



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

San Juan County Public Hospital District No. 1

**(San Juan County Public Hospital District
No. 1 and San Juan Emergency Medical
Service)**

For the period January 1, 2021 through December 31, 2023

Published March 13, 2025

Report No. 1036770



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

March 13, 2025

Board of Commissioners
San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service
Friday Harbor, Washington

Report on Financial Statements

Please find attached our report on San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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

**San Juan County Public Hospital District No. 1 and San Juan Emergency
Medical Service
January 1, 2021 through December 31, 2023**

Board of Commissioners

San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service
Friday Harbor, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service, as of and for the years ended December 31, 2023, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 6, 2025.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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. However,

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

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

Pat McCarthy, State Auditor

Olympia, WA

March 6, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service January 1, 2021 through December 31, 2023

Board of Commissioners

San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service
Friday Harbor, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service, as of and for the years ended December 31, 2023, 2022 and 2021, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service, and its changes in cash and investments, for the years ended December 31, 2023, 2022 and 2021, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service, as of December 31, 2023, 2022 and 2021, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. 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 unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible 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 District's ability to continue as a going concern for twelve 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 are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- 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 a reasonable period of time; and
- 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2025 on our consideration of the District's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

March 6, 2025

FINANCIAL SECTION

San Juan County Public Hospital District No. 1 and San Juan Emergency Medical Service

January 1, 2021 through December 31, 2023

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2023
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San Juan County Public Hospital District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2023

Beginning Cash and Investments

308	Beginning Cash and Investments	2,377,864
388 / 588	Net Adjustments	-

Revenues

310	Taxes	5,492,193
320	Licenses and Permits	-
330	Intergovernmental Revenues	348,258
340	Charges for Goods and Services	2,365,307
350	Fines and Penalties	-
360	Miscellaneous Revenues	197,252
Total Revenues:		8,403,010

Expenditures

510	General Government	-
520	Public Safety	2,850,106
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	5,406,419
570	Culture and Recreation	-
Total Expenditures:		8,256,525
Excess (Deficiency) Revenues over Expenditures:		146,485

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	246,455
591-593, 599	Debt Service	524,228
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		770,683

Increase (Decrease) in Cash and Investments: (624,198)

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	204,428
50851	Assigned	1,549,238
50891	Unassigned	-
Total Ending Cash and Investments		1,753,666

The accompanying notes are an integral part of this statement.

San Juan County Public Hospital District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

Beginning Cash and Investments

308	Beginning Cash and Investments	1,564,048
388 / 588	Net Adjustments	-

Revenues

310	Taxes	4,792,659
320	Licenses and Permits	-
330	Intergovernmental Revenues	426,078
340	Charges for Goods and Services	1,984,571
350	Fines and Penalties	-
360	Miscellaneous Revenues	163,670
Total Revenues:		<u>7,366,978</u>

Expenditures

510	General Government	-
520	Public Safety	2,639,119
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	3,811,899
570	Culture and Recreation	-
Total Expenditures:		<u>6,451,018</u>
Excess (Deficiency) Revenues over Expenditures:		<u>915,960</u>

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	5,212,000
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>5,212,000</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	4,968,726
591-593, 599	Debt Service	345,418
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>5,314,144</u>

Increase (Decrease) in Cash and Investments: 813,816

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	98,961
50841	Committed	221,644
50851	Assigned	2,057,259
50891	Unassigned	-
Total Ending Cash and Investments		<u>2,377,864</u>

The accompanying notes are an integral part of this statement.

