



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

January 11, 2024

Board of Commissioners  
Lincoln Hospital  
Davenport, 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 Lincoln Hospital for the fiscal years ended December 31, 2022 and 2021. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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# Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital

Financial Statements and  
Required Supplementary Information

Years Ended December 31, 2022 and 2021



**Lincoln County Public Hospital District No. 3**  
**d/b/a Lincoln Hospital**  
**Financial Statements**  
Years Ended December 31, 2022 and 2021

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## **Independent Auditor's Report**

Board of Commissioners  
Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital  
Davenport, Washington

### ***Report on the Audit of the Financial Statements***

#### ***Opinion***

We have audited the accompanying financial statements (the "financial statements") of Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital (the "District"), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022 and 2021, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, during the year ended December 31, 2022, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87 - *Leases*. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that a management's discussion and analysis and the schedule of changes in total other post-employment benefits liability and related ratios as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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 June 15, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Wipfli LLP

Spokane, Washington  
June 15, 2023

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Management's Discussion and Analysis

Years Ended December 31, 2022 and 2021

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Our discussion and analysis of the financial performance of Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital (the "District") provides an overview of the District's financial activities for the years ended December 31, 2022 and 2021. Please read it in conjunction with the District's financial statements, which begin on page 11.

#### Financial Highlights

- The District's net position increased by \$3,165,881, or 18.8%, in 2022 and increased by \$5,636,397, or 50.2%, in 2021.
- The District reported an operating loss of \$197,385 in 2022 and an operating loss of \$1,036,644 in 2021. The operating loss in 2022 decreased by \$839,259, or 81.0%. The operating loss in 2021 increased by \$667,580, or 180.9%.
- Nonoperating net revenue decreased by \$3,516,967, or 52.8%, in 2022 compared with 2021. Nonoperating net revenue increased by \$5,933,935, or 813.7%, in 2021 compared with 2020.

#### Using This Annual Report

The District's financial statements consist of three statements: net position; revenues, expenses, and changes in net position; and cash flows. These financial statements and the related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the District's finances begins on page 6. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?". The statements of net position and the statements of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position (the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources) as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as the local economic factors, to assess the overall health of the District.

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Management's Discussion and Analysis**

Years Ended December 31, 2022 and 2021

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#### **The Statements of Cash Flows**

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

#### **The District's Net Position**

The District's net position is the difference between its assets and deferred outflows of resources; and liabilities and deferred inflows of resources reported in the statements of net position on page 12. The District's net position increased by \$3,165,881, or 18.8%, in 2022 and increased by \$5,636,397, or 50.2%, in 2021, as shown in Table 1.



# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Management's Discussion and Analysis

Years Ended December 31, 2022 and 2021

Table 1: *Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position*

Significant components of the change in the District's assets and liabilities were the decrease in current liabilities of approximately \$2,748,000, the increase in board designated cash and investments of approximately \$933,000, the decrease in long-term debt and lease obligations - Less current portion of approximately \$424,000, and \$353,000 increase in total OPEB liability.

	2022	2021	2020
<b>Assets:</b>			
Current assets	\$ 10,119,168	\$ 10,528,864	\$ 10,032,970
Board designated cash and investments	12,530,605	11,597,375	14,879,480
Capital assets - Net	10,925,104	11,235,987	8,110,444
Deferred outflows of resources	904,555	984,894	1,012,046
<b>Total assets and deferred outflows of resources</b>	<b>\$ 34,479,432</b>	<b>\$ 34,347,120</b>	<b>\$ 34,034,940</b>
<b>Liabilities and deferred inflows of resources:</b>			
Current liabilities	\$ 3,022,307	\$ 5,769,885	\$ 8,939,355
Long-term debt and lease obligations - Less current portion	6,542,508	6,966,825	9,342,389
Total OPEB liability	3,372,661	3,019,276	3,204,751
Deferred inflows of resources	1,500,654	1,715,713	1,309,421
<b>Total liabilities and deferred inflows of resources</b>	<b>14,438,130</b>	<b>17,471,699</b>	<b>22,795,916</b>
<b>Net position:</b>			
Net investment in capital assets	4,030,561	3,343,889	4,177,761
Unrestricted	16,010,741	13,531,532	7,061,263
<b>Total net position</b>	<b>20,041,302</b>	<b>16,875,421</b>	<b>11,239,024</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 34,479,432</b>	<b>\$ 34,347,120</b>	<b>\$ 34,034,940</b>

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Management's Discussion and Analysis

Years Ended December 31, 2022 and 2021

#### Operating Results and Changes in the District's Net Position

In 2022, the District's net position increased by \$3,165,881, or 18.8%, as shown in Table 2. This increase is made up of several different components.

*Table 2: Operating Results and Changes in Net Position*

	2022	2021	2020
Operating revenue:			
Net patient service revenue	\$ 28,643,715	\$ 26,127,718	\$ 25,308,813
Other operating revenue	772,160	816,562	549,893
<b>Total operating revenue</b>	<b>29,415,875</b>	<b>26,944,280</b>	<b>25,858,706</b>
Operating expenses:			
Salaries and benefits	19,525,550	19,001,179	18,488,471
Supplies	2,894,209	2,986,731	2,471,522
Depreciation and amortization	1,030,558	770,864	458,502
Other operating expenses	6,162,943	5,222,150	4,809,275
<b>Total operating expenses</b>	<b>29,613,260</b>	<b>27,980,924</b>	<b>26,227,770</b>
<b>Operating loss</b>	<b>(197,385)</b>	<b>(1,036,644)</b>	<b>(369,064)</b>
Nonoperating revenue (expenses):			
Taxation for maintenance and operations	750,506	733,149	693,208
Interest income	251,106	79,425	65,159
Interest expense	(196,584)	(247,473)	(112,205)
Grants and contributions	2,341,238	6,098,132	83,136
<b>Total nonoperating revenue - Net</b>	<b>3,146,266</b>	<b>6,663,233</b>	<b>729,298</b>
<b>Income before capital grants and contributions</b>	<b>2,948,881</b>	<b>5,626,589</b>	<b>360,234</b>
<b>Capital grants and contributions</b>	<b>217,000</b>	<b>9,808</b>	<b>40,000</b>
<b>Change in net position</b>	<b>3,165,881</b>	<b>5,636,397</b>	<b>400,234</b>
<b>Net position at beginning</b>	<b>16,875,421</b>	<b>11,239,024</b>	<b>10,838,790</b>
<b>Net position at end</b>	<b>\$ 20,041,302</b>	<b>\$ 16,875,421</b>	<b>\$ 11,239,024</b>

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Management's Discussion and Analysis

Years Ended December 31, 2022 and 2021

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The District implemented Government Accounting Standards Board Statement No. 87 - *Leases* retroactively to January 1, 2021. 2020 amounts presented in Management's Discussion and Analysis have not been modified for adoption of GASB 87.

#### Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income (loss), generally the difference between net patient revenue and the expenses incurred to perform those services. The District reported an operating loss in 2022 and 2021. The District's hospital operations began in 1961 as a public hospital district, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the District's lower-income residents.

The primary components of these operating results are:

- An increase in net patient service revenue of \$2,515,997, or 9.6%, in 2022. Net patient service revenue increased \$818,905, or 3.2%, in 2021.
- An increase in salary and benefit costs for the District's employees of \$524,371, or 2.8%, in 2022. Salary and benefit costs increased by \$495,502, or 2.7%, in 2021.
- Supply costs decreased by \$92,522, or 3.1%, in 2022. Supply costs increased by \$515,209, or 20.8%, in 2021.
- The District's level of uncompensated care charges was \$256,752 in 2022 and \$195,337 in 2021, or 0.8% and 0.6% of gross revenue, respectively. These are services provided for which no payment is expected.

The District is certified as a provider under both the Medicare program, which provides certain health care benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy families. Approximately 56% of the net patient service revenue for the year ended December 31, 2022, was derived from Medicare, and 16% was derived from Medicaid. On the Medicare patient side, until July 31, 2000, the District was paid on a fixed case rate that was adjusted for inflation each year, and the District would lose money on any cases with expenses exceeding the reimbursement. As of August 1, 2000, the District was designated a critical access hospital by the Centers for Medicare and Medicaid Services. The District initiated a process to qualify for this designation based on certain criteria that have allowed the District, since that date, to receive reimbursement based on actual costs. As for Medicaid, the federal government provides grants to states that have programs meeting certain federal guidelines. These funds are sometimes reduced as the federal or state governments try to balance their budgets.

Union employee salary and benefit costs increased annually based on rates established in labor contracts negotiated in 2003 and revised in 2005, 2009, 2012, 2014, 2016, 2021, and 2023. The District's current collective bargaining agreement for all its union employees expires on December 31, 2024.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Management's Discussion and Analysis

Years Ended December 31, 2022 and 2021

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#### **Operating Income (Loss) (Continued)**

The rate of health care inflation typically has a direct effect on the cost of services provided by the District. A component of the District's costs is expenses for medical supplies and prescription drugs. In 2022, medical supplies and prescription drug costs were \$2,894,209, consisting of 9.8% of total operating expenses. In 2021, medical supplies and prescription drug costs were \$2,986,731, consisting of 10.7% of total operating expenses.

The District sometimes provides care for patients with little or no health insurance or other means of repayment. As discussed, this community service is consistent with the goals established for the District when it was created in 1961. The level of services provided to these patients increased by \$61,415 in 2022 compared with 2021 and increased by \$60,725 in 2021 compared with 2020. Because there is no expectation of repayment, charity care is not reported as patient service revenue of the District.

#### **Nonoperating Revenue and Expenses**

Nonoperating revenue consists primarily of property taxes levied by the District, interest revenue and investment earnings, and grants and contributions. Nonoperating tax revenue increased by \$17,357, or 2.4%, in 2022 compared with the increase of \$39,941, or 5.8%, in 2021. Nonoperating grants and contributions revenue decreased \$3,756,894 in 2022 due to a decrease in Provider Relief Fund revenue recognized during the year and no Paycheck Protection Program loan forgiveness during the year ended December 31, 2022.

#### **Grants, Contributions, and Endowments**

The District, from time to time, receives grants from the state of Washington and various other agencies for specific programs. These are discussed in detail in Note 1 to the financial statements. The District received funds from the Washington State Department of Health for trauma service in 2021 and 2022, from Better Health Together for care coordination in 2021 and 2022 and the Department of Health and Human Services Provider Relief Fund in 2021. The District received no permanent endowments in 2021 or 2022.

#### **The District's Cash Flows**

Changes in the District's cash flows are consistent with the changes in operating income (loss) and nonoperating revenue and expenses.

#### **Capital Asset and Debt Administration**

##### *Capital Assets*

At the end of 2022 and 2021, the District had \$10,925,104 and \$11,235,987, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2022, the District purchased new capital assets and recognized new right-of-use assets totaling \$719,674. In 2021, the District finished the new clinic building, purchased new equipment and improvements to facilities costing \$3,563,950. The District entered into no new lease agreements during 2022 or 2021. The District has occasionally found it more economical to lease some of its equipment. This allows the District to avoid some costs of obsolescence caused by technological changes.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Management's Discussion and Analysis

Years Ended December 31, 2022 and 2021

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#### *Debt*

At year-end, the District had approximately \$6,895,000 in long-term debt and lease obligations, compared with \$7,352,000 in 2021. The District issued no new debt in 2022 and 2021. The District's formal debt issuances, certificates of participation, cannot be issued without approval of the District's Board of Commissioners. The amount of debt issued is subject to limitations that apply to hospital districts within the state of Washington. There have been no changes in the District's debt ratings in the past two years.

#### **Other Economic Factors**

Competition from other hospitals and health care providers is a risk to the District's revenue. New or existing hospitals and health care providers try to carve out profitable segments of the District's business by expanding their operations and/or facilities to meet the demand of growing health care in this area.

#### **Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the finance department at Lincoln Hospital, 10 Nichols Street, Davenport, Washington 99122.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Statements of Net Position

December 31, 2022 and 2021

	2022	2021
Current assets:		
Cash and cash equivalents	\$ 3,748,998	\$ 6,764,390
Patient accounts receivable - Net	3,903,797	2,592,243
Estimated third-party payor settlements receivable	1,456,316	192,649
Taxes receivable	16,717	12,948
Other receivables	129,475	80,688
Inventories	725,785	694,734
Prepaid expenses	138,080	191,212
<b>Total current assets</b>	<b>10,119,168</b>	<b>10,528,864</b>
Noncurrent cash and investments	12,530,605	11,597,375
Capital assets:		
Nondepreciable capital assets	930,677	937,708
Depreciable capital assets - Net	9,994,427	10,298,279
<b>Capital assets - Net</b>	<b>10,925,104</b>	<b>11,235,987</b>
Deferred outflows of resources - OPEB	904,555	984,894
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 34,479,432</b>	<b>\$ 34,347,120</b>

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Statements of Net Position (Continued)

