



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

May 9, 2022

Board of Commissioners
North Valley Hospital
Tonasket, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of North Valley Hospital for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

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

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**Okanogan County
Public Hospital District No. 4
doing business as
North Valley Hospital**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2020 and 2019



DINGUS | ZARECOR & ASSOCIATES^{PLLC}
Certified Public Accountants

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Table of Contents

	Page
<i>INDEPENDENT AUDITORS' REPORT</i>	1-2
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	3-4
Statements of revenues, expenses, and changes in net position	5
Statements of cash flows	6-7
Notes to basic financial statements	8-24
<i>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</i>	25-26
<i>SCHEDULE OF FINDINGS AND RESPONSES</i>	27-28
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	29
<i>SUPPLEMENTAL SCHEDULES:</i>	
Schedule of divisional statement of net position	30-31
Schedule of divisional statement of revenues, expenses, and changes in net position	32

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Tonasket, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the year ended December 31, 2020. We issued a similar report for the year ended December 31, 2019, dated June 18, 2020, which has not been included with the 2020 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 14, 2022

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
<i>Current assets</i>		
Cash and cash equivalents	\$ 15,613,329	\$ 5,316,539
Receivables:		
Patient accounts, net	2,505,173	2,866,634
Taxes	24,568	34,878
Taxes restricted for debt service	40,460	57,467
Estimated third-party payor settlements	519,874	50,274
Other	122,023	110,816
Cash and cash equivalents, restricted for debt service	945,686	848,505
Inventories	441,723	395,536
Prepaid expenses	355,250	199,097
Total current assets	20,568,086	9,879,746
<i>Noncurrent assets</i>		
Capital assets, net of accumulated depreciation	12,060,485	11,309,185
Total assets	\$ 32,628,571	\$ 21,188,931

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Net Position (Continued)
December 31, 2020 and 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2020	2019
<i>Current liabilities</i>		
Accounts payable	\$ 1,058,822	\$ 709,740
Accrued compensation and related liabilities	358,598	507,565
Accrued leave	635,162	492,989
Accrued interest payable	22,790	39,116
Estimated third-party payor settlements	-	15,298
Current maturities of long-term debt	825,736	631,376
Current maturities of capital lease obligations	149,477	143,923
Medicare accelerated payments payable	3,878,288	-
Unearned CARES Act Provider Relief Fund	3,405,754	-
Unearned COVID-19 grants	83,136	-
Total current liabilities	10,417,763	2,540,007
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	8,214,116	8,139,835
Capital lease obligations, less current maturities	638,999	788,714
Paycheck Protection Program note payable	2,499,500	-
Total noncurrent liabilities	11,352,615	8,928,549
Total liabilities	21,770,378	11,468,556
<i>Deferred inflows of resources, bond refunding</i>	62,311	67,503
<i>Net position</i>		
Net investment in capital assets	2,147,056	1,498,718
Restricted for debt service	986,146	905,972
Unrestricted	7,662,680	7,248,182
Total net position	10,795,882	9,652,872
Total liabilities, deferred inflows of resources, and net position	\$ 32,628,571	\$ 21,188,931

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Operating revenues</i>		
Net patient service revenue	\$ 24,543,670	\$ 21,519,395
Other	366,053	495,129
Total operating revenues	24,909,723	22,014,524
<i>Operating expenses</i>		
Salaries and wages	11,462,701	9,993,127
Employee benefits	2,732,609	2,491,898
Professional fees	4,145,344	3,189,128
Purchased services	2,484,887	2,766,458
Supplies	2,251,050	1,637,752
Utilities	376,132	354,864
Rentals and leases	411,036	348,809
Repairs and maintenance	387,154	374,678
Depreciation and amortization	1,232,527	1,133,022
Insurance	186,715	177,463
Other	579,171	463,338
Total operating expenses	26,249,326	22,930,537
<i>Operating loss</i>	(1,339,603)	(916,013)
<i>Nonoperating revenues (expenses)</i>		
CARES Act Provider Relief Fund	853,706	-
COVID-19 grants	274,921	-
Taxation for maintenance and operations	489,124	490,978
Taxation for bond principal and interest	787,546	775,519
Contributions	347,731	70,586
Investment income	31,506	90,397
Interest expense	(301,921)	(344,301)
Total nonoperating revenues, net	2,482,613	1,083,179
Change in net position	1,143,010	167,166
Net position, beginning of year	9,652,872	9,485,706
Net position, end of year	\$ 10,795,882	\$ 9,652,872

