



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

September 1, 2022

Board of Commissioners  
WhidbeyHealth  
Coupeville, 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 WhidbeyHealth 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".

Pat McCarthy, State Auditor  
Olympia, WA

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Financial Statements

December 31, 2020 and 2019

**Whidbey Island Public Hospital District  
dba WhidbeyHealth**

# Whidbey Island Public Hospital District dba WhidbeyHealth

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December 31, 2020 and 2019

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# Whidbey Island Public Hospital District dba WhidbeyHealth

Directory of Officials

December 31, 2020 and 2019

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## Board of Commissioners

Ron Wallin	Commissioner/President	Term – 12/2025
Grethe Cammermeyer, Ph.D.	Commissioner	Term – 12/2023
Nancy Fey	Commissioner	Term – 12/2025
Dr. Eric Anderson	Commissioner	Term – 12/2023
Kurt Blankenship	Commissioner	Term – 12/2021

## Administrators

Ronald Telles	Chief Executive Officer/Chief Financial Officer
Erin Wooley	Chief Nursing Officer
Jon Scallan	Chief Quality Officer



## Independent Auditor's Report

To the Board of Commissioners  
Whidbey Island Public Hospital District dba WhidbeyHealth  
Coupeville, Washington

### Report on the Financial Statements

We have audited the accompanying statements of net position of Whidbey Island Public Hospital District (the District) as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

### **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 11 to the financial statements, the District has suffered recurring losses from operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires 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 the missing information.

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of net pension asset and schedule of employer contributions, as noted in the table of contents, 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 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, 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
March 17, 2022

# Whidbey Island Public Hospital District dba WhidbeyHealth

Statements of Net Position  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 8,110,917	\$ 1,539,371
Receivables		
Patient, net of estimated uncollectibles		
of \$2,130,000 in 2020 and \$3,603,000 in 2019	20,560,569	20,955,300
Estimated third-party payor settlements	2,193,939	5,672,722
Property taxes	294,374	278,701
Other	987,611	545,237
Assets limited as to use required for current liabilities	865,328	2,258,699
Supplies	2,394,957	2,259,151
Prepaid expenses	<u>1,164,029</u>	<u>1,242,354</u>
Total current assets	<u>36,571,724</u>	<u>34,751,535</u>
Noncurrent Cash and Investments		
Designated for LEOFF	<u>107,198</u>	<u>107,010</u>
Capital Assets		
Capital assets not being depreciated	5,827,002	3,204,612
Capital assets being depreciated, net	<u>66,090,858</u>	<u>70,531,195</u>
Total capital assets	<u>71,917,860</u>	<u>73,735,807</u>
Net Pension Asset	<u>2,530,255</u>	<u>2,893,735</u>
Total assets	<u>111,127,037</u>	<u>111,488,087</u>
Deferred Outflows of Resources		
Pension plan	<u>489,592</u>	<u>338,946</u>
Total assets and deferred outflows of resources	<u><u>\$ 111,616,629</u></u>	<u><u>\$ 111,827,033</u></u>



# Whidbey Island Public Hospital District dba WhidbeyHealth

Statements of Net Position  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Bond anticipation note	\$ 6,800,000	\$ 6,800,000
Current maturities of long-term debt	1,396,663	1,222,400
CMS advance payments	1,074,074	-
Accounts payable		
Trade	9,255,457	6,749,735
Estimated third-party payor settlements	-	321,362
Accrued expenses		
Salaries and benefits	6,439,647	5,737,164
Interest	244,941	-
Total current liabilities	<u>25,210,782</u>	<u>20,830,661</u>
Long-Term Liabilities		
Long-Term Debt, less current maturities	57,341,155	58,674,457
CMS advance payments, net of current portion	8,045,419	-
Estimated Medical Malpractice Costs	428,994	529,012
Total long-term liabilities	<u>65,815,568</u>	<u>59,203,469</u>
Total liabilities	<u>91,026,350</u>	<u>80,034,130</u>
Deferred Inflows of Resources		
Pension plan	<u>1,489,479</u>	<u>2,129,832</u>
Net Position		
Net investment in capital assets	7,245,370	9,297,649
Unrestricted	<u>11,855,430</u>	<u>20,365,422</u>
Total net position	<u>19,100,800</u>	<u>29,663,071</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 111,616,629</u>	<u>\$ 111,827,033</u>