December 31, 2022 and 2021

	2022	2021
Current liabilities:		
Current portion of long-term debt	\$ 180,000	\$ 175,000
Current portion of lease obligations	172,035	210,124
Accounts payable	761,707	1,149,497
Employee compensation and related liabilities	1,887,252	1,884,675
Accrued interest	21,313	22,042
Unearned revenue	-	2,328,547
Total current liabilities	3,022,307	5,769,885
Long-term liabilities:		
Long-term debt - Less current portion	6,315,678	6,574,952
Lease obligations - Less current portion	226,830	391,873
Total OPEB liability	3,372,661	3,019,276
Total long-term liabilities	9,915,169	9,986,101
Total liabilities	12,937,476	15,755,986
Deferred inflows of resources - OPEB	1,500,654	1,715,713
Net position:		
Net investment in capital assets	4,030,561	3,343,889
Unrestricted	16,010,741	13,531,532
Total net position	20,041,302	16,875,421
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 34,479,432	\$ 34,347,120

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

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

Years Ended December 31, 2022 and 2021

	2022	2021
Operating revenue:		
Net patient service revenue	\$ 28,643,715	\$ 26,127,718
Grants	242,220	205,012
Other	529,940	611,550
<b>Total operating revenue</b>	<b>29,415,875</b>	<b>26,944,280</b>
Expenses:		
Salaries and wages	15,737,786	15,313,277
Employee benefits	3,787,764	3,687,902
Professional fees	857,578	899,603
Supplies	2,894,209	2,986,731
Purchased services - Utilities	503,463	468,574
Purchased services - Other	4,036,288	3,043,913
Depreciation and amortization	1,030,558	770,864
Rental and leases	41,707	144,667
Insurance	239,331	258,656
Other	484,576	406,737
<b>Total expenses</b>	<b>29,613,260</b>	<b>27,980,924</b>
<b>Operating loss</b>	<b>(197,385)</b>	<b>(1,036,644)</b>
Nonoperating revenue (expenses):		
Taxation for maintenance and operations	750,506	733,149
Grants and contributions	2,341,238	6,098,132
Interest income	251,106	79,425
Interest expense	(196,584)	(247,473)
<b>Total nonoperating revenue - Net</b>	<b>3,146,266</b>	<b>6,663,233</b>
Income before capital grants and contributions	2,948,881	5,626,589
Capital grants and contributions	217,000	9,808
<b>Change in net position</b>	<b>3,165,881</b>	<b>5,636,397</b>
Net position at beginning	16,875,421	11,239,024
<b>Net position at end</b>	<b>\$ 20,041,302</b>	<b>\$ 16,875,421</b>



# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Receipts from and on behalf of patients and third-party payors	\$ 26,068,494	\$ 26,856,090
Receipts from grants	242,220	205,400
Receipts from other operating revenue	481,153	635,847
Payments to and on behalf of employees	(19,304,308)	(18,652,141)
Payments to suppliers and contractors	(8,882,711)	(8,470,970)
Net cash provided by (used in) operating activities	(1,395,152)	574,226
Cash flows from noncapital financing activities -		
Property taxes for maintenance and operations	746,737	734,616
Grants and contributions received	12,690	564,240
Net cash provided by noncapital financing activities	759,427	1,298,856
Cash flows used in capital and related financing activities:		
Principal paid on long-term debt and lease obligations	(378,132)	(386,081)
Interest paid on long-term debt and lease obligations	(276,588)	(289,835)
Capital grants and contributions received	217,000	9,808
Purchase of capital assets	(1,259,823)	(3,499,067)
Net cash used in capital and related financing activities	(1,697,543)	(4,165,175)
Cash flows from investing activities -		
Interest received	251,106	79,423
Net change in cash and cash equivalents	(2,082,162)	(2,212,670)
Cash and cash equivalents at beginning	18,361,765	20,574,435
Cash and cash equivalents at end	\$ 16,279,603	\$ 18,361,765

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Statements of Cash Flows (Continued)

Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (197,385)	\$ (1,036,644)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,030,558	770,864
Provision for bad debts	601,152	538,749
Changes in assets and liabilities:		
Receivables:		
Patient accounts receivable - Net	(1,912,706)	(504,509)
Estimated third-party payor settlements	(1,263,667)	694,133
Other	(48,787)	24,297
Inventories	(31,051)	(72,825)
Prepaid expenses	53,133	(107,771)
Accounts payable	152,359	(63,900)
Employee compensation and related liabilities	2,577	83,863
Change in total OPEB	353,385	(185,475)
Change in deferred inflows	(215,059)	406,292
Change in deferred outflows	80,339	27,152
Total adjustments	(1,197,767)	1,610,870
Net cash provided by (used in) operating activities	\$ (1,395,152)	\$ 574,226
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents in current assets	\$ 3,748,998	\$ 6,764,390
Cash and cash equivalents in noncurrent cash and investments	12,530,605	11,597,375
Total cash and cash equivalents	\$ 16,279,603	\$ 18,361,765
Noncash capital and related financing activities:		
Capital asset additions included in accounts payable	\$ -	\$ 540,149
Paycheck Protection Program loan principal and interest forgiven	-	2,902,060

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies**

##### **The Entity**

Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital (the "District") owns and operates Lincoln Hospital (the "Hospital"), a licensed 25-bed critical access hospital (CAH), and rural health clinics located in Davenport, Wilbur, and Reardan, Washington. The District provides health care services to patients in Davenport, Wilbur, and Reardan, Washington, and the surrounding areas. The services provided include an acute care hospital, an emergency room, a 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 relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of seven community members elected to six-year terms. The District is not a component unit of Lincoln County.

##### **The Foundation**

Lincoln Hospital Foundation (the "Foundation") is a legally separate not-for-profit organization whose purpose is to solicit, hold, manage, invest, and expend endowment funds and other gifts, grants, and bequests almost exclusively for the benefit of the District. However, upon dissolution, the net assets of the Foundation are not required to be distributed to the District. The Foundation is managed by an independent Board of Directors and is not financially accountable to the District. The financial resources of the Foundation are not significant to the District as a whole and, accordingly, financial information related to the Foundation is not included in these financial statements.

##### **Use of Estimates in Preparation of Financial Statements**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The District considers significant accounting estimates to be those which require more significant judgments and include the valuation of accounts receivable, including contractual allowances and provision for uncollectible accounts and the estimated third-party payor settlements.

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Enterprise Fund Accounting**

The District's accounting policies conform to GAAP 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 directly with the Lincoln County Treasurer, who acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer. The treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all investments with maturity dates of less than 90 days when purchased to be cash equivalents.

##### **Patient Accounts Receivable and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for doubtful accounts, which reflect management's estimate of the amounts that will not be collected. Management provides for contractual allowances under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable.