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 24,420,233	\$ 20,904,069
Cash received from other revenue	354,846	458,639
Cash paid to and on behalf of employees	(14,202,104)	(12,580,093)
Cash paid to suppliers and contractors	(10,674,747)	(9,306,801)
Net cash used in operating activities	(101,772)	(524,186)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	499,434	486,384
Cash received from contributions	347,731	70,586
Cash received from Medicare accelerated payments	3,878,288	-
Cash received from CARES Act Provider Relief Fund	4,259,460	-
Cash received from COVID-19 grants	358,057	-
Cash received from Paycheck Protection Program	2,499,500	-
Net cash provided by noncapital financing activities	11,842,470	556,970
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	804,553	775,519
Cash received from issuance of long-term debt	1,050,000	-
Principal paid on long-term debt	(750,874)	(601,826)
Principal paid on capital lease obligations	(144,161)	(181,330)
Interest paid on long-term debt	(320,564)	(316,914)
Interest paid on capital lease obligations	(33,360)	(54,155)
Purchase of capital assets	(1,983,827)	(1,217,031)
Net cash used in capital and related financing activities	(1,378,233)	(1,595,737)
<i>Cash flows from investing activities</i>		
Interest received	31,506	90,397
Net increase (decrease) in cash and cash equivalents	10,393,971	(1,472,556)
Cash and cash equivalents, beginning of year	6,165,044	7,637,600
Cash and cash equivalents, end of year	\$ 16,559,015	\$ 6,165,044

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 15,613,329	\$ 5,316,539
Cash and cash equivalents, restricted for debt service	945,686	848,505
Total cash and cash equivalents	\$ 16,559,015	\$ 6,165,044
<i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</i>		
Operating loss	\$ (1,339,603)	\$ (916,013)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation and amortization	1,232,527	1,133,022
Provision for bad debts	990,088	1,312,683
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(628,627)	(2,002,090)
Estimated third-party payor settlements	(469,600)	179,726
Other	(11,207)	(36,490)
Inventories	(46,187)	(7,037)
Prepaid expenses	(156,153)	(100,502)
Increase (decrease) in liabilities:		
Accounts payable	349,082	113,228
Accrued compensation and related liabilities	(148,967)	(98,071)
Accrued leave	142,173	3,003
Estimated third-party payor settlements	(15,298)	(105,645)
Net cash used in operating activities	\$ (101,772)	\$ (524,186)

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements
Years Ended December 31, 2020 and 2019

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Okanogan County Public Hospital District No. 4 (the District) owns and operates two separate operating divisions: a hospital division (the Hospital) which includes North Valley Hospital, a 25-bed critical access hospital in Tonasket, Washington, and a long-term care division (LTC) encompassing a 42-bed skilled nursing facility located in Tonasket, Washington. The District provides healthcare services to patients in the North Central Okanogan County, Washington, area. The services provided include acute care hospital, long-term nursing care, emergency room, physicians' clinic, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

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

b. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – All cash receipts are deposited into a depository bank account. Periodically, these funds are transferred to the Okanogan County Treasurer (County Treasurer). The County Treasurer acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

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

Compensated absences – The District's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates each pay period throughout the year with a maximum of 500 hours. Employees may carry over 100 percent of the PTO hours earned in one year to the next year. After one year of continuous employment, employees may cash out accrued PTO hours one time every year.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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

b. Summary of Significant Accounting Policies (continued)

Compensated absences (continued) – Additionally, the employee must have at least the amount of hours equivalent to the employee’s regular weekly scheduled hours of PTO remaining accrued after such payout. On termination of employment, the employee shall be paid all accrued and unused PTO hours, given they meet the requirements in the personnel policies. PTO is accrued when earned.

The District’s employees also earn extended illness benefits (EIB) at varying rates based on actual hours worked and job classification. EIB accruals are available for use in the pay period following successful completion of the probationary period. EIB may be accessed immediately for the use of medically qualifying leave for the employee or for family members as designated by the Washington State Family Care Act, as amended, under varying circumstances as outlined in the policy. By November 1 of each calendar year, an employee may make a written request to the human resources director or designee to convert a designated number of PTO hours to the EIB bank. The maximum accrual for EIB is 500 hours. Hours in the EIB bank shall not be paid upon resignation or termination of employment except for personnel hired prior to June 26, 2014. For personnel hired prior to June 26, 2014, after 20 years of continuous service a cash payout of up to 100 hours per year is allowable. At least 100 hours must remain in the employees’ EIB bank. Cash payouts are paid at 50 percent.