San Juan County Public Hospital District No. 1
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	2,578,349
388 / 588	Net Adjustments	-

Revenues

310	Taxes	2,996,824
320	Licenses and Permits	-
330	Intergovernmental Revenues	272,252
340	Charges for Goods and Services	385,950
350	Fines and Penalties	-
360	Miscellaneous Revenues	81,182
Total Revenues:		<u>3,736,208</u>

Expenditures

510	General Government	-
520	Public Safety	2,558,135
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	1,561,873
570	Culture and Recreation	-
Total Expenditures:		<u>4,120,008</u>
Excess (Deficiency) Revenues over Expenditures:		<u>(383,800)</u>

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>-</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	-
591-593, 599	Debt Service	630,501
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>630,501</u>

Increase (Decrease) in Cash and Investments: **(1,014,301)**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	130,644
50851	Assigned	1,433,404
50891	Unassigned	-
Total Ending Cash and Investments		<u>1,564,048</u>

The accompanying notes are an integral part of this statement.

San Juan County Public Hospital District No. 1
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2023

		<u>Custodial</u>
308	Beginning Cash and Investments	28,794
388 & 588	Net Adjustments	-
310-390	Additions	40,952
510-590	Deductions	<u>23,877</u>
	Net Increase (Decrease) in Cash and Investments:	17,075
508	Ending Cash and Investments	45,869

The accompanying notes are an integral part of this statement.

San Juan County Public Hospital District No. 1
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		<u>Custodial</u>
308	Beginning Cash and Investments	6,047
388 & 588	Net Adjustments	-
310-390	Additions	26,542
510-590	Deductions	<u>3,795</u>
	Net Increase (Decrease) in Cash and Investments:	22,747
508	Ending Cash and Investments	28,794

The accompanying notes are an integral part of this statement.

San Juan County Public Hospital District No. 1
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		<u>Custodial</u>
308	Beginning Cash and Investments	19,888
388 & 588	Net Adjustments	-
310-390	Additions	14,116
510-590	Deductions	<u>27,957</u>
	Net Increase (Decrease) in Cash and Investments:	(13,841)
508	Ending Cash and Investments	6,047

The accompanying notes are an integral part of this statement.

San Juan County Public Hospital District No. 1
Notes to the Financial Statements
For the year ended December 31, 2023

Note 1 - Summary of Significant Accounting Policies

The San Juan County Public Hospital District No. 1 was incorporated in 1990 and operates under the laws of the state of Washington applicable to a Public Hospital District and is governed by a five-member board. The District is a junior taxing district of San Juan County providing medical services to county residents within its geographical boundaries. Tax revenues from the tax levy subsidize Peace Island Medical Center with its emergency care, charity care, and emergency services provided by physician services. San Juan Island Emergency Medical Services (EMS) which provides emergency medical care and ambulance service receives a separate tax levy. EMS became a part of the District on January 1, 1995. The Village at the Harbor, an assisted living facility, was purchased by the Hospital in February 2022.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund type is used:

GOVERNMENTAL FUND TYPE:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

FIDUCIARY FUND TYPE:

Custodial Fund

These funds are used to account for assets that the District holds on behalf of others in a custodial

capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law, the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

The District has adopted a “paid time off” (PTO) concept for vacation and sick leave. PTO may be accumulated up to 400 hours and is payable upon separation or retirement. Employees may cash out up to 50% of annual PTO, subject to budgetary constraints. Payments are recognized as expenditures when paid. The value of accrued vacation and PTO leave benefits was \$160,034 at December 31, 2023.

F. Long-Term Debt

See note 7 for Long-Term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restrictions are incurred, the District intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$204,428 committed for capital improvements.

Note 2 – Budget Compliance

A. Budgets

The District adopts annual appropriated budgets for the fund. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
District General/IIMC	\$ 6,866,913	\$ 5,934,610	\$ 932,303
General Reserve Fund	24,574	35,315	(10,741)
SJIEMS	3,788,811	3,102,642	686,169
SJIEMS Reserve	340,650	136,753	203,897
Total	\$ 11,020,948	\$ 9,209,320	\$ 1,811,628
	Payroll Elimination	(52,371)	
	Transfer Elimination	(129,741)	
Tie to C-4 Expenditures and Other Decreases		<u>\$ 9,027,208</u>	

Budgeted amounts are authorized to be transferred between departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body. The final appropriated amounts include the beginning cash balances so they are available if needed.