In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts for which patients are personally responsible, through a reduction of gross revenue and a credit to an allowance for doubtful accounts.

In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts 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.

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Patient Accounts Receivable and Credit Policy (Continued)**

For receivables associated with self-pay patients (which includes 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 discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

##### **Inventories**

Inventories are stated at lower of cost or net realizable value on the first-in, first-out method. Inventories consist of pharmaceutical, medical, and other supplies used in the District's operations.

##### **Noncurrent Cash and Investments**

Noncurrent cash and investments includes assets set aside by the Board of Commissioners for future capital improvements and construction of facilities over which the Board retains control and may, at its discretion, use for other purposes. It also includes unspent debt proceeds held with the Washington State Treasurer's Office restricted for construction of facilities.

##### **Capital Assets**

The District capitalizes assets whose costs exceed \$5,000 and that have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful life, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Property and equipment acquisitions are recorded at cost or, if donated, at acquisition value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 2 to 25 years for moveable and fixed equipment and from 5 to 40 years for land improvements and buildings.

Equipment under lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation and amortization expense in the accompanying financial statements.

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Impairment of Long-Lived Assets**

Capital assets are reviewed for impairment when events or changes in circumstances suggest the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. There were no impairment losses recorded for the years ended December 31, 2022 and 2021.

##### **Compensated Absences**

The District's policy is to permit employees to accumulate paid vacation benefits based on the average number of hours worked per week and the number of years of service. The maximum amount an employee may accrue during a one-year period is 224 hours. All paid vacation benefits are accrued and expensed when earned.

The District permits employees to accumulate paid sick leave benefits based on the average hours worked per week. The maximum amount an employee may accrue during a one-year period is 96 hours. The maximum amount an employee may accumulate is 600 hours. All sick leave benefits are expensed when taken.

Employees who have worked continuously for five consecutive years as of December 31, 1992, are eligible to participate in the Hospital Sick Leave Pay-out Program if they continue to be employed for 10 years. The maximum number of hours these employees are eligible for at termination is frozen as of December 31, 1992, at their December 31, 1992, rate of pay. The District has recorded a liability for amounts payable under this program as of December 31, 2022 and 2021.

##### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of net position report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District reports deferred outflows of resources for contributions to OPEB plans subsequent to the measurement date of the OPEB liability.

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources related to its OPEB liability.

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Net Position**

Net position of the District is classified into two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position consists of the remaining net position that does not meet the definition above.

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.

##### **Operating Revenue and Expenses**

The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions, including grants for specific operating activities associated with providing health care services, the District's principal activity. Nonexchange revenue, including taxes and contributions received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs. All other revenue and expenses not meeting these definitions, such as interest, are reported as nonoperating revenue and expenses.

##### **Net Patient Service Revenue**

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

##### **Charity Care**

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

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense totaled \$96,479 in 2022 and \$85,015 in 2021.

##### **Grants and Contributions**

From time to time, the District receives grants from the state of Washington and other entities, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenue 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.

##### **District Property Tax Revenue**

The District has the authority to impose taxes on property within the boundaries of the health care district. Taxes are received from Lincoln County (the "County"), which bills and collects the taxes for the District. Secured property taxes attach as an enforceable lien on property as of January 1 and are payable in two installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

##### **New Accounting Pronouncement**

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. The statement enhances the relevance and consistency of reporting for the District's leasing activities by establishing requirements for lease accounting based on the principle that leases are financings of underlying right-to-use assets. A lessee is required to recognize a lease liability and intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. The adoption of this guidance was retroactive for the year ended December 31, 2022. The adoption of this guidance did not have a significant impact on beginning December 31, 2021 net position.

In May 2020, the GASB issued GASB Statement number 96 - *Subscription-Based Information Technology Arrangements* (SBITA). This statement improves financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and reporting for SBITA transactions. The statement will enhance the relevance and reliability of the District's financial statements by requiring the District to report a subscription asset and subscription liability for SBITAs and disclose essential information about the arrangements. The requirements of this statement are effective for the District's fiscal year ending December 31, 2023, and are to be applied retroactively.



# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### Note 2: Bank Deposits and Investments

##### Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be refunded to it. The District does not have a deposit policy for custodial credit risk.

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple-financial-institution collateral pool administered by the Washington Public Deposit Protection Commission.

##### Investments

*Interest Rate Risk:* The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

The District's cash and investment balances consisted of the following at December 31:

	2022	2021
LGIP	\$ 10,830,335	\$ 12,830,335
Cash deposits with financial institutions carrying amount	5,449,268	5,531,430
Total cash and investments	\$ 16,279,603	\$ 18,361,765

Average days to maturity of LGIP assets was 19 days at December 31, 2022.

The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company. It is a voluntary investment vehicle operated by the Washington State Treasurer. Over 530 local governments have participated in the Pool since it was started in 1986 to provide safe, liquid, and competitive investment options for local governments pursuant to the Revised Code of Washington (RCW) 43.250. All investments are subject to written policies and procedures adopted by the State Treasurer's Office. The LGIP is considered extremely low risk. Funds are invested in a portfolio of securities in a manner generally consistent with the SEC's Rule 2A-7 of the Investment Company Act of 1940 as it currently stands. The LGIP functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings using an amortized cost methodology. Unrealized gains and losses due to changes in the fair values are not distributed to the District.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 2: Bank Deposits and Investments (Continued)

##### Investments (Continued)

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

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9am on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10am on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9am and 10am, at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The LGIP is not subject to the fair value hierarchy disclosures.

#### Note 3: Noncurrent Cash and Investments

Noncurrent cash and investments consisted of the following at December 31:

	2022	2021
Cash and cash equivalents - Board designated	\$ 1,700,270	\$ 767,040
LGIP - Board designated	10,830,335	10,830,335
Total noncurrent cash and investments	\$ 12,530,605	\$ 11,597,375

#### Note 4: Patient Accounts Receivable - Net

Patient accounts receivable consisted of the following at December 31:

	2022	2021
Receivables from patients and their insurance carriers	\$ 2,263,292	\$ 1,604,933
Receivables from Medicare	1,984,676	1,385,773
Receivables from Medicaid	698,507	367,215
Total patient accounts receivable	4,946,475	3,357,921
Less:		
Contractual allowances	754,000	438,000
Allowance for doubtful accounts	288,678	327,678
Patient accounts receivable - Net	\$ 3,903,797	\$ 2,592,243

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### **Note 5: Reimbursement Arrangements With Third-Party Payors**

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

##### **Hospital**

*Medicare* - The Medicare program has designated the District as a CAH for Medicare reimbursement purposes. Under this designation, the Hospital's inpatient, outpatient, and swing bed services rendered to Medicare program beneficiaries are paid based on a cost-reimbursement methodology, with the exception of certain lab and mammography services, which are reimbursed based on fee schedules.