Bond premiums and discounts – The straight-line method is used to amortize the bond premiums and discounts over the period the related obligations are outstanding, which approximates the effective interest method.

Deferred inflows of resources, bond refunding – The difference between the reacquisition price and the carrying amount of the refinanced 2007 unlimited general obligation bonds has been deferred and is amortized using the straight-line method over the life of the refunding bonds.

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

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

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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

b. Summary of Significant Accounting Policies (continued)

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

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

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the year ending December 31, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) require note disclosures regarding an SBITA. The new guidance is effective for the District’s year ending December 31, 2023. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Subsequent events – Subsequent events have been reviewed through February 14, 2022, the date on which the financial statements were available to be issued.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

2. Bank Deposits and Investments:

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. All cash and cash equivalents held by the County Treasurer or deposited with qualified public depositories are protected against loss by the State of Washington Public Deposit Protection Commission, as provided by the Revised Code of Washington (RCW) Chapter 39.58, subject to certain limitations. Qualified public depositories, including Wells Fargo and Umpqua Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington. The cash on deposit with these banks is also insured through the Federal Deposit Insurance Corporation.

The RCW, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Okanogan County Investment Pool at December 31, 2020 and 2019, were \$8,553,058 and \$3,610,314, respectively. The Okanogan County Investment Pool consists only of a simple money market account.

Investments in the Okanogan County Local Government Investment Pool are reported at fair value based on the net asset value per share. Investments generally may be redeemed with no waiting period with proper notice to the Okanogan County Treasurer.

3. Patient Accounts Receivable:

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

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

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

3. Patient Accounts Receivable (continued):

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

	2020	2019
Receivables from patients and their insurance carriers	\$ 2,466,217	\$ 2,639,801
Receivables from Medicare	1,322,990	1,349,351
Receivables from Medicaid	320,440	438,966
Total patient accounts receivable	4,109,647	4,428,118
Less allowance for uncollectible accounts	(1,604,474)	(1,561,484)
Patient accounts receivable, net	\$ 2,505,173	\$ 2,866,634

4. Property Taxes:

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the Okanogan County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

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

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

The District has two levies: maintenance and operations (M&O) levy and 2007 bond levies.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

4. Property Taxes (continued):

The District's tax levies are comprised of the following:

2020			
	Levy Rate	Assessed Value	Levy Amount
M&O levy	0.458467	\$ 1,066,867,322	\$ 489,124
Bond levy	0.729855	\$ 1,060,832,419	\$ 774,254
2019			
	Levy Rate	Assessed Value	Levy Amount
M&O levy	0.447835	\$ 1,071,059,851	\$ 479,659
Bond levy	0.718907	\$ 1,065,995,710	\$ 766,352

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

5. Capital Assets:

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

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

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

5. Capital Assets (continued):

Capital additions, retirements, transfers, and balances follow:

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 358,540	\$ -	\$ -	\$ -	\$ 358,540
Construction in progress	78,151	1,200,189	-	(490,911)	787,429
Total capital assets not being depreciated	436,691	1,200,189	-	(490,911)	1,145,969
<i>Capital assets being depreciated</i>					
Land improvements	719,936	-	-	-	719,936
Buildings	13,742,166	-	-	402,376	14,144,542
Fixed equipment	6,528,794	71,051	-	15,717	6,615,562
Movable equipment	6,816,598	712,587	-	72,818	7,602,003
Total capital assets being depreciated	27,807,494	783,638	-	490,911	29,082,043
<i>Less accumulated depreciation for</i>					
Land improvements	711,908	3,187	-	-	715,095
Buildings	6,046,391	458,029	-	-	6,504,420
Fixed equipment	4,878,138	197,824	-	-	5,075,962
Movable equipment	5,298,563	573,487	-	-	5,872,050
Total accumulated depreciation	16,935,000	1,232,527	-	-	18,167,527
Total capital assets being depreciated, net	10,872,494	(448,889)	-	490,911	10,914,516
Capital assets, net	\$ 11,309,185	\$ 751,300	\$ -	\$ -	\$ 12,060,485