# Whidbey Island Public Hospital District dba WhidbeyHealth

## Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$1,358,800 in 2020 and \$1,625,609 in 2019	\$ 93,712,896	\$ 101,030,823
Tax levies for maintenance and operations	132,993	36,532
Tax levies for emergency medical services	5,616,634	5,630,838
Cafeteria and other	<u>2,011,841</u>	<u>1,660,948</u>
Total operating revenues	<u>101,474,364</u>	<u>108,359,141</u>
Operating Expenses		
Salaries and wages	48,835,129	51,374,156
Employee benefits	13,895,069	10,369,398
Professional fees	12,816,095	11,594,625
Supplies	17,200,759	15,922,041
Purchased services, utilities	1,538,303	1,772,166
Purchased services, other	15,464,134	14,170,732
Insurance	855,993	1,117,456
Rent	1,317,887	1,244,307
Other	3,267,119	2,693,342
Depreciation and amortization	<u>5,972,266</u>	<u>5,784,600</u>
Total operating expenses	<u>121,162,754</u>	<u>116,042,823</u>
Operating Loss	<u>(19,688,390)</u>	<u>(7,683,682)</u>
Nonoperating Revenues (Expenses)		
Tax levies for bonds	4,313,535	4,125,326
Provider relief funds contribution	7,561,714	-
Interest income	20,854	2,854
Interest expense	(3,706,899)	(3,381,965)
Noncapital contributions	<u>253,703</u>	<u>683,107</u>
Net nonoperating revenues	<u>8,442,907</u>	<u>1,429,322</u>
Revenues in Excess of (Less than) Expenses Before Capital Grants and Contributions	(11,245,483)	(6,254,360)
Capital Grants and Contributions	683,212	205,050
Special Item (Note 10)	<u>-</u>	<u>17,957,284</u>
Change in Net Position	(10,562,271)	11,907,974
Net Position, Beginning of Year	<u>29,663,071</u>	<u>17,755,097</u>
Net Position, End of Year	<u>\$ 19,100,800</u>	<u>\$ 29,663,071</u>

# Whidbey Island Public Hospital District dba WhidbeyHealth

Statements of Cash Flows  
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 96,822,674	\$ 95,410,384
Payments to suppliers and contractors	(50,112,067)	(47,664,832)
Payments to and on behalf of employees	(62,210,293)	(62,465,615)
Other operating receipts and payments, net	2,011,841	1,660,948
Net Cash used for Operating Activities	<u>(13,487,845)</u>	<u>(13,059,115)</u>
Noncapital Financing Activities		
Noncapital grants and contributions	253,703	683,107
CARES Act HHS financial assistance received	7,561,714	-
CMS advance payments	9,119,493	-
Tax levies for noncapital financing activity	5,745,487	5,631,298
Net Cash from Noncapital Financing Activities	<u>22,680,397</u>	<u>6,314,405</u>
Capital and Capital Related Financing Activities		
Tax levies for capital financing activities	4,308,690	4,130,171
Capital grants and contributions	683,212	205,050
Principal payments on long-term debt	(1,369,573)	(1,087,229)
Interest paid	(3,706,899)	(3,381,965)
Proceeds from the issuance of long-term debt	124,842	4,719,029
Purchase and construction of capital assets	(4,075,315)	(2,777,091)
Proceeds from the disposition of capital assets	-	8,721
Net Cash from (used for) for Capital and Capital Related Financing Activities	<u>(4,035,043)</u>	<u>1,816,686</u>
Investing Activities		
Interest received	20,854	2,854
Net Cash from Investing Activities	<u>20,854</u>	<u>2,854</u>
Net Change in Cash and Cash Equivalents	5,178,363	(4,925,170)
Cash and Cash Equivalents, Beginning of Year	<u>3,905,080</u>	<u>8,830,250</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,083,443</u></u>	<u><u>\$ 3,905,080</u></u>

# Whidbey Island Public Hospital District dba WhidbeyHealth

## Statements of Cash Flows Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 8,976,245	\$ 3,798,070
Cash and cash equivalents in noncurrent assets	107,198	107,010
	<u>\$ 9,083,443</u>	<u>\$ 3,905,080</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (19,688,390)	\$ (7,683,682)
Revenue from tax levies considered noncapital financing activity	(5,749,627)	(5,667,370)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	5,972,266	5,784,600
Provision for bad debts	(1,358,800)	(1,625,609)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources		
Patient receivables	1,753,531	(1,549,975)
Supplies	(135,806)	(275,023)
Other receivables	(442,374)	(545,237)
Estimated third-party payor settlements	3,157,421	(1,899,618)
Prepaid expenses	78,325	78,625
Net pension asset	-	(645,147)
Deferred outflow of resources	212,834	919,159
Trade accounts payable	2,505,722	799,077
Deferred inflow of resources	(640,353)	(836,120)
Estimated medical malpractice costs	(100,018)	247,158
Accrued expenses	947,424	(159,953)
Net Cash used for Operating Activities	<u>\$ (13,487,845)</u>	<u>\$ (13,059,115)</u>