*Medicaid* - Medicaid reimbursement for inpatient and outpatient hospital services is paid based on cost as defined and limited by the Washington State Health Care Authority. Medicaid swing bed services are reimbursed on a prospectively set rate per day. Medicaid pays rural health clinic services on a prospectively set rate per visit.

##### **Physician and Professional Services in Rural Health Clinics**

Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

Effective April 1, 2021, Medicare reimbursement for existing provider-based rural health clinics affiliated with hospitals with less than 50 available beds is limited to a per-visit base rate inflated annually by the Medicare Economic Index.

##### **Other**

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

##### **Accounting for Contractual Arrangements**

The Hospital is reimbursed for certain cost-reimbursable items at an interim rate, with final settlements determined after an audit of the Hospital's related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The cost reports for the Hospital have been final settled by Medicare and Medicaid through 2019 and 2016 respectively.

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 5: Reimbursement Arrangements With Third-Party Payors (Continued)**

##### **Compliance**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Management believes the District is in compliance with applicable government laws and regulations. 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.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Certain states have also hired Medicaid Integrity Contractors (MIC) to perform audits similar to RACs. The District will have the ability to appeal adjustments before final settlement of the claim is made. As of December 31, 2022, the District had not been notified by the RAC or MIC of any potential significant reimbursement adjustments.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 6: Capital Assets

Capital asset activity for the year ended December 31, 2022, follows:

	Balance at December 31, 2021	Additions	Retirements	Transfers	Balance at December 31, 2022
Nondepreciable capital assets:					
Land	\$ 331,080	\$ -	\$ -	\$ -	\$ 331,080
Construction in progress	145,078	489,440	-	(496,471)	138,047
Land not used in operations	461,550	-	-	-	461,550
 Total nondepreciable capital assets	 937,708	 489,440	 -	 (496,471)	 930,677
Depreciable capital assets:					
Land improvements	324,429	-	-	-	324,429
Buildings	12,833,751	24,056	-	-	17,482,719
Fixed equipment	5,223,676	86,827	-	-	5,310,503
Moveable equipment	7,595,822	119,351	-	496,471	8,211,644
 Total depreciable capital assets	 25,977,678	 230,234	 -	 496,471	 26,704,383
Less accumulated depreciation for:					
Land improvements	307,380	2,881	-	-	310,261
Buildings	4,341,421	532,486	-	-	4,873,907
Fixed equipment	4,864,509	89,554	-	-	4,954,063
Moveable equipment	6,166,089	405,636	-	-	6,571,725
 Total accumulated depreciation	 15,679,399	 1,030,557	 -	 -	 16,709,956
 Total assets being depreciated - Net	 10,298,279	 (800,323)	 -	 496,471	 9,994,427
 Capital assets - Net	 \$ 11,235,987	 \$ (310,883)	 \$ -	 \$ -	 \$ 10,925,104

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 6: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2021, follows:

	Balance at December 31, 2020	Additions	Retirements	Transfers	Balance at December 31, 2021
Nondepreciable capital assets:					
Land	\$ 331,080	\$ -	\$ -	\$ -	\$ 331,080
Construction in progress	4,624,913	145,077	-	(4,624,912)	145,078
Land not used in operations	461,550	-	-	-	461,550
 Total nondepreciable capital assets	 5,417,543	 145,077	 -	 (4,624,912)	 937,708
Depreciable capital assets:					
Land improvements	324,429	-	-	-	324,429
Buildings	4,874,853	3,333,986	-	4,624,912	12,833,751
Fixed equipment	5,223,676	-	-	-	5,223,676
Moveable equipment	7,510,935	84,887	-	-	7,595,822
 Total depreciable capital assets	 17,933,893	 3,418,873	 -	 4,624,912	 25,977,678
Less accumulated depreciation for:					
Land improvements	304,047	3,333	-	-	307,380
Buildings	4,022,210	319,211	-	-	4,341,421
Fixed equipment	4,773,701	90,808	-	-	4,864,509
Moveable equipment	5,808,571	357,518	-	-	6,166,089
 Total accumulated depreciation	 14,908,529	 770,870	 -	 -	 15,679,399
 Total assets being depreciated - Net	 3,025,364	 2,648,003	 -	 4,624,912	 10,298,279
 Capital assets - Net	 \$ 8,442,907	 \$ 2,793,080	 \$ -	 \$ -	 \$ 11,235,987

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 6: Capital Assets (Continued)

Construction in progress at December 31, 2022 was primarily costs for the implementation of various new software systems and a new electronic medical record software. These projects are expected to be completed in early 2023 with an expected additional cost of approximately \$1,720,000.

Right-of-use asset activity included within moveable equipment above consisted of the following during the year ended December 31, 2022:

	Balance at January 1, 2022	Additions	Retirements	Transfers	Balance at December 31, 2022
Intangible right-to-use capital assets - Equipment	\$ 711,365	\$ -	\$ -	\$ -	711,365
Less - Accumulated depreciation	170,529	134,824	-	-	305,353
Intangible right-to-use capital assets - Net	\$ 540,836	\$ (134,824)	\$ -	\$ -	406,012

Right-of-use asset activity included within moveable equipment above consisted of the following during the year ended December 31, 2021:

	Balance at January 1, 2021	Additions	Retirements	Transfers	Balance at December 31, 2021
Intangible right-to-use capital assets - Equipment	\$ 711,365	\$ -	\$ -	\$ -	711,365
Less - Accumulated depreciation	-	170,529	-	-	170,529
Intangible right-to-use capital assets - Net	\$ 711,365	\$ (170,529)	\$ -	\$ -	540,836

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 7: Long-Term Debt

Long-term debt for the year ended December 31, 2022, follows:

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Amounts Due Within One Year
Long-term debt:					
Certificates of Participation, Series 2020B	\$ 5,290,000	\$ -	\$ (175,000)	\$ 5,115,000	\$ 180,000
Series 2020B premium	1,459,952	-	(79,274)	1,380,678	-
<b>Total long-term debt</b>	<b>\$ 6,749,952</b>	<b>\$ -</b>	<b>\$ (254,274)</b>	<b>\$ 6,495,678</b>	<b>\$ 180,000</b>