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

5. Capital Assets (continued):

Capital additions, retirements, transfers, and balances follow:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 358,540	\$ -	\$ -	\$ -	\$ 358,540
Construction in progress	1,037,061	119,888	-	(1,078,798)	78,151
Total capital assets not being depreciated	1,395,601	119,888	-	(1,078,798)	436,691
<i>Capital assets being depreciated</i>					
Land improvements	719,936	-	-	-	719,936
Buildings	13,275,096	38,383	-	428,687	13,742,166
Fixed equipment	6,521,289	7,505	-	-	6,528,794
Movable equipment	5,985,616	180,871	-	650,111	6,816,598
Total capital assets being depreciated	26,501,937	226,759	-	1,078,798	27,807,494
<i>Less accumulated depreciation for</i>					
Land improvements	707,602	4,306	-	-	711,908
Buildings	5,582,632	463,759	-	-	6,046,391
Fixed equipment	4,677,133	201,005	-	-	4,878,138
Movable equipment	4,834,611	463,952	-	-	5,298,563
Total accumulated depreciation	15,801,978	1,133,022	-	-	16,935,000
Total capital assets being depreciated, net	10,699,959	(906,263)	-	1,078,798	10,872,494
Capital assets, net	\$ 12,095,560	\$ (786,375)	\$ -	\$ -	\$ 11,309,185

Construction in progress at December 31, 2020, consisted primarily of costs associated with the purchase and installation of a new boiler, which was completed in February 2021 and required insignificant additional costs to complete.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Long-term Debt and Capital Lease Obligations:

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Amount Due Within One Year
<i>Long-term debt</i>					
Limited Tax General Obligation Bonds, 2002	\$ 589,888	\$ -	\$ (186,376)	\$ 403,512	\$ 196,442
Unlimited Tax General Obligation Bonds, 2017	7,785,000	-	(445,000)	7,340,000	465,000
Bond premiums and discounts	396,323	-	(30,485)	365,838	-
KS State Bank note payable	-	1,050,000	(119,498)	930,502	164,294
Total long-term debt	8,771,211	1,050,000	(781,359)	9,039,852	825,736
<i>Capital lease obligations</i>	932,637	-	(144,161)	788,476	149,477
Total long-term debt and capital lease obligations	\$ 9,703,848	\$ 1,050,000	\$ (925,520)	\$ 9,828,328	\$ 975,213
	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amount Due Within One Year
<i>Long-term debt</i>					
Limited Tax General Obligation Bonds, 2002	\$ 766,714	\$ -	\$ (176,826)	\$ 589,888	\$ 186,376
Unlimited Tax General Obligation Bonds, 2017	8,210,000	-	(425,000)	7,785,000	445,000
Bond premiums and discounts	426,808	-	(30,485)	396,323	-
Total long-term debt	9,403,522	-	(632,311)	8,771,211	631,376
<i>Capital lease obligations</i>	1,113,967	-	(181,330)	932,637	143,923
Total long-term debt and capital lease obligations	\$ 10,517,489	\$ -	\$ (813,641)	\$ 9,703,848	\$ 775,299

Long-term debt – The terms and due dates of the District's long-term debt follow:

- Note payable to KS State Bank dated March 1, 2020, in the original amount of \$1,050,000, payable monthly in varying principal installments from \$13,472 in 2021 to \$16,147 in 2026, plus interest at 3.51 percent.

The note was issued for the purpose of upgrading the Hospital boiler and constructing a new clinic. The note is collateralized by the boiler equipment.

- Limited Tax General Obligation (LTGO) Improvement and Refunding Bonds, 2002 Series A (tax-exempt) dated October 1, 2002, in the original amount of \$2,473,000, are payable semiannually on June 1 and December 1, in varying principal installments from \$96,929 in 2021 to \$104,887 in 2022, plus interest at 5.33 percent.

The 2002 LTGO bonds were issued for the purpose of refunding the 1991, 1995, and 1997 LTGO bonds. The 1991 bonds were issued for the purpose of purchasing and furnishing a clinic; the 1995 and 1997 bonds were issued for the purpose of constructing an assisted living center.

LTGO bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a maintenance and operations tax upon the taxable property within the District.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Long-term Debt and Capital Lease Obligations (continued):

Long-term debt (continued) –

- Unlimited Tax General Obligation (UTGO) Bonds, series 2017, dated December 1, 2017, in the original amount of \$8,760,000, payable annually in varying principal installments from \$465,000 in 2021 to \$785,000 in 2032, plus interest varying from 3 percent to 4 percent.