**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of Whidbey Island Public Hospital District (the District) have been prepared in conformity with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

**Reporting Entity**

The District is organized as a municipal corporation pursuant to the laws of the state of Washington. The primary purpose of the District is to operate WhidbeyHealth (the Hospital), which serves the residents of Whidbey Island, Washington. The Hospital is a 25-bed critical access hospital located in Coupeville, Washington. The District is organized as a political subdivision of the state of Washington and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The District is governed by an elected, five-member Board of Commissioners.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District does not have a component unit which meets the GASB criteria.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statements of net position display the District's assets, liabilities and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

*Restricted net position:*

Expendable - Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. Restricted expendable net position at December 31, 2020 and 2019 totaled \$0 and \$0, respectively.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the District.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense towards the most restrictive resources then toward the unrestricted resources.

### **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. Estimates also effect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include deposits and highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For the purposes of the statements of cash flows, the District considers all cash and investments with an original maturity of less than three months as cash and cash equivalents.

### **Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to specific claims identified on the remittance advice, or if unspecified, applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### **Property Taxes**

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors (the County). Delinquent property tax receivable represents unpaid taxes for the current and prior years. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible by the County.

Levy & Lien Date – January 1

Due date – April 30 & October 31

The District is permitted by law to levy taxes on assessed valuation for general District purposes. The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general District purposes. For 2020 and 2019, the District's regular tax levy was \$0.08 and \$0.08, per \$1,000 on a total assessed valuation of \$12,355,174,119 and \$11,233,268,484, respectively. The District's regular levy was \$987,016 and \$957,951, for the years ended December 31, 2020 and 2019, respectively. Of these amounts, \$933,744 and \$921,419 were used for bond payments, with the remaining used for maintenance and operations in the amounts of \$132,993 and \$36,532 for the years ended December 31, 2020 and 2019, respectively.

Further amounts of tax need to be authorized by a vote of County taxpayers. There is a voter-approved tax levy for the 2013 unlimited tax general obligation bond with \$3,379,791 and \$3,167,835 going toward bond payments. For 2020 and 2019, the District's 2013 bond tax levy was \$0.27 and \$0.29, respectively. For the years ended December 31, 2020 and 2019, revenues from the regular levy and the bond levy of \$4,313,535 and \$4,125,326 were used for bond payments.

There is a voter-approved tax levy for emergency medical services (EMS) in the amounts of \$5,616,634 and \$5,630,838, for the years ended December 31, 2020 and 2019, respectively.

### **Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

**Noncurrent Cash and Investments**

Noncurrent cash and investments is composed of funds held to fund LEOFF contributions. The current portion of assets limited as to use is composed of amounts to be used to fund obligations that are classified as current liabilities.

**Interest Income**

Interest on deposits are included in nonoperating revenues when earned.

**Capital Assets**

Capital asset acquisitions in excess of \$5,000 with a useful life greater than one year are capitalized at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Land improvements	10-40 years
Buildings and leasehold improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

**Bond Premiums and Discounts**

Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized over the life of the debt using the effective interest rate method. Amortization is included in interest expense.

**Compensated Absences**

The District's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specific maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued paid time-off in the accompanying financial statements.

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has one item qualifying for reporting in this category, which are outflows for the LEOFF pension plan.



### **Deferred Inflows of Resources**

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements consist of amounts for the LEOFF pension plan.

### **Operating Revenues and Expenses**

The District's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses result from exchange transactions associated with providing health care services – the District's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition and taxes specifically for operating costs are reported as other operating revenues. All other revenues and expenses are reported as nonoperating.

### **Net Patient Service Revenue**

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and the estimated bad debt provision. 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.

### **Pension**

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pension plan, and pension expense, information about the fiduciary net position of the LEOFF 2 state sponsored pension plan and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. 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.

### **Charity Care**

The District provides care to patients who meet certain criteria under its financial hardship assistance policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The estimated cost of providing these services was \$142,000 and \$218,000 for the years ended December 31, 2020 and 2019, respectively, calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care to its patients.

**Grants and Contributions**

The District may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

**Note 2 - Net Patient Revenue**

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

*Medicare:* The District is licensed as a Critical Access Hospital (CAH). The District is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the District and is subject to audits thereof by the Medicare Administrative Contractor. The District's Medicare cost reports have been audited by the Medicare program through the year ended December 31, 2018. Clinical services are paid based on a cost basis or fixed fee schedule.

*Medicaid:* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the District's Medicare cost report, or rates as established by the Medicaid program. The District is reimbursed at a tentative rate with final settlement determined by the program based on the Hospital's final Medicaid cost report. The District's Medicaid cost reports have been settled by the Medicaid program through December 31, 2017.

*Other:* The District has also entered into payment agreements with certain commercial insurance carriers and other 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.