Long-term debt for the year ended December 31, 2021, follows:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Amounts Due Within One Year
Long-term debt:					
Certificates of participation, Series 2020B	\$ 5,445,000	\$ -	\$ (155,000)	\$ 5,290,000	\$ 175,000
Series 2020B premium	1,539,225	-	(79,273)	1,459,952	9,875,183
PPP Loan	2,871,500	-	(2,871,500)	-	-
Note Payable	19,458	-	(19,458)	-	-
<b>Total long-term debt</b>	<b>9,875,183</b>	<b>\$ -</b>	<b>\$ (3,125,231)</b>	<b>\$ 6,749,952</b>	<b>\$ 175,000</b>

#### Certificates of Participation, Series 2020B - Direct Placement

The District issued Certificates of Participation, Series 2020B (COP 2020B), dated July 9, 2020 in the amount of \$5,445,000 plus an original issue premium of \$1,585,468, to finance the construction of a new medical office building. The COP 2020B are due in annual principal installments ranging from \$155,000 to \$415,000, plus semiannual interest payments at 2.217%, maturing in June 2040, and are secured by the financed assets. The COP 2020B are subject to arbitrage requirements set forth by the Internal Revenue Service, certain expenditure requirements, and insurance requirements. The District has pledged its full faith and credit to make payments as required by the agreement. Upon default, the state of Washington may terminate the agreement upon written notification to the District of such election.



# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### Note 7: Long-Term Debt (Continued)

##### Paycheck Protection Program - Direct Borrowing

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designed to help small businesses cover their near-term operating expenses and to provide a strong incentive to retain their employees during the COVID-19 crisis. The District applied for and was approved for a loan of \$2,871,500 that was then forgiven in full by the SBA in May 2021. The loan forgiveness is reported in nonoperating grants and contributions in the accompanying statements of revenue, expenses, and changes in net position.

##### Maturity Schedules

Scheduled principal and interest payments on long-term debt are as follows:

	COP 2020B	
	Principal	Interest
2023	\$ 180,000	\$ 251,250
2024	190,000	242,000
2025	200,000	232,250
2026	210,000	222,000
2027	220,000	211,250
2028-2032	1,285,000	874,875
2033-2037	1,635,000	511,375
2038-2042	1,195,000	91,375
Totals	\$ 5,115,000	\$ 2,636,375

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 8: Lease Obligations

Lease obligations for the year ended December 31, 2022, are as follows:

	Balance at December 31, 2021	Additions	Reductions	Balance at December 31, 2022	Amounts Due Within One Year
Lease obligations:					
Phillips mobile X-ray	\$ 89,733	\$ -	\$ (31,838)	\$ 57,895	\$ 36,124
Phillips fixed X-ray	149,033	-	(49,118)	99,915	50,986
Phillips C-arm	108,386	-	(42,829)	65,557	48,787
Physical therapy building	163,255	-	(21,801)	141,454	22,290
Pyxis Carefusion	44,002	-	(44,002)	-	-
MailFinance machine	9,158	-	(3,371)	5,787	3,447
Baxter pumps	38,430	-	(10,173)	28,257	10,401
<b>Total lease obligations</b>	<b>\$ 601,997</b>	<b>\$ -</b>	<b>\$ (203,132)</b>	<b>\$ 398,865</b>	<b>\$ 172,035</b>

Lease obligations for the year ended December 31, 2021, are as follows:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Amounts Due Within One Year
Lease obligations:					
Phillips mobile X-ray	\$ 121,721	\$ -	\$ (31,988)	\$ 89,733	\$ 34,684
Phillips fixed X-ray	197,819	-	(48,786)	149,033	48,982
Phillips C-arm	161,617	-	(53,231)	108,386	46,654
Physical therapy building	184,583	-	(21,328)	163,255	21,801
Pyxis Carefusion	87,042	-	(43,040)	44,002	44,001
MailFinance machine	12,456	-	(3,298)	9,158	3,371
Baxter pumps	48,382	-	(9,952)	38,430	10,631
<b>Total lease obligations</b>	<b>813,620</b>	<b>\$ -</b>	<b>\$ (211,623)</b>	<b>\$ 601,997</b>	<b>\$ 210,124</b>

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### **Note 8: Lease Obligations (Continued)**

The terms of the District's lease obligations are as follows:

##### **Baxter Infusion Pumps**

Lease agreement in the original principal amount of \$48,382, due in monthly installments of \$910, including imputed interest at 2.21%, through August 2025, collateralized by the leased asset.

##### **Physical Therapy Building**

Lease agreement in the original principal amount of \$184,583, due in monthly installments of \$2,100 including imputed interest at 2.21%, through December 2028, collateralized by leased premises.

##### **MailFinance Mail Sorting Machine**

Lease agreement in the original principal amount of \$12,456, due in monthly installments of \$295, including imputed interest at 2.21%, through August 2024, collateralized by the leased asset.

##### **Carefusion Pyxis Medication Dispensing Machine**

Lease agreement in the original principal amount of \$87,042, due in monthly installments of \$3,711, including imputed interest at 2.21%, through December 2022, collateralized by the leased asset.

##### **Philips Mobile X-Ray**

Lease agreement in the original principal amount of \$121,721, due in monthly installments of \$3,151 including imputed interest at varying rates, through July 2024, collateralized by the leased asset.

##### **Philips Fixed X-Ray**

Lease agreement in the original principal amount of \$197,819, due in monthly installments of \$4,520, including imputed interest at varying rates, through December 2024, collateralized by the leased asset.

##### **Philips C-Arm**

Lease agreement in the original principal amount of \$161,617, due in monthly installments of \$4,227, including imputed interest at 1.71%, through April 2024, collateralized by the leased asset.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 8: Lease Obligations (Continued)

##### Maturity Schedules

Scheduled principal and interest payments on lease obligations are as follows:

	Principal	Interest
2023	\$ 172,035	\$ 9,935
2024	123,232	4,333
2025	30,520	1,961
2026	23,821	1,379
2027	24,355	845
2028-2032	24,902	300
Totals	\$ 398,865	\$ 18,753

#### Note 9: Net Patient Service Revenue

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

	2022	2021
Gross patient service revenue:		
Hospital inpatient	\$ 6,096,904	\$ 7,195,435
Hospital outpatient	24,718,928	21,205,869
Physician clinics	4,221,860	4,308,061
Totals	35,037,692	32,709,365
Less:		
Contractual allowances	5,792,825	6,020,525
Provision for bad debts	601,152	561,122
Net patient service revenue	\$ 28,643,715	\$ 26,127,718

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 9: Net Patient Service Revenue (Continued)

The following table reflects the percentage of gross patient service revenue by payor source for the years ended December 31:

	2022	2021
Medicare	50 %	53 %
Medicaid	18 %	15 %
Other third-party payors	29 %	29 %
Self-pay	3 %	3 %
Total payors	100 %	100 %

#### Note 10: Charity Care

The District provides charity care to patients who are financially unable to pay for the health care 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 revenue or in the allowance for doubtful accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system. The estimated cost of providing care to patients under the Hospital's charity care policy was approximately \$218,000 in 2022 and \$169,000 in 2021, calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care. The District did not receive any gifts or grants to subsidize charity care during 2022 and 2021.