The 2017 UTGO bonds were issued for the purpose of refunding the 2007 UTGO bonds. The 2007 UTGO bonds were issued for the purpose of expanding and modernizing the Hospital and to purchase land required for the expansion.

UTGO bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2007 UTGO bonds and a special levy to pay the principal and interest. Tax receipts limited for the bond redemption and interest are used to pay the principal and interest each year.

Aggregate annual principal and interest payments over the terms of long-term debt follow:

Years Ending December 31,	UTGO Bonds			LTGO Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 465,000	\$ 251,975	\$ 716,975	\$ 196,442	\$ 18,923	\$ 215,365
2022	490,000	238,025	728,025	207,070	8,313	215,383
2023	515,000	218,425	733,425	-	-	-
2024	540,000	202,975	742,975	-	-	-
2025	565,000	186,775	751,775	-	-	-
2026-2030	3,240,000	648,525	3,888,525	-	-	-
2031-2032	1,525,000	92,400	1,617,400	-	-	-
	\$ 7,340,000	\$ 1,839,100	\$ 9,179,100	\$ 403,512	\$ 27,236	\$ 430,748

Years Ending December 31,	Note Payable			Totals		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 164,294	\$ 30,034	\$ 194,328	\$ 825,736	\$ 300,932	\$ 1,126,668
2022	170,155	24,174	194,329	867,225	270,512	1,137,737
2023	176,223	18,104	194,327	691,223	236,529	927,752
2024	182,510	11,818	194,328	722,510	214,793	937,303
2025	189,020	5,308	194,328	754,020	192,083	946,103
2026-2030	48,300	2,823	51,123	3,288,300	651,348	3,939,648
2031-2032	-	-	-	1,525,000	92,400	1,617,400
	\$ 930,502	\$ 92,261	\$ 1,022,763	\$ 8,674,014	\$ 1,958,597	\$ 10,632,611

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Long-term Debt and Capital Lease Obligations (continued):

Capital lease obligations – During 2018, the District entered into a capital lease obligation with an interest rate of 3.148 percent. The lease is collateralized by the leased X-ray machine. At December 31, 2020 and 2019, the capitalized cost of the capital lease obligation was \$144,000 and the accumulated amortization was \$54,000 and \$36,000, respectively.

Additionally, during 2018, the District entered into a master lease purchase agreement under which the District received \$985,000 for medical equipment and capital improvements whose title will transfer to the lender and will be leased to the District over the period of 15 years, with payments beginning in January 2019. The District will assume ownership of the assets at the conclusion of the lease and therefore the amount has been reported as a capital lease obligation. At December 31, 2020 and 2019, the capitalized cost of the capital lease obligation was \$961,209 and the accumulated amortization was \$283,096 and \$135,392, respectively.

The unspent portion of the \$985,000 received in 2018 was returned to the lessor in 2019.

Scheduled future annual payments on capital lease obligations are as follows:

Years Ending December 31,	Amount
2021	\$ 176,915
2022	176,915
2023	176,915
2024	176,915
2025	158,270
Total future minimum lease payments	865,930
Less amount representing interest	(77,454)
Present value of future minimum lease payments	788,476
Less current maturities	(149,477)
Total capital lease obligations, net of current maturities	\$ 638,999

7. Paycheck Protection Program Note Payable:

On May 6, 2020, the District was granted two loans from Umpqua Bank in the aggregate amount of \$2,499,500, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted March 27, 2020.

Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The District received forgiveness of the PPP loans in March 2021. The loan forgiveness will be recorded as a Gain on Forgiveness of Paycheck Protection Program note payable in the statements of revenues, expenses, and changes in net position for the year ending December 31, 2021.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

8. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during 2020 or 2019.

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

	2020	2019
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 11,660,329	\$ 10,395,546
Medicaid	7,301,938	7,021,935
Other third-party payors	4,802,941	4,194,366
Patients	1,591,970	1,507,772
Proshare	586,985	329,556
	25,944,163	23,449,175
Less:		
Charity care	(410,405)	(617,097)
Provision for bad debts	(990,088)	(1,312,683)
Net patient service revenue	\$ 24,543,670	\$ 21,519,395

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

8. Net Patient Service Revenue (continued):

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

- *Medicare* – The Hospital has been designated a critical access hospital by Medicare, and is reimbursed for most inpatient, swing-bed, and outpatient services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for skilled nursing facility services under a prospective payment system. Physician services are reimbursed on a fee schedule. The Medicare program’s administrative procedures preclude final determination of amounts due to the District for such services until three years after the District’s cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Nursing home services are reimbursed based on costs as defined and limited by the Medicaid program. Swing-bed services are reimbursed on a prospectively set rate per day. Physician services are reimbursed on a fee schedule.
- The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue increased by approximately \$11,000 and decreased by approximately \$4,000 in the years ended December 31, 2020 and 2019, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates.