The General Reserve fund shows a variance of \$10,741 between the budget and actual expenditures due to a transfer in to cover the expenses in the fund.

The table above includes transfers between funds that are consolidated for reporting purposes on the Fund Resources and Uses Arising from Cash Transactions financial statement. As such, actual expenditures in the table above do not match reported expenditures on the Fund Resources and Uses Arising from Cash Transactions financial statement. The variances reported are due to internal reimbursement for wages and benefits paid by EMS as well as transfers from the SJIEMS fund to the SJIEMS Reserve fund.

Note 3 – Deposits and Investments

Investments are reported at amortized costs. Deposits and Investments by type at December 31, 2023, are as follows:

Type of deposit or investment	District's own deposits and investments	Deposits and investments held by the County as custodian for other local governments, individuals, or private organizations	Total
Bank deposits	\$ 8,607	\$ 45,869	\$ 54,476
Cash held by San Juan County Treasurer	1,745,059		1,745,059
Total	\$ 1,753,666	\$ 45,869	\$ 1,799,535

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered, or held by the District or its agent in the government's name.

Note 4 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes, and \$0.50 for EMS. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

The District's regular tax levy for the year 2023 was \$0.57554 per \$1,000 on a total assessed valuation of \$5,577,964,337 for a regular levy of \$3,210,342.

The EMS regular tax levy for the year 2023 was \$0.41467 per \$1,000 on a total assessed valuation of \$5,577,964,337 for a regular levy of \$2,313,029.

Note 5 – Pension Plans

Substantially all District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS), Plans 2 and 3, LEOFF Plan 2.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Also, the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2023 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities (assets), was as follows:

Plan	Employer		Allocation %	Liability (Asset)
		Contributions		
PERS 1	\$	61,588	0.009038%	\$ 206,313
PERS 2/3		102,378	0.011644%	(477,251)
LEOFF 2		55,681	0.024655%	(591,374)

The net pension liabilities are reported on the Schedule 09.

LEOFF Plan 2

The District also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 6 – Risk Management

The District and EMS purchase insurance through VFIS (an A+ rated and Washington admitted commercial carrier) for coverage on the buildings, business personal property, business income, general liability, management liability, excess liability, and board and officer coverage, as summarized below. The District has a separate policy for the Village at the Harbor through CRC Group for Professional & General Liability Coverage. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in the past several years.

Property Coverage

- Buildings – Guaranteed Replacement Cost valuation up to \$2,277,574
- Contents – Blanket Replacement Cost valuation up to \$104,000
- All Risk coverage
- Deductibles- \$250 property/\$1,000 flood/5% earthquake

Auto

- \$1,000,000 combined single limit
- Physical Damage – agreed value basis; deductibles \$250 collision, \$0 comprehensive
- Coverage Extensions – Hired & Borrowed Vehicles; volunteers/employees insured under Non-Owned Auto Liability

Crime

- Employee Dishonesty – \$100,000
- Coverage includes Forgery/Alteration, Computer & Identity Fraud

Portable Equipment

- Blanket coverage – Guaranteed Replacement Cost, \$100 deductible
- Coverage extensions for personal effects, temporarily borrowed portable equipment (\$50,000 limit), watercraft up to 100hp, trailers used for transport of portable equipment

General Liability

- \$1,000,000 per occurrence and a \$3,000,000 Aggregate (no deductible for VFIS), \$10,000 deductible for CRC Group
- Includes-Professional Healthcare Liability, Watercraft/Maritime Liability, Contractual and Employers Liability

Management Liability

- \$1,000,000 per Occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes Employment-related practices, Cyber Liability and Cyber Extortion, Privacy Crisis Management

Excess Liability

- \$5,000,000 per Occurrence, \$10,000,000 Aggregate

Professional Liability

- \$1,000,000 per Occurrence, \$3,000,000 Aggregate, \$10,000 deductible

Employee Benefits Liability

- \$1,000,000 per Occurrence, \$1,000,000 Aggregate, \$1,000 deductible

Additionally, the District makes quarterly premium payments to the Washington State Department of Labor and Industries to ensure liability arising from risk of loss for job related injuries and illnesses to employees.