#### Note 11: Pension Plan

The District provides pension benefits for employees who have completed one year of employment and attained the age of 21 through Lincoln County Public Hospital District No. 3 Section 401(a) Profit Sharing Plan (the "Plan"), a defined contribution plan. Employees who are classified as "supplemental" employees are not eligible to participate in the Plan. The Plan is administered by the District. In a defined contribution plan, benefits depend solely on amounts contributed by the District and District's employees to the plan plus investment earnings. Employees are eligible to participate after one year of service if they agree to contribute 3% of their compensation to Lincoln County Public Hospital District No. 3 Deferred Compensation Section 457(b) Plan. The 457(b) plan is a defined contribution plan administered by the District. The District contributes 3% of the employee's salary, and contributions are made on an annual basis. The District's contributions are vested at 50% after two years of service, with graduated increases until vesting reaches 100% after three years of service. District contributions and interest forfeited by employees who leave employment before three years of service are used to pay plan expenses and to reduce the District's current-period contribution requirement. The District made the required contributions of approximately \$387,081 for 2022 and \$364,178 for 2021 to the 401(a) plan. Employees contributed approximately \$815,000, for 2022 and \$886,000 for 2021 to the 457(b) plan.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### Note 12: Other Postemployment Benefits

The District participates in an agent multiple-employer OPEB plan. In accordance with RCW 41.05.085 and RCW 41.05.022, eligible District retirees and spouses are entitled to subsidies associated with postemployment health benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. The District began participation in the PEBB on January 1, 2017.

The subsidies provided by PEBB include the following:

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

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

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

As of the valuation date, the membership includes 158 active participants, 5 retirees, and 1 spouse of current retirees.

#### Total OPEB Liability

	2022	2021
Total OPEB liability	\$ 3,372,661	\$ 3,019,276
Covered employee payroll	14,552,824	13,940,138
Total OPEB liability as a % of covered employee payroll	23.18%	21.66%

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

	2022	2021
Valuation date	July 1, 2020	July 1, 2020
Measurement date	December 31, 2021	December 31, 2020

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 12: Other Postemployment Benefits (Continued)

##### Discount Rate

	2022	2021
Discount rate	2.06%	2.12%
20-year tax exempt municipal bond yield	2.06%	2.12%

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

##### Other Key Actuarial Assumptions

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

##### Changes in Total OPEB Liability

	2022	2021
Beginning-of-year balance	\$ 3,019,276	\$ 3,204,751
Changes for the year:		
Service cost	265,675	264,658
Interest on total OPEB liability	69,408	94,800
Effect of economic/demographic gains or losses	-	(621,351)
Effect of assumptions changes or inputs	40,326	95,646
Benefits paid	(22,024)	(19,228)
End-of-year balance	\$ 3,372,661	\$ 3,019,276

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 12: Other Postemployment Benefits (Continued)

##### Sensitivity Analysis

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the discount rate of 2.06% and 2.12%, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	2022	2021
1% decrease	1.06%	1.12%
Total OPEB liability	\$ 4,146,397	\$ 3,714,674
Discount rate	2.06%	2.12%
Total OPEB liability	3,372,661	3,019,276
1% increase	3.06%	3.12%
Total OPEB liability	2,770,539	2,477,920

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the current health care cost trend rates, as well as what the District's total OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trend rates. Health care trend rates are disclosed on page 45.

	2022	2021
1% decrease	\$ 2,628,384	\$ 2,368,109
Current trend rate	3,372,661	3,019,276
1% increase	4,397,709	3,911,373



# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 12: Other Postemployment Benefits (Continued)

##### OPEB Expense

OPEB expense recognized for the years ended December 31, 2022 and 2021, was \$246,006 and \$266,540, respectively.

##### Deferred Inflows and Deferred Outflows of Resources

At December 31, 2022, deferred inflows and outflows of resources were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 228,945	\$ 502,999
Assumption changes or inputs	648,268	997,655
Benefit payments subsequent to the measurement date	27,342	-
<b>Totals</b>	<b>\$ 904,555</b>	<b>\$ 1,500,654</b>

At December 31, 2021, deferred inflows and outflows of resources were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 264,719	\$ 562,175
Assumption changes or inputs	698,151	1,153,538
Benefit payments subsequent to the measurement date	22,024	-
<b>Totals</b>	<b>\$ 984,894</b>	<b>\$ 1,715,713</b>

Differences between expected and actual experience and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

The \$27,342 reported as deferred outflows related to OPEB resulting from the District's benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2022.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### **Note 12: Other Postemployment Benefits (Continued)**

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

*Years ending December 31:*

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2023	\$	(89,077)
2024		(89,077)
2025		(89,077)
2026		(89,077)
2027		(89,077)
Thereafter		(178,055)

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

#### **Demographic Assumptions**

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2020 actuarial valuation of Washington State Public Employee Retirement System (PERS), and modified for the District.

The assumed disability rates under PERS plan 2 from the 2020 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. The disability rate was assumed to be 0% for all ages.

For service retirement, PERS plan 2 was used, with less than 30 years of service assumptions from the 2020 actuarial valuation for PERS.

For mortality, the assumptions from the 2020 actuarial valuation for PERS (PubG.H-2010 base mortality table with generational mortality adjustments using the long-term MP-2017 generational improvement scale.)

For other termination of employment, the assumptions from the 2020 actuarial valuation for PERS were used, but no less than 2% per year.

*Retirement eligibility:* Members are eligible for service retirement at age 55 with 20 years of service or age 65 with 5 years of service.

*Election assumption:* 40% of members are assumed to elect medical benefits upon retirement. 35% of members are assumed to elect dental benefits upon retirement.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### **Note 12: Other Postemployment Benefits (Continued)**

*Election assumption (spouses):* 40% of members are assumed to enroll eligible spouses as of the retirement date.

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

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

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

#### **Health Cost Trend**

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

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

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

#### Note 12: Other Postemployment Benefits (Continued)

##### Premium Levels

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

Medical Plan	Subscriber or Spouse	
	Non-Medicare	Medicare
Weighted average based on current PEBB retirees	\$ 8,240.28	\$ 3,214.80

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

Dental Plan	Subscriber or Spouse	
	Subscriber	Spouse
Weighted average based on current PEBB retirees	\$ 566.22	\$ 566.22

##### Participant Data

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

	Attained Age At		Count
	Hire	Valuation	
Actives	38.8	49.4	158
Retirees	n/a	75	5

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### Note 13: Property Taxes

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

For the year ended December 31, 2022, the District's regular tax levy was \$0.56 per \$1,000 on a total assessed valuation of \$1,332,653,041, for a total regular tax levy of \$750,506.