Net patient service revenue increased by approximately \$154,000 in 2019 due to the forgiveness by the state of Washington of the rural health clinic Medicaid managed care reconciliation amounts due.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2020 and 2019, were approximately \$276,000 and \$384,000, respectively.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

9. CARES Act Provider Relief Fund:

During 2020, the District received approximately \$4,259,460 of funding from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District recorded these funds as unearned revenue until eligible expenses or lost revenues are recognized. During the year ended December 31, 2020, the District recognized \$853,706 of revenue from these funds. The District had \$3,405,754 remaining as of December 31, 2020, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

In December 2021, the District was required to return \$1,093,385 of unused Provider Relief Fund receipts to the U.S. Health Resources & Services Administration.

10. Retirement Plans:

The District provides benefits through the North Valley Hospital Profit Sharing Plan (the 401(a) Plan), a defined contribution retirement plan under Section 401(a) of the Internal Revenue Code (IRC). The 401(a) Plan is administered by Empower Retirement. Benefit terms, including contribution requirements, for the 401(a) Plan are established and may be amended by the Board of Commissioners. In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the District to the plan plus investment earnings. The 401(a) Plan is available to all employees at least 21 years of age, on the first day of the month following 90 days of employment. Employees become vested following 800 hours of service during a 12-month period. The District can contribute up to one percent of eligible employees' compensation to the 401(a) Plan. The District contributed approximately \$153,000 and \$126,000 to the 401(a) Plan in 2020 and 2019, respectively.

Forfeitures and the District's liability were not material in 2020 and 2019.

The District also offers a deferred compensation plan under Section 457(b) of the IRC. The name of the plan is the Okanogan Co. Public Hospital District #4 Deferred Compensation Plan (the 457(b) Plan). The 457(b) Plan is administered by Empower Retirement. Benefit terms for the 457(b) Plan are established and may be amended by the Board of Commissioners. The 457(b) Plan is available to all employees at least 21 years of age, on the first day of the month following 90 days of employment. Employee contributions are deposited and held with accounts established with Empower Retirement and are 100 percent vested. District employees contributed approximately \$350,000 and \$277,000 to the 457(b) Plan in 2020 and 2019, respectively.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

11. Risk Management and Contingencies:

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

The District also has excess professional liability insurance with Coverys on a “claims-made” basis. The excess malpractice insurance provides \$2,000,000 per claim of primary coverage with an aggregate limit of \$2,000,000. The policy has no deductible.

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.

Self-insurance risk pools – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust. The trust is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Unemployment compensation expense under the plan was approximately \$44,000 and \$88,000 in 2020 and 2019, respectively.

The District insures for workers’ compensation through the State of Washington’s Department of Labor & Industries (L&I). L&I manages all claims and pays benefits out of an insurance pool called the Washington State Fund. The fund is financed by premiums paid by employers and employees. Premiums are charged to operations as they are incurred. Workers’ compensation expense was approximately \$153,000 and \$126,000 in 2020 and 2019, respectively.

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

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

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

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

12. Concentration of Risks:

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

The mix of receivables from patients follows:

	2020	2019
Medicare	42 %	37 %
Medicaid	11	16
Other third-party payors	15	21
Patients	32	26
	100 %	100 %

Collective bargaining units – Effective September 1, 2020, the District renewed its contract with a labor union. As of December 31, 2020 and 2019, approximately 46 percent and 58 percent, respectively, of the District’s employees were represented under a collective bargaining agreement with United Food & Commercial Workers Union Local 21. The contract is effective through August 31, 2023.

13. COVID-19 Pandemic:

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

As part of the federal government’s response to the pandemic, the District received government grants as described in Note 9 above, as well as obtaining two PPP loans as described in Note 7 above. In addition, Medicare sequestration has been suspended altogether from May 1, 2020 through March 31, 2022, which will increase Medicare reimbursement by 2 percent. Medicare sequestration of 1 percent will begin April 1, 2022 through June 30, 2022, with full Medicare sequestration of 2 percent resuming on July 1, 2022.