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements  
December 31, 2020 and 2019

Concentration of gross revenues by major payor accounted for the following percentages of the District's patient service revenues for the years ended December 31, 2020 and 2019:

	2020	2019
Medicare	48%	47%
Medicaid	12%	13%
Blue Cross and commercial insurances	39%	39%
Self pay and other	1%	1%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other 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. The change in total reimbursement from Medicare and Medicaid programs, which relates to changes in previous years' estimated settlements, was an increase to net patient service revenues of approximately \$1,274,000 and \$16,000, for the years ended December 31, 2020 and 2019, respectively.

## Note 3 - CMS Advance Payments

The CMS Advance Payments balance consists of advance 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 \$9,119,493 in advance payments during September 2020, which are expected to be recouped through reductions to payments for future Medicare claims. The U.S. Congress and CMS have extended the repayment of these advance payments on multiple occasions and repayment terms remain subject to additional congressional and regulatory action. Repayment of the advance payment are currently expected to begin during the year ended December 31, 2021, one year after the District received the advance payments, and outstanding balances are currently not required to be paid in full for 29 months from the date the first payment under the program was received, at which time interest would accrue at 4% of the outstanding balance. The District has classified \$1,074,074 of these advance payments as a current liability and \$8,045,419 as a long-term liability.

## Note 4 - Provider Relief Funds

The District received \$7,561,714 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline to incur eligible expenses of June 30, 2021. Unspent funds are expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the year ended December 31, 2020, the District recognized \$7,561,714 as revenue, included as nonoperating activities on the statement of revenues, expenses, and changes in net position.

#### **Note 5 - Deposits**

The carrying amounts of deposits as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Carrying Amount		
Cash and deposits	\$ 9,083,443	\$ 3,905,080

Deposits and investment pools as of December 31, 2020 and 2019 are reported in the following statements of net position captions:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,110,917	\$ 1,539,371
Assets limited as to use for bond reserve and capital		
asset replacement	865,328	2,258,699
Designated for LEOFF	<u>107,198</u>	<u>107,010</u>
	<u>\$ 9,083,443</u>	<u>\$ 3,905,080</u>

#### **Deposits - Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy restricting the amount of deposits and investments subject to custodial credit risk. The District's deposits in banks at December 31, 2020 and 2019 were entirely covered by federal depository insurance or by collateralized by federal depositories participating in the Washington Public Deposit Protection Commission.

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements  
December 31, 2020 and 2019

## Note 6 - Capital Assets

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2020 are as follows:

	Balance December 31, 2019	Additions	Transfers and Retirements	Balance December 31, 2020
Capital assets not being depreciated				
Land	\$ 2,794,220	\$ 728,467	\$ -	\$ 3,522,687
Construction in progress	410,392	3,211,728	(1,317,805)	2,304,315
Total capital assets not being depreciated	<u>\$ 3,204,612</u>	<u>\$ 3,940,195</u>	<u>\$ (1,317,805)</u>	<u>\$ 5,827,002</u>
Capital assets being depreciated				
Land improvements	\$ 6,914,863	\$ -	\$ -	\$ 6,914,863
Building and leasehold improvements	85,408,167	-	589,013	85,997,180
Equipment	35,431,981	135,120	807,796	36,374,897
Total capital assets being depreciated	<u>127,755,011</u>	<u>\$ 135,120</u>	<u>\$ 1,396,809</u>	<u>129,286,940</u>
Less accumulated depreciation for				
Land improvements	2,503,463	\$ 509,402	\$ -	3,012,865
Building and leasehold improvements	24,412,783	4,055,233	-	28,468,016
Equipment	30,307,570	1,407,631	-	31,715,201
Total accumulated depreciation	<u>57,223,816</u>	<u>\$ 5,972,266</u>	<u>\$ -</u>	<u>63,196,082</u>
Net capital assets being depreciated	<u>\$ 70,531,195</u>			<u>\$ 66,090,858</u>
Capital assets, net	<u>\$ 73,735,807</u>			<u>\$ 71,917,860</u>

Construction in progress at December 31, 2020 represents payment for the Retail Pharmacy, Fluoroscopy room remodel, Telephone system upgrades, and the USDA infrastructure project. As of December 31, 2020, the estimated cost of construction commitments is \$337,000. Projects are being financed from a combination of operating funds, commercial financing loans, and USDA funding.