For the year ended December 31, 2021, the District's regular tax levy was \$0.59 per \$1,000 on a total assessed valuation of \$1,226,296,385 for a total regular levy of \$733,149.

#### Note 14: Concentration of Credit Risk

Financial instruments that subject the District to possible credit risk consist principally of patient accounts receivable, cash deposits in excess of insured limits, and investments of surplus operating funds. See Note 2 for more details regarding bank deposits and investments.

##### 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 mix of receivables from patients and third-party payors was as follows at December 31:

	2022	2021
Medicare	40 %	41 %
Medicaid	14 %	11 %
Other third-party payors	34 %	29 %
Self-pay	12 %	19 %
Total all payors	100 %	100 %

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 15: Contingencies**

##### **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 coverage in any of the three preceding years.

##### **Medical Malpractice Claims**

The District purchases Washington Casualty Company (Coverys) malpractice liability insurance through Alliant Insurance Services. Coverys provides protection on a “claims made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy. If there are unreported incidents that result in a malpractice claim for the current year, these will be covered only in the year the claim is reported to the insurance carrier if the District purchases claims-made insurance in that year or if the District purchases extended coverage (tail) insurance to cover claims incurred before but reported after cancellation or expiration of a claims-made policy. The present liability limit is \$1,000,000 per claim, with an annual aggregate limit of \$5,000,000.

The District also purchased excess malpractice liability insurance through Alliant, which provides protection on an “excess” basis whereby claims reported to the insurance carrier are covered only in excess of primary malpractice liability coverage. The present liability limit is \$3,000,000 per claim, with an annual aggregate limit of \$3,000,000. There is no deductible on the policy.

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

##### **Health Care Reform**

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States’ health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. The federal health care reform legislation does not affect the 2022 financial statements.

# Lincoln County Public Hospital District No. 3

## d/b/a Lincoln Hospital

### Notes to Financial Statements

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#### **Note 15: Contingencies (Continued)**

##### **Risk Transfer Pools**

In 2011, the District self-insured for unemployment insurance through the Public Hospital District Unemployment Compensation Trust and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both trusts are risk transfer pools administered by the Washington State Hospital Association. Effective January 1, 2012, the District switched from the Public Hospital District Workers' Compensation Trust to the Department of Labor and Industries as the provider of its workers' compensation benefits. The District pays its share of actual workers' compensation and unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Total unemployment insurance expense was approximately \$21,000 in 2022 and \$21,000 in 2021, and total workers' compensation benefits expense was approximately \$131,000 in 2022 and \$157,000 in 2021.

##### **Collective Bargaining Unit**

Effective January 1, 2021, the District renewed its contract with a labor union. As of December 31, 2022 and 2021, approximately 32% and 28% of the District's employees were represented by the union under a collective bargaining agreement with Service Employees International Union 1199NW. The contract is effective through December 31, 2022. A new contract was agreed upon in 2023 and expires on December 31, 2024.

#### **Note 16: Related-Party Transactions**

##### **The Foundation**

The Foundation was organized to solicit and accept charitable contributions in order to provide support for the District. The Foundation provided contributions to the District during 2022 and 2021 for various remodels and equipment purchases in the amounts of \$217,000 and \$9,808, respectively.

The Foundation's financial position at December 31 is summarized as follows:

	2022	2021
Assets	\$ 2,809,437	\$ 3,410,797
Net assets	\$ 2,809,437	\$ 3,410,797

# **Lincoln County Public Hospital District No. 3**

## **d/b/a Lincoln Hospital**

### **Notes to Financial Statements**

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#### **Note 17: COVID-19 Relief Funds and Grant Revenue**

During 2020, the District received \$4,559,115 in grant funding from the Department of Health and Human Services (HHS) Provider Relief Fund, which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the District earns the grant by incurring healthcare-related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and by incurring lost revenues as defined by HHS. During 2022, the District recognized \$1,374,976 in grant revenue related to this program, which is included in nonoperating grants and contributions in the accompanying statements of revenue, expenses, and changes in net position. The District had \$0 and \$1,374,976 in Provider Relief Funds reported as unearned revenue at December 31, 2022 and 2021 respectively.



## **Required Supplementary Information**

**Lincoln County Public Hospital District No. 3**  
**d/b/a Lincoln Hospital**  
**Schedule of Changes in Total OPEB Liability and Related Ratios - Other**  
**Postemployment Benefits**

Total OPEB Liability	2022	2021	2020	2019	2018	2017
Effect of plan changes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,678,759
Service cost	265,675	264,658	192,569	248,336	215,762	-
Interest on total OPEB liability	69,408	94,800	103,800	119,666	109,333	-
Effect of economic/demographic gains or losses	-	(621,351)	-	372,038	-	-
Effect of assumptions changes or inputs	40,326	95,646	574,924	(1,621,187)	235,164	-
Benefits paid	(22,024)	(19,228)	(11,248)	(8,868)	(4,297)	-
Net change in total OPEB liability	353,385	(185,475)	860,045	(890,015)	555,962	2,678,759
Total OPEB liability, beginning	3,019,276	3,204,751	2,344,706	3,234,721	2,678,759	-
Total OPEB liability, ending	\$ 3,372,661	\$ 3,019,276	\$ 3,204,751	\$ 2,344,706	\$ 3,234,721	\$ 2,678,759
Covered employee payroll	\$ 14,552,824	\$ 13,940,138	\$ 13,891,166	\$ 12,670,148	\$ 12,093,702	N/A
Total OPEB liability as a % of covered employee payroll	23.18 %	21.66 %	23.07 %	18.51 %	26.75 %	N/A

GASB Statement 75 requires this information to be provided for 10 years. GASB Statement 75 was adopted in 2017, so 10 years of information is not available.

**Notes to Schedule**

- Changes of benefit terms: There are no changes of benefit terms.
- Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.

See Independent Auditor's Report.

## **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 *Governmental Auditing Standards***

Board of Commissioners  
Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital  
Davenport, Washington

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lincoln County Public Hospital District No. 3 d/b/a Lincoln Hospital (the "District"), which comprise the statements of net position as of December 31, 2022 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 June 15, 2023.

### **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 District's internal control.

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

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

## Compliance and Other Matters

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

## Purpose of This Report

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

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

Wipfli LLP

June 15, 2023  
Spokane, Washington