Additionally, the District received Medicare accelerated payments of \$3,878,288 in April 2020, which will be paid back over 17 months with no interest beginning in April 2021.

The District also received Washington State Health Care Authority funding of \$400,000 and has implemented cost containment efforts in response to COVID-19.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

14. Subsequent Events:

In March 2021, the District entered into a software licensing agreement with Cerner Corporation with an initial term of 10 years. Under the agreement, the District will pay approximately \$37,000 per month for the first two years of service and then approximately \$33,000 for the remaining eight years, for a total cost of approximately \$4,000,000.

The District is seeking approximately \$7,750,000 of bank financing to assist in funding the purchase of a new HVAC system, as well as various other construction projects planned for 2022 and 2023. As of February 14, 2022, the District had not entered into any formal financing commitments; however, the District had entered into a contract totaling approximately \$300,000 with Rice Fergus Miller, Inc., for architectural services related to these projects.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

Board of Commissioners
Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Tonasket, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 14, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 14, 2022

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Findings and Responses
Year Ended December 31, 2020

2020-001 Control Environment

<i>Criteria</i>	A system of internal controls that is sufficient to prevent or detect material errors in the financial statements should be in place.
	[] Compliance Finding [] Significant Deficiency [X] Material Weakness
<i>Condition</i>	The District did not have a system of internal controls in place that was sufficient to prevent or detect material errors in the financial statements.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Cause</i>	The District's controls including control environment, risk assessment, information/communication, and monitoring were not effectively designed or implemented within the District.
<i>Effect</i>	Lack of structure and oversight lead to errors in financial reporting, which can affect funding and the District's ability to continue operations. Additionally, inaccurate or untimely financial statements can limit management and the Board of Commissioners' ability to make informed decisions on behalf of the District.
<i>Recommendation</i>	The District should create and implement policies and procedures in order to create a system of internal controls that is effective at preventing and detecting errors.
<i>Management's Response</i>	The District will create policies to ensure that there are sufficient internal controls and defined processes with lists of required documentation to prevent or detect material errors in the financial statements. The District will prepare this policy in February 2022.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2020

2020-002 Auditor Detected Adjusting Journal Entries

<i>Criteria</i>	There should not be any significant or material auditor detected adjusting journal entries made during the audit process.
	[] Compliance Finding [] Significant Deficiency [X] Material Weakness
<i>Condition</i>	<p>During the audit process, numerous adjusting journal entries were prepared by both management and the audit team to achieve accurate account balances.</p> <p>Additionally, accounts not being reconciled prior to our audit caused a significant delay in completion of the audit.</p>
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Cause</i>	Account reconciliations are not completed or reviewed timely and are not being executed with the precision necessary to identify significant adjustments in a timely manner. Additionally, at times when reconciliations are completed, the general ledger is not adjusted to reflect reconciled balances.
<i>Effect</i>	Financial reports depended on by management, the Board of Commissioners, and external financial statement users may not present an accurate image of the District's financial position in a timely manner.
<i>Recommendation</i>	All statement of net position accounts should be reconciled and adjusted, as necessary, in a timely manner each month.
<i>Management's Response</i>	The General Accounting Department will write a policy that will require reconciliations of balance sheet and net position accounts on a monthly basis. The policy will require adjustments identified in the reconciliations to be posted in the general ledger in a timely manner. An integral component of the policy will include the Chief Financial Officer's review of the reconciliation and a monthly update presented to the Chief Executive Officer.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020

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

SUPPLEMENTAL SCHEDULES

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Divisional Statement of Net Position
December 31, 2020

ASSETS	Hospital Division	LTC Division	Eliminations	Totals
<i>Current assets</i>				
Cash and cash equivalents	\$ 14,713,132	\$ 900,197	\$ -	\$ 15,613,329
Receivables:				
Patient accounts, net	2,317,878	187,295	-	2,505,173
Taxes	24,568	-	-	24,568
Taxes restricted for debt service	40,460	-	-	40,460
Estimated third-party payor settlements	487,386	32,488	-	519,874
Other	102,880	19,143	-	122,023
Cash and cash equivalents, restricted for debt service	945,686	-	-	945,686
Inventories	411,625	30,098	-	441,723
Prepaid expenses	305,561	49,689	-	355,250
Total current assets	19,349,176	1,218,910	-	20,568,086
<i>Noncurrent assets</i>				
Due from long-term care division	5,331,655	-	(5,331,655)	-
Capital assets, net of accumulated depreciation	11,716,925	343,560	-	12,060,485
Total noncurrent assets	17,048,580	343,560	(5,331,655)	12,060,485
Total assets	\$ 36,397,756	\$ 1,562,470	\$ (5,331,655)	\$ 32,628,571