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements

December 31, 2020 and 2019

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2019 are as follows:

	Balance December 31, 2018	Additions	Transfers and Retirements	Balance December 31, 2019
Capital assets not being depreciated				
Land	\$ 2,794,220	\$ -	\$ -	\$ 2,794,220
Construction in progress	228,879	2,647,524	(2,466,011)	410,392
Total capital assets not being depreciated	<u>\$ 3,023,099</u>	<u>\$ 2,647,524</u>	<u>\$ (2,466,011)</u>	<u>\$ 3,204,612</u>
Capital assets being depreciated				
Land improvements	\$ 6,335,041	\$ 25,181	\$ 554,641	\$ 6,914,863
Building and leasehold improvements	85,055,304	965,551	(612,688)	85,408,167
Equipment	40,106,989	104,386	(4,779,394)	35,431,981
Total capital assets being depreciated	<u>131,497,334</u>	<u>\$ 1,095,118</u>	<u>\$ (4,837,441)</u>	<u>127,755,011</u>
Less accumulated depreciation for				
Land improvements	1,192,558	\$ 461,806	\$ 849,099	2,503,463
Building and leasehold improvements	21,145,079	4,008,593	(740,889)	24,412,783
Equipment	35,430,759	1,314,201	(6,437,390)	30,307,570
Total accumulated depreciation	<u>57,768,396</u>	<u>\$ 5,784,600</u>	<u>\$ (6,329,180)</u>	<u>57,223,816</u>
Net capital assets being depreciated	<u>\$ 73,728,938</u>			<u>\$ 70,531,195</u>
Capital assets, net	<u>\$ 76,752,037</u>			<u>\$ 73,735,807</u>

## Note 7 - Lease Obligations

The District leases certain equipment under noncancelable long-term lease agreements. Total lease expense for the years ended December 31, 2020 and 2019, for all operating leases was \$888,255 and \$838,138, respectively.

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements

December 31, 2020 and 2019

The District leases office space and equipment expiring no later than June 30, 2024. Future minimum lease payments are as follows:

Years Ending December 31,	Operating Leases	Capital Lease
2021	\$ 677,432	\$ 39,408
2022	417,420	39,408
2023	402,127	14,122
2024	180,203	12,341
2025	-	1,028
	<u>\$ 1,677,182</u>	<u>106,307</u>
Less Interest		<u>(15,548)</u>
		<u>\$ 90,759</u>

## Note 8 - Long-Term Debt and Bond Anticipation Note

Long-term debt and activity for the year ended December 31, 2020 is as follows:

	Balance December 31, 2019	Additions	Payments	Balance December 31, 2020	Due Within One Year
Bonds Payable					
2009 General Obligation	\$ 5,560,000	\$ -	\$ 225,000	\$ 5,335,000	\$ 240,000
2012 General Obligation	7,495,000	-	135,000	7,360,000	150,000
2013 General Obligation	46,730,000	-	845,000	45,885,000	955,000
Premium	11,852	-	571	11,281	-
Discount	(122,086)	-	(7,432)	(114,654)	-
Notes Payable	<u>202,163</u>	-	<u>31,731</u>	<u>170,432</u>	<u>16,060</u>
Total bonds and notes	59,876,929	-	1,229,870	58,647,059	1,361,060
Capital Leases	<u>19,928</u>	<u>124,842</u>	<u>54,011</u>	<u>90,759</u>	<u>35,603</u>
	<u>\$ 59,896,857</u>	<u>\$ 124,842</u>	<u>\$ 1,283,881</u>	<u>\$ 58,737,818</u>	<u>\$ 1,396,663</u>

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements  
December 31, 2020 and 2019

Long-term debt obligations activity for the year ended December 31, 2019 is as follows:

	Balance December 31, 2018	Additions	Payments	Balance December 31, 2019	Due Within One Year
<b>Bonds Payable</b>					
2009 General Obligation	\$ 5,770,000	\$ -	\$ 210,000	\$ 5,560,000	\$ 225,000
2012 General Obligation	7,620,000	-	125,000	7,495,000	135,000
2013 General Obligation	47,475,000	-	745,000	46,730,000	845,000
Premium	12,469	-	617	11,852	-
Discount	(129,517)	-	(7,431)	(122,086)	-
Notes Payable	219,332	-	17,169	202,163	17,400
	<u>60,967,284</u>	<u>-</u>	<u>1,090,355</u>	<u>59,876,929</u>	<u>1,222,400</u>
<b>Total bonds and notes</b>					
	60,967,284	-	1,090,355	59,876,929	1,222,400
<b>Capital Leases</b>					
	<u>16,802</u>	<u>19,928</u>	<u>16,802</u>	<u>19,928</u>	<u>-</u>
	<u><u>\$ 60,984,086</u></u>	<u><u>\$ 19,928</u></u>	<u><u>\$ 1,107,157</u></u>	<u><u>\$ 59,896,857</u></u>	<u><u>\$ 1,222,400</u></u>

## General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the District.

*Limited Tax General Obligation Bonds 2009* – interest rates range from 4.25% to 5.63% due annually on December 1, in amounts from \$210,000 to \$565,000, maturing in 2034, including bond discount of \$46,473 and \$49,894 in 2020 and 2019, respectively.