In addition, EMS maintains a risk management program which includes documented protocols, policies, and procedures. A state-approved county Medical Program Director provides oversight of the agency. EMS has contracted with a supervising physician who supports field operations regarding patient care and provides quality assurance and quality improvement.

Note 7 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2023.

The debt service requirements for the general obligation bonds and local loans are as follows:

	Principal	Interest
2024 \$	257,441	\$ 109,374
2025	261,823	102,636
2026	266,332	95,747
2027	279,979	88,700
2028	228,703	81,490
2029-2033	1,181,771	330,931
2034-2038	1,248,153	198,168
2039-2042	1,048,816	55,018
\$	<u>4,773,017</u>	<u>\$ 1,062,063</u>

Note 8 - Other Disclosures

Contingencies & Litigation

In October 2015, the Washington State Office of the Attorney General, Medicaid Fraud Control Unit (MFCU) served San Juan Island EMS with a Civil Investigative Demand focusing on submitted claims to the Health Care Authority for air ambulance services. EMS cooperated fully with the investigation and received no substantive communication from the MFCU after April 2016. On September 26, 2019, EMS received a letter from the MFCU summarizing their conclusions of the investigation and proposed settlement. The MFCU alleges EMS improperly submitted claims for fixed-wing air ambulance transport. The MFCU stated in their letter that if EMS was found liable for the alleged improper billings under the Washington State False Claims Act, the maximum liability would well exceed a million dollars. The MFCU proposed a settlement of \$200,000.

EMS has responded to the MFCU challenging their assertions made and conclusions reached. EMS believes the air ambulance transports billed to the Washington Medicaid program were medically necessary, appropriate, and appropriately billed. In February 2024 EMS settled this case without admitting fault in the amount of \$90,000. This was paid March 19, 2024. This liability has been added to the Schedule of Liabilities.

Note 9 – Leases

As a lessee, the District is recognizing the following leases, per the BARS manual guidance.

Lease Description	Lease Type	Start Date	Initial Term	Extensions up to:	Payment Timing	Payment Amount	Lease Payable at 12/31/2023
Office Building	Office Building	10/1/2022	5 Year	5 years	Monthly	3,658	\$ 810,400
Land Lease	Land	11/1/2006	50 year	50 years	Monthly	4,839	5,195,638
Equipment Lease	Equipment	3/9/2023	5 Year	N/A	Monthly	175	8,750
						Total \$	6,014,788

There are no cancellation clauses in the leases. The land lease adjusts for CPI annually, however future lease CPI increases are excluded from the lease payable. The total amount paid for leases in 2023 was \$122,206. As of December 31, 2023, the future minimum lease payments are as follows:

	Total
2024 \$	139,830
2025	142,080
2026	144,592
2027	146,784
2028	147,494
2029-2033	725,610
2034-2038	313,620
2039-2043	313,620
2044-2048	313,620
2049-2053	313,620
2054-2058	313,620
2059-2063	313,620
2064-2068	313,620
2069-2073	313,620
2074-2078	313,620
2079-2083	313,620
2084-2088	313,620
2089-2093	313,620
2094-2098	313,620
2099-2103	313,620
2104-2106	177,718
	<u>\$ 6,014,788</u>

Note 10 – Subscription Based Information Technology Arrangements (SBITA)

During the year ended December 31, 2023, the District adopted guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITA), as required by the BARS manual. This requirement resulted in the addition of a subscription liability reported on the Schedule of Liabilities.

