pension liabilities	453,972	447,860	430,972
Differences between actual and expected	33,001	29,790	102,832
Benefit payments	(482,403)	(330,769)	(301,485)
Net change in total pension liability	37,994	184,216	268,040
Total pension liability - Beginning	7,206,104	7,021,888	6,753,848
Total pension liability - Ending(a)	7,244,098	7,206,104	7,021,888
Plan net position:			
Contribution - Employer	360,000	360,000	360,000
Contribution - Employees	35,837	51,932	53,939
Net investment income	102,123	221,151	440,082
Administrative expense	(9,671)	(9,671)	(9,671)
Benefit payments	(482,404)	(330,769)	(301,485)
Net change in plan net position	5,885	292,643	542,865
Plan net position - Beginning	4,596,092	4,303,449	3,760,584
Plan net position - Ending (b)	4,601,977	4,596,092	4,303,449
Net pension liability - Plan - Ending (a) - (b)	\$ 2,642,121	\$ 2,610,012	\$ 2,718,439

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Schedule of Changes in the Net Pension Liability and Related Ratios and Contributions (Continued)

Last 10 Fiscal Years (If Available)

Years Ended December 31,	2017	2016	2015
Measurement date:	June 30, 2017	June 30, 2016	June 30, 2015
Pension liability:			
Service cost incurred	\$ 34,117	\$ 41,957	\$ 46,568
Interest in total pension liabilities	410,164	392,992	380,567
Differences between actual and expected	167,493	106,845	17,233
Change in assumption	-	(11,978)	-
Benefit payments	(289,489)	(256,315)	(240,006)
Net change in total pension liability	322,285	273,501	204,362
Total pension liability - Beginning	6,431,563	6,158,062	5,953,700
Total pension liability - Ending(a)	6,753,848	6,431,563	6,158,062
Plan net position:			
Contribution - Employer	210,000	-	-
Contribution - Employees	52,299	51,391	54,382
Net investment income	463,897	(21,035)	282,654
Administrative expense	(9,711)	(9,671)	(9,671)
Benefit payments	(289,489)	(256,315)	(240,006)
Net change in plan net position	426,996	(235,630)	87,359
Plan net position - Beginning	3,333,588	3,569,218	3,481,859
Plan net position - Ending (b)	3,760,584	3,333,588	3,569,218
Net pension liability - Plan - Ending (a) - (b)	\$ 2,993,264	\$ 3,097,975	\$ 2,588,844

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Schedule of Changes in the Net Pension Liability and Related Ratios and Contributions (Continued)

Last 10 Fiscal Years (If Available)

Years Ended December 31,	2020	2019	2018
Measurement date:	June 30, 2020	June 30, 2019	June 30, 2018
Plan fiduciary net position as a percentage of the total pension liability	63.53 %	63.78 %	61.29 %
Covered payroll	\$ 895,927	\$ 1,298,299	\$ 1,348,477
Net pension liability as percentage of covered payroll	294.90 %	201.03 %	201.59 %
Years Ended December 31,	2017	2016	2015
Measurement date:	June 30, 2017	June 30, 2016	June 30, 2015
Plan fiduciary net position as a percentage of the total pension liability	55.68 %	51.83 %	57.96 %
Covered payroll	\$ 1,307,475	\$ 1,284,775	\$ 1,359,550
Net pension liability as percentage of covered payroll	228.93 %	241.13 %	190.42 %

Notes to Schedule:

Estimated based on employee contributions received during the period.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Schedule of Employer's Required Contributions and Changes in Assumptions

Last 10 Fiscal Years (If Available)

Years Ended December 31,	2020	2019	2018
Measurement date:	June 30, 2020	June 30, 2019	June 30, 2018
Actuarially determined contribution	\$ 468,748	\$ 471,606	\$ 453,173
Actual employer contributions	(360,000)	(360,000)	(210,000)
Contribution deficiency	\$ 108,748	\$ 111,606	\$ 243,173
Covered payroll	\$ 1,298,299	\$ 1,348,477	\$ 1,307,475
Contributions as a percentage of covered employee payroll	28.00 %	27.00 %	16.00 %

Years Ended December 31,	2020	2019	2018
Measurement date:	June 30, 2020	June 30, 2019	June 30, 2018
Actuarially determined contribution	\$ 468,748	\$ 471,606	\$ 453,173
Actual employer contributions	(360,000)	(360,000)	(210,000)
Contribution deficiency	\$ 108,748	\$ 111,606	\$ 243,173
Covered payroll	\$ 1,298,299	\$ 1,348,477	\$ 1,307,475
Contributions as a percentage of covered employee payroll	28.00 %	27.00 %	16.00 %

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

Schedule of Employer's Required Contributions and Changes in Assumptions (Continued)

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of the July 1st prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Single-employer plan

Individual Entry-Age Normal Cost Method

Amortization method

Amortization payments are calculated as the amount needed to fund the unfunded actuarial accrued liability, together with interest, in equal annual installments over a rolling amortization period equal to the average expected remaining service period for active plan participants.

Asset valuation method

Fair Value

Assumed Investment rate of return.

6.50% - The asset return was approximately 2.25%, which is lower than the assumed rate of 6.50%

Pacific County Public Hospital District 2 d/b/a Willapa Harbor Hospital

Schedule of Investment Returns

Last 10 Fiscal Years (If Available)

June 30,	Rate of Return
2020	2.25%
2019	5.09%
2018	8.36%
2017	-0.61%
2016	14.22%
2015	11.57%

*GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Pacific County Public Hospital District 2

d/b/a Willapa Harbor Hospital

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

Last 10 Fiscal Years (If Available)

Years Ended December 31,	2020	2019	2018
Measurement date:	June 30, 2020	June 30, 2019	June 30, 2018
Total OPEB liability service cost	\$ 143,974	\$ 156,704	\$ -
Interest on total OPEB liability	90,786	73,799	-
Effect of plan changes	-	-	1,991,135
Changes of assumptions or other inputs	508,652	(141,103)	-
Benefits payable	(10,351)	(5,089)	-
Net change in total OPEB liability	733,061	84,311	1,991,135
Total OPEB liability - Beginning	2,075,446	1,991,135	-
Total OPEB liability - Ending	\$ 2,808,507	\$ 2,075,446	\$ 1,991,135
Plan fiduciary net position	\$ -	\$ -	\$ -
Net OPEB liability	-	-	-
Plan fiduciary net position as a percentage of total OPEB liability	-	-	-
Covered-employee payroll	\$ 11,300,919	\$ 11,200,302	\$ 10,918,079
Total OPEB liability as a percentage of covered-employee payroll	24.85 %	18.53 %	18.24 %

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for available years.

Changes in benefit terms - There were no applicable changes during the period.

Changes of assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate changed from 4.10% in 2019 to 2.74% in 2020. Because this is a newly-adopted standard, a full 10-year trend is not available.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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