*Limited Tax General Obligation Bonds 2012* – interest rates range from 3.00% to 4.15% due semi-annually on June 1 and December 1, in amounts from \$125,000 to \$1,200,000, maturing in 2037, including bond discount of \$68,181 and \$72,192 in 2020 and 2019, respectively.

*Unlimited Tax General Obligation Bonds 2013* – interest rates range from 4.00% to 5.58% due annually on December 1, in amounts from \$745,000 to \$1,190,000, maturing in 2039, including bond premium of \$11,281 and \$11,852 in 2020 and 2019, respectively.

## Notes Payable

*Notes payable* – due in monthly installments of \$2,837, including interest at the bank's five-year long-term fixed rate plus 3.05% through July 2028. Collateralized by property.



# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements  
December 31, 2020 and 2019

Scheduled debt service requirements for the District's bonds and notes payable and capital leases are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,361,060	\$ 2,948,214
2022	1,510,564	2,884,069
2023	1,666,637	2,810,145
2024	1,822,767	2,740,465
2025	1,983,956	2,665,126
2026-2030	12,758,305	11,842,089
2031-2035	19,070,000	7,963,743
2036-2040	18,577,143	2,404,206
Unamortized bond premiums and discounts	<u>(103,373)</u>	<u>-</u>
Total	<u><u>\$ 58,647,059</u></u>	<u><u>\$ 36,258,057</u></u>

## **Bond Anticipation Notes**

During the year ended December 31, 2019, the District issued bond anticipation notes in the amount of \$3,100,000 and \$3,700,000, with interest rate set at prime plus .50% and an initial maturity date of December 1, 2020. The notes were issued for the purpose of funding construction at the District for the pharmacy project. The notes are collateralized by property taxes of the District. Interest payments due semiannually on June 1, and December 1, with the full principal balance and accrued interest due at or before maturity. The maturity date was extended to June 1, 2022. The outstanding balance as of December 31, 2020 was \$6,800,000.

## **Note 9 - Pension Plans and Employee Benefit Plans**

The District was involved in jointly appealing a decision of the Department of Retirement Systems that would require the District to enroll its emergency medical technician employees in the state Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) and retroactively make contributions to LEOFF for the period from 2005 to the present, which was later reduced to the present with a maximum repayment period through June 30, 2028. The District, along with other public hospital districts and interested stakeholders in Washington State, assisted in proposing new legislation that was signed by the Governor in May 2017. The District enrolled its emergency medical technician employees in LEOFF effective July 1, 2017. Based on the actuarial study, the District's accrual for the net pension asset and related disclosures are effective for the year ending December 31, 2020.

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements  
December 31, 2020 and 2019

The following table represents the aggregate pension amounts for the LEOFF 2 plan for the year 2020:

Aggregate Pension Amounts	2020
Pension liabilities	\$ -
Pension assets	2,530,255
Deferred outflows of resources	489,592
Deferred inflows of resources	(1,489,479)
Pension expense/expenditures	(26,174)

Substantially all District emergency medical technician full-time and qualifying part-time employees participate in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) statewide retirement system administered by the Washington State Department of Retirement Systems, under a cost-sharing, multiple-employer public employee defined benefit retirement plan. The state legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans. The District participates in LEOFF Plan 2.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's final average salary (FAS) times the member's year of service. FAS is the monthly average of the member's 60 consecutive highest-paid service credit months. Members are eligible for retirement with a full benefit at age 53 with at least five years of service credit. Members who retire before age 53 receive reduced benefits. If the member has at least 20 years of service and is age 50 to 52, the reduction is 3% for each year before age 53. Otherwise, the benefits are actuarially reduced for each year before age 53. LEOFF Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other LEOFF Plan 2 benefits include a Cost-of-Living Adjustment (COLA) based on the Consumer Price Index, capped at 3% annually. LEOFF 2 members are vested after the completion of five years of eligible service.

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

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

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

Contributions

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

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

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

Actual Contribution Rates	Employer	Employee
State and local governments	5.15%	8.59%
Administrative fee	0.18%	0.00%
Total	5.33%	8.59%

The District's actual contributions to the plan were \$236,838 for the year ended December 31, 2020.

The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2020, the state contributed \$76,297,643 to LEOFF Plan 2. The amount recognized by the District as its proportionate share of this amount is \$155,155.

**Actuarial Assumptions**

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

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

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

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

#### **Discount Rate**

The discount rate used to measure the total pension liability was 7.4 percent.

To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.40% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers were assumed to continue being made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return of 7.40% on pension plan investments was applied to determine the total pension liability.