The District makes subscription payments of \$33,127 per year for general ledger software that commenced April 2023. The SBITA contract is for three years with annual payments thru March 2026. The contract allows for annual renewals, that are cancelable by either party, therefore they were excluded from the SBITA liability. The total amount paid for SBITA's in 2023 was \$33,127. As of December 31, 2023, the SBITA liability is as follows:

Year ended December 31	Total
2024	\$ 33,127
2025	33,127
Total	<u>\$ 66,254</u>

San Juan County Public Hospital District No. 1
Notes to the Financial Statements
For the year ended December 31, 2022

Note 1 - Summary of Significant Accounting Policies

The San Juan County Public Hospital District No. 1 was incorporated in 1990 and operates under the laws of the state of Washington applicable to a Public Hospital District and is governed by a five-member board. The District is a junior taxing district of San Juan County providing medical services to county residents within its geographical boundaries. Tax revenues from the tax levy subsidize Peace Island Medical Center with its emergency care, charity care, and emergency services provided by physician services. San Juan Island Emergency Medical Services (EMS) which provides emergency medical care and ambulance service receives a separate tax levy. EMS became a part of the District on January 1, 1995. The Village at the Harbor, an assisted living facility, was purchased by the Hospital in February 2022.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund type is used:

GOVERNMENTAL FUND TYPE:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

FIDUCIARY FUND TYPE:

Custodial Fund

These funds are used to account for assets that the District holds on behalf of others in a custodial

capacity.

Note 1 - Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law, the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

The District has adopted a “paid time off” (PTO) concept for vacation and sick leave. PTO may be accumulated up to 400 hours and is payable upon separation or retirement. Employees may cash out up to 50% of annual PTO, subject to budgetary constraints. Payments are recognized as expenditures when paid. The value of accrued vacation and PTO leave benefits was \$127,381 at December 31, 2022.

F. Long-Term Debt

See note 7- Long-Term Debt

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restrictions are incurred, the District intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$320,605 committed for capital improvements.

Note 2 – Budget Compliance

A. Budgets

The District adopts annual appropriated budgets for the fund. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
District General/IIMC	\$ 9,447,032	\$ 9,150,617	\$ 296,415
General Reserve Fund	84,050	59,477	24,573
SJIEMS	2,845,616	2,871,985	(26,369)
SJIEMS Reserve	70,000	-	70,000
Total	\$ 12,446,698	\$ 12,082,078	\$ 364,620
		Payroll Elimination	(141,866)
		Transfer Elimination	(175,050)
Tie to C-4 Expenditures and Other Decreases		<u>\$ 11,765,162</u>	

Budgeted amounts are authorized to be transferred between departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

The SJIEMS fund shows a variance of \$26,369 between the budget and actual expenditures because the budget had an intentional use of beginning appropriated cash.

The table above includes transfers between funds that are consolidated for reporting purposes on the Fund Resources and Uses Arising from Cash Transactions financial statement. As such, actual expenditures in the table above do not match reported expenditures on the Fund Resources and Uses Arising from Cash Transactions financial statement. The variances reported are due to internal reimbursement for wages and benefits paid by EMS as well as transfers from the SJIEMS fund to the SJIEMS Reserve fund.

Note 3 – Deposits and Investments

Investments are reported at amortized costs. Deposits and Investments by type at December 31, 2022, are as follows:

Type of deposit or investment	District's own deposits and investments	Deposits and investments held by the County as custodian for other local governments, individuals, or private organizations	Total
Bank deposits	\$ 7,943	\$ 28,794	\$ 36,737
Local Government Investment Pool	74,387		74,387
Cash held by San Juan County Treasurer	2,295,534		2,295,534
Total	\$ 2,377,864	\$ 28,794	\$ 2,406,658

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated

to the various funds.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered, or held by the District or its agent in the government's name.

Note 4 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes, and \$0.50 for EMS. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

The District's regular tax levy for the year 2022 was \$0.70000 per \$1,000 on a total assessed valuation of \$4,481,351,335 for a regular levy of \$3,136,946.

The EMS regular tax levy for the year 2022 was \$0.36331 per \$1,000 on a total assessed valuation of \$4,481,351,335 for a regular levy of \$1,628,139.