See accompanying independent auditors' report.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Divisional Statement of Net Position (Continued)
December 31, 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	Hospital Division	LTC Division	Eliminations	Totals
<i>Current liabilities</i>				
Accounts payable	\$ 944,952	\$ 113,870	\$ -	\$ 1,058,822
Accrued compensation and related liabilities	256,104	102,494	-	358,598
Accrued leave	507,528	127,634	-	635,162
Accrued interest payable	22,790	-	-	22,790
Current maturities of long-term debt	825,736	-	-	825,736
Current maturities of capital lease obligations	149,477	-	-	149,477
Medicare accelerated payments payable	3,867,132	11,156	-	3,878,288
Unearned CARES Act Provider Relief Fund	3,405,754	-	-	3,405,754
Unearned COVID-19 grants	83,136	-	-	83,136
Total current liabilities	10,062,609	355,154	-	10,417,763
<i>Noncurrent liabilities</i>				
Due to hospital division	-	5,331,655	(5,331,655)	-
Long-term debt, less current maturities	8,214,116	-	-	8,214,116
Capital lease obligations, less current maturities	638,999	-	-	638,999
Paycheck Protection Program note payable	1,851,400	648,100	-	2,499,500
Total noncurrent liabilities	10,704,515	5,979,755	(5,331,655)	11,352,615
Total liabilities	20,767,124	6,334,909	(5,331,655)	21,770,378
<i>Deferred inflows of resources, bond refunding</i>	62,311	-	-	62,311
<i>Net position</i>				
Net investment in capital assets	1,803,496	343,560	-	2,147,056
Restricted for debt service	986,146	-	-	986,146
Unrestricted	12,778,679	(5,115,999)	-	7,662,680
Total net position	15,568,321	(4,772,439)	-	10,795,882
Total liabilities, deferred inflows of resources, and net position	\$ 36,397,756	\$ 1,562,470	\$ (5,331,655)	\$ 32,628,571

See accompanying independent auditors' report.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Divisional Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2020

	Hospital Division	LTC Division	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 20,450,217	\$ 4,104,093	\$ (10,640)	\$ 24,543,670
Other	216,203	769,864	(620,014)	366,053
Total operating revenues	20,666,420	4,873,957	(630,654)	24,909,723
<i>Operating expenses</i>				
Salaries and wages	8,838,286	3,255,069	(630,654)	11,462,701
Employee benefits	2,055,538	677,071	-	2,732,609
Professional fees	4,110,266	35,078	-	4,145,344
Purchased services	2,062,734	422,153	-	2,484,887
Supplies	1,749,706	501,344	-	2,251,050
Utilities	289,478	86,654	-	376,132
Rentals and leases	394,916	16,120	-	411,036
Repairs and maintenance	367,745	19,409	-	387,154
Depreciation and amortization	1,174,920	57,607	-	1,232,527
Insurance	174,743	11,972	-	186,715
Other	476,895	102,276	-	579,171
Total operating expenses	21,695,227	5,184,753	(630,654)	26,249,326
<i>Operating loss</i>	(1,028,807)	(310,796)	-	(1,339,603)
<i>Nonoperating revenues (expenses)</i>				
CARES Act Provider Relief Fund	542,757	310,949	-	853,706
COVID-19 grants	274,921	-	-	274,921
Taxation for maintenance and operations	489,124	-	-	489,124
Taxation for bond principal and interest	787,546	-	-	787,546
Contributions	347,731	-	-	347,731
Investment income	31,506	-	-	31,506
Interest expense	(301,921)	-	-	(301,921)
Total nonoperating revenues, net	2,171,664	310,949	-	2,482,613
Change in net position	1,142,857	153	-	1,143,010
Net position, beginning of year	14,425,464	(4,772,592)	-	9,652,872
Net position, end of year	\$ 15,568,321	\$ (4,772,439)	\$ -	\$ 10,795,882

See accompanying independent auditors' report.