#### **Long-Term Expected Rate of Return**

OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs)

and simulated expected investment returns the Washington State Investment Board (WSIB) provided. The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

### Estimated Rates of Return by Asset Class

The expected future rates of return (expected returns, net of pension plan investment expense, including inflation) are developed by the WSIB for each major asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

### Sensitivity of the Net Pension Asset

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

	1% Decrease 6.40%	Current Discount Rate 7.40%	1% Increase 8.40%
Net pension asset	\$ (50,091)	\$ (2,530,255)	\$ (4,561,015)

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2020, the District reported a total pension asset of \$2,530,255 for its proportionate share of the net pension asset.

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

Net pension asset - employer's proportionate share	\$ 2,530,255
Net pension asset- State's proportionate share	<u>1,617,907</u>
Total	<u><u>\$ 4,148,162</u></u>

At June 30, the District's proportionate share of the collective net pension asset was as follows:

	<u>Proportionate Share 6/30/19</u>	<u>Proportionate Share 6/30/20</u>	<u>Change in Proportion</u>
LEOFF 2	0.124908%	0.124041%	0.000867%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

In fiscal year 2020, the State of Washington contributed 39.00 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 61.00 percent of employer contributions.

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

**Pension Expense**

For the year ended December 31, 2020, the District recognized pension expense totaling \$26,174.

# Whidbey Island Public Hospital District dba WhidbeyHealth

Notes to Financial Statements  
December 31, 2020 and 2019

## Deferred Outflows of Resources and Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 350,103	\$ 44,876
Net difference between projected and actual investment earnings on pension plan investments	-	28,202
Changes of assumptions	3,665	391,797
Changes in proportion and differences between contributions and proportionate share of contributions	13,426	1,024,604
Contributions subsequent to the measurement date	<u>122,398</u>	<u>-</u>
Total	<u>\$ 489,592</u>	<u>\$ 1,489,479</u>

Deferred outflows of resources in the amount of \$122,398 resulting from the District's contributions subsequent to the measurement date will be recognized as an addition to the net pension asset in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as a component of employee benefits expense over five years or the average expected remaining service life of the plan as follows:

<u>Years Ended December 31:</u>	<u>LEOFF 2</u>
2021	\$ 319,379
2022	157,276
2023	94,792
2024	47,582
2025	149,247
Thereafter	<u>354,007</u>
Total	<u>\$ 1,122,283</u>

**Employee Benefit Plans**

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The District contributes a percentage of certain employees' salaries through the 401(a) pension plan if certain criteria are met, as discussed below. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District fully funds all compensation deferred under the plan agreement through deposits with an insurance company.

The District provides a 401(a) pension plan for all employees with at least one and one-half years of service who contribute at least 5% of their salaries to the deferred compensation plan mentioned above. The District contributes 6% of employees' salaries from the prior calendar year, plus 0.1% of such pay, times years of service after joining the plan, up to a maximum of 6.5%. It is the District's policy to currently fund pension costs accrued.

Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners. The District's contributions to the employee benefit plans totaled, \$1,581,310 and \$1,340,317, for the years ended December 31, 2020 and 2019, respectively.

**Self-Funded Health Insurance**

The District began participating in a self-funded health insurance plan for eligible employees and their dependents beginning January 1, 2019. Insurance expense is recorded on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred but not reported claims that will be paid by the District. The District has stop loss insurance to cover catastrophic claims in excess of \$150,000 per claim with no annual aggregate limit for the plan year ended December 31, 2020.

The District expense amounts represent the employer's portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accounts payable and other accrued liabilities in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities during the past two years are as follows:

Year	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2019	\$ -	\$ 4,698,444	\$ 4,174,444	\$ 524,000
2020	524,000	5,734,060	5,708,060	550,000



**Note 10 - Extinguishment of OPEB Obligation**

During 2019, the District exited the Public Employee Benefits Board (PEBB), the multiple employer defined benefit plan. As a result, a gain was recorded for the extinguishment of the OPEB obligation of \$17,957,284 and is reported as a "Special Item" in the Statements of Revenues, Expenses, and Changes in Net Position. The \$17,957,284 special item includes the removal of the December 31, 2018 OPEB obligation of \$18,533,092, the OPEB deferred inflows of resources of \$533,255, and the OPEB deferred outflows of resources of \$1,109,063. As no assets were accumulated in a trust there was no receipt or exchange of cash for this transaction.

**Note 11 - Going Concern and Management Plans**

The District has incurred an operating loss during the years ended December 31, 2020 and 2019. For the year ended December 31, 2020 and 2019, the District had expenses in excess of revenues of \$19,688,390 and \$7,683,682, respectively.