Note 5 – Pension Plans

Substantially all District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS), Plans 2 and 3, LEOFF Plan 2.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

obtained by writing to:

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

Also, the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2021 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability
PERS 1 UAAL	\$ 23,048	0.003653%	\$ 101,713
PERS 1	660	0.000108%	3,007
Total Net Pension Liability			\$ 104,720
PERS 2/3	38,364	0.004776%	(177,131)
LEOFF 2	40,446	0.020447%	(555,688)

The net pension liabilities are reported on the Schedule 09.

LEOFF Plan 2

The District also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 6 – Risk Management

The District and EMS purchase insurance through VFIS (an A+ rated and Washington admitted commercial carrier) for coverage on the buildings, business personal property, business income, general liability, management liability, excess liability, and board and officer coverage, as summarized below. The District has a separate policy for the Village at the Harbor through CRC Group for Professional & General Liability Coverage. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in the past several years.

Property Coverage

- Buildings – Guaranteed Replacement Cost valuation up to \$2,277,574
- Contents – Blanket Replacement Cost valuation up to \$104,000
- All Risk coverage
- Deductibles- \$250 property/\$1,000 flood/5% earthquake

Auto

- \$1,000,000 combined single limit

- Physical Damage – agreed value basis; deductibles \$250 collision, \$0 comprehensive
- Coverage Extensions – Hired & Borrowed Vehicles; volunteers/employees insured under Non-Owned Auto Liability

Crime

- Employee Dishonesty – \$100,000
- Coverage includes Forgery/Alteration, Computer & Identity Fraud

Portable Equipment

- Blanket coverage – Guaranteed Replacement Cost, \$100 deductible
- Coverage extensions for personal effects, temporarily borrowed portable equipment (\$50,000 limit), watercraft up to 100hp, trailers used for transport of portable equipment

General Liability

- \$1,000,000 per occurrence and a \$3,000,000 Aggregate (no deductible for VFIS), \$10,000 deductible for CRC Group
- Includes-Professional Healthcare Liability, Watercraft/Maritime Liability, Contractual and Employers Liability

Management Liability

- \$1,000,000 per Occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes Employment-related practices, Cyber Liability and Cyber Extortion, Privacy Crisis Management

Excess Liability

- \$5,000,000 per Occurrence, \$10,000,000 Aggregate

Professional Liability

- \$1,000,000 per Occurrence, \$3,000,000 Aggregate, \$10,000 deductible

Employee Benefits Liability

- \$1,000,000 per Occurrence, \$1,000,000 Aggregate, \$1,000 deductible

Additionally, the District makes quarterly premium payments to the Washington State Department of Labor and Industries to ensure liability arising from risk of loss for job related injuries and illnesses to employees.

In addition, EMS maintains a risk management program which includes documented protocols, policies, and procedures. A state-approved county Medical Program Director provides oversight of the agency. EMS has contracted with a supervising physician who supports field operations regarding patient care and provides quality assurance and quality improvement.

Note 7 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2022.

The debt service requirements for the general obligation bonds and local loans are as follows:

	Principal	Interest
2023 \$	253,182	\$ 117,263
2024	257,441	109,374
2025	261,823	102,636
2026	266,332	95,747
2027	279,979	88,700
2028-2032	1,168,925	356,624
2033-2037	1,234,585	225,304
2038-2042	1,303,933	83,679
\$	5,026,199	\$ 1,179,326

Note 8 - Other Disclosures

Contingencies & Litigation

In October 2015, the Washington State Office of the Attorney General, Medicaid Fraud Control Unit (MFCU) served San Juan Island EMS with a Civil Investigative Demand focusing on submitted claims to the Health Care Authority for air ambulance services. EMS cooperated fully with the investigation and received no substantive communication from the MFCU after April 2016. On September 26, 2019, EMS received a letter from the MFCU summarizing their conclusions of the investigation and proposed settlement. The MFCU alleges EMS improperly submitted claims for fixed-wing air ambulance transport. The MFCU stated in their letter that if EMS was found liable for the alleged improper billings under the Washington State False Claims Act, the maximum liability would well exceed a million dollars. The MFCU proposed a settlement of \$200,000.

EMS has responded to the MFCU challenging their assertions made and conclusions reached. EMS believes the air ambulance transports billed to the Washington Medicaid program were medically necessary, appropriate, and appropriately billed. EMS does not expect a final negotiated settlement to reach or exceed \$200,000, however no liability can be currently estimated.

Note 9 – Leases

During the year ended December 31, 2022, the District adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

As a lessee, the District is recognizing the following leases, per the BARS manual guidance.

Lease Description	Lease Type	Start Date	Initial Term	Extensions up to:	Payment Timing	Payment Amount	Lease Payable at 12/31/2022
Office Building	Office Building	10/1/2022	5 Year	5 years	Monthly	3,658	\$ 492,258
Land Lease	Land	11/1/2006	50 year	50 years	Monthly	4,839	5,257,198
Total							\$ 5,749,456

There are no cancellation clauses in the leases. The land lease adjusts for CPI annually, however future lease CPI increases are excluded from the lease payable. The total amount paid for leases in 2022 was \$69,042. As of December 31, 2022, the future minimum lease payments are as follows:

	Total
2023 \$	105,786
2024	108,279
2025	109,644
2026	111,048
2027	112,500
2028-2032	571,077
2033-2037	313,620
2038-2042	313,620
2043-2047	313,620
2048-2052	313,620
2053-2057	313,620
2058-2062	313,620
2063-2067	313,620
2068-2072	313,620
2073-2077	313,620
2078-2082	313,620
2083-2087	313,620
2088-2092	313,620
2093-2097	313,620
2098-2102	313,620
2103-2107	240,442
	<u>\$ 5,749,456</u>

San Juan County Public Hospital District No. 1
Notes to the Financial Statements
For the year ended December 31, 2021

Note 1 - Summary of Significant Accounting Policies

The San Juan County Public Hospital District No. 1 was incorporated in 1990 and operates under the laws of the state of Washington applicable to a Public Hospital District and is governed by a five-member board. The District is a junior taxing district of San Juan County providing medical services to county residents within its geographical boundaries. Tax revenues from the tax levy subsidize Peace Island Medical Center with its emergency care, charity care, and emergency services provided by physician services. San Juan Island Emergency Medical Services (EMS) which provides emergency medical care and ambulance service receives a separate tax levy. EMS became a part of the District on January 1, 1995.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund type is used:

GOVERNMENTAL FUND TYPE:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

FIDUCIARY FUND TYPE:

Custodial Fund

These funds are used to account for assets that the District holds on behalf of others in a custodial capacity.

Note 1 - Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law, the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

The District has adopted a "paid time off" (PTO) concept for vacation and sick leave. PTO may be accumulated up to 50 days and is payable upon separation or retirement. Employees may cash out up to 50% of annual PTO, subject to budgetary constraints. Payments are recognized as expenditures when paid. The value of accrued vacation and PTO leave benefits was \$88,500 at December 31, 2021.

F. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Commissioners. When expenditures that meet restrictions are incurred, the District intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$130,644 committed for capital improvements.

Note 2 – Budget Compliance

A. Budgets

The District adopts annual appropriated budgets for the fund. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

<u>Fund/Department</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenditures</u>	<u>Variance</u>
District General/IIMC	\$ 1,578,799	\$ 1,561,873	\$ 16,926
SJIEMS	3,147,643	3,168,110	(20,467)
SJIEMS Reserve	300,000	278,356	21,644
Total	\$ 5,026,442	\$ 5,008,339	\$ 18,103
	Payroll elimination	(148,830)	
	Transfer elimination	(109,000)	
Tie to C-4 Expenditures and Other Decreases		<u>\$ 4,750,509</u>	

Budgeted amounts are authorized to be transferred between departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

The SJIEMS fund shows a variance of \$20,467 between the budget and actual expenditures because the budget had an intentional use of beginning appropriated cash.