Management has established a plan to mitigate the effects of the recurring losses. The District is looking into areas to reduce cost without impacting patient care. Also, the District is evaluating service lines currently offered. The District has engaged a consultant to perform an operational assessment to reduce costs. The effect of these changes cannot be evaluated. Substantial doubt about the District's ability to continue as a going concern within one year after the date of the financial statements remains. The financial statements do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

**Note 12 - Concentrations of Credit Risk**

The District grants credit without collateral to its patients most of which are insured under third-party payor agreements. The mix of gross receivables from third-party payors and patients at December 31, 2020 and 2019, was as follows:

	2020	2019
Medicare	32%	16%
Medicaid	10%	9%
Blue Cross and commercial insurances	47%	55%
Self pay	11%	20%
	<u>100%</u>	<u>100%</u>

**Note 13 - Commitments and Contingencies****Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Malpractice Insurance**

The District has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$5,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The District accrues an estimate of the expected value of losses and related expenses for unreported incidents and claims, which was \$428,994 and \$529,012 at December 31, 2020 and 2019, respectively.

**Litigation, Claims and Disputes**

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

**Collective Bargaining Agreements**

At December 31, 2020, the District had 537 out of 660 employees covered by four collective bargaining agreements. Two agreements are completed and two are currently in negotiations.

**COVID-19 Pandemic**

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The District is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Hospital is not known.



Required Supplementary Information  
December 31, 2020 and 2019

**Whidbey Island Public Hospital District  
dba WhidbeyHealth**

Whidbey Island Public Hospital District dba WhidbeyHealth  
Schedule of Proportionate Share of Net Pension Asset (Unaudited)  
As of June 30, 2020  
Last 10 Fiscal Years\*

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	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer's proportion of the net pension asset	0.124908%	0.124908%	0.110756%
Employer's proportionate share of the net pension asset	\$ 2,530,255	\$ 2,893,735	\$ 2,248,588
State's proportionate share of the net pension asset associated with the employer	\$ 1,617,907	\$ 1,895,009	\$ 1,455,918
Covered payroll	\$ 2,237,553	\$ 2,150,705	\$ 1,989,096
Employer's proportionate share of the net pension asset as a percentage of covered payroll	113.08%	134.55%	113.05%
Plan fiduciary net position as a percentage of the total pension asset or liability	115.83%	119.43%	118.50%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

Whidbey Island Public Hospital District dba WhidbeyHealth  
Schedule of Employer Contributions (Unaudited)  
For the Year Ended December 31  
Last 10 Fiscal Years\*

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	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily or contractually required contributions	\$ 236,838	\$ 230,295	\$ 233,454
Contributions in related to the statutorily or contractually required contributions	<u>\$ (236,838)</u>	<u>\$ (230,295)</u>	<u>\$ (233,454)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 4,598,787	\$ 4,305,483	\$ 4,299,334
Contributions as a percentage of covered payroll	5.15%	5.35%	5.43%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.



**Independent Auditor's 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***

To the Board of Commissioners  
Whidbey Island Public Hospital District dba WhidbeyHealth  
Coupeville, 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 Whidbey Island Public Hospital District (the District), which comprise the statements of net position as of December 31, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2022.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 certain 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 a 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 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*.

**Entity's Response to Findings**

The District's response to the finding identified in our audit are 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 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.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
March 17, 2022

**2020 – 001 - Financial Statement Preparation**

Condition - As auditors, we were requested to prepare the financial statements and footnote disclosure.

Criteria – The internal control structure should include procedures to ensure management is able to prepare their own financial statements and a reconciliation that includes allowance by specific payor.

Cause – The controls currently in place were not sufficient to ensure management is able to prepare their own financial statements.

Effect – The potential for incorrect financial reporting, and thus an increased risk.

Recommendation – Management and those charged with governance should annually review whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response – We agree with the findings and will implement the proper procedures to ensure this is managed correctly in the future.

**2020 – 002 - Reconciliation of Accounts and Audit Adjustments**

Condition - A system is not currently in place to properly reconcile financial statement accounts and provide supporting documentation of account balances. During the audit process adjustments were proposed to reconcile medical self-insurance, Medicare and Medicaid settlements, net position, property taxes, accounts payable, accrued payroll, accounts receivable and patient revenue, and liability insurance accruals.

Criteria – The internal control structure should include procedures to ensure management is able to reconcile all financial statement accounts.

Cause – The controls currently in place were not sufficient to provide a reconciliation for the accounts noted in the “condition” section.

Effect – Incorrect financial reporting, and thus an increased risk.

Recommendation – Management should develop a process to reconcile, properly adjust and provide supporting documentation for all financial statement accounts.

Management's Response – We agree with the findings and will implement the proper procedures to ensure this is managed correctly in the future.