The table above includes transfers between funds that are consolidated for reporting purposes on the Fund Resources and Uses Arising from Cash Transactions financial statement. As such, actual expenditures in the table above do not match reported expenditures on the Fund Resources and Uses Arising from Cash Transactions financial statement. The variances reported are due to internal reimbursement for wages and benefits paid by EMS as well as transfers from the SJIEMS fund to the SJIEMS Reserve fund.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The District remained open and fully operational through 2021, though not open to the public the entire year. Costs were somewhat higher than pre-covid levels due to personal protective equipment needs as well as overall inflation and cost of goods pressures related to COVID-19. The District did not participate in the county's remaining barebones Emergency Operations Center, which freed up resources previously committed to the COVID-19 response.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

Note 4 – Deposits and Investments

Investments are reported at amortized costs. Deposits and Investments by type at December 31, 2021, are as follows:

	12/31/2020	12/31/2021
Bank deposits	\$ 29,272	\$ 10,187
Cash held by San Juan County Treasurer	2,225,965	1,559,908
Local Government Investment Pool	343,000	1,570,095
Total Cash and Investments	\$ 2,598,237	

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered, or held by the District or its agent in the government's name.

Note 5 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes, and \$0.50 for EMS. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

The District's regular tax levy for the year 2021 was \$0.33618 per \$1,000 on a total assessed valuation of \$4,141,681,158 for a regular levy of \$1,392,331.

The EMS regular tax levy for the year 2021 was \$0.38387 per \$1,000 on a total assessed valuation of \$4,141,681,158 for a regular levy of \$1,589,848.

Note 6 – Pension Plans

Substantially all District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution

retirement plans: Public Employees' Retirement System (PERS), Plans 2 and 3, LEOFF Plan 2.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Also, the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2021 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability
PERS 1 UAAL	\$ 12,305	0.001652%	\$ 20,175
Total Net Pension Liability			\$ 20,175
PERS 2/3	\$ 20,081	0.002120%	\$ (211,186)
LEOFF 2	\$ 40,446	0.020290%	\$ (1,178,527)

The net pension liabilities are reported on the Schedule 09.

LEOFF Plan 2

The District also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 7 – Risk Management

The District and EMS purchase insurance through VFIS (an A+ rated and Washington admitted commercial carrier) for coverage on the buildings, business personal property, business income, general liability, management liability, excess liability, and board and officer coverage, as summarized below. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in the past several years.

Property Coverage

- Buildings – Guaranteed Replacement Cost valuation up to \$2,277,574

- Contents – Blanket Replacement Cost valuation up to \$197,390
- All Risk coverage
- Deductibles- \$250 property/\$1,000 flood/5% earthquake

Auto

- \$1,000,000 combined single limit
- Physical Damage – agreed value basis; deductibles \$250 collision, \$0 comprehensive
- Coverage Extensions – Hired & Borrowed Vehicles; volunteers/employees insured under Non-Owned Auto Liability

Crime

- Employee Dishonesty – \$50,000
- Coverage includes Forgery/Alteration, Computer & Identity Fraud

Portable Equipment

- Blanket coverage – Guaranteed Replacement Cost, \$100 deductible
- Coverage extensions for personal effects, temporarily borrowed portable equipment (\$50,000 limit), watercraft up to 100hp, trailers used for transport of portable equipment

General Liability

- \$1,000,000 per occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes-Professional Healthcare Liability, Watercraft/Maritime Liability, Contractual and Employers Liability

Management Liability

- \$1,000,000 per Occurrence and a \$3,000,000 Aggregate (no deductible)
- Includes Employment-related practices, Cyber Liability and Cyber Extorsion, Privacy Crisis Management

Excess Liability

- \$6,000,000 per Occurrence, \$12,000,000 Aggregate

Additionally, the District makes quarterly premium payments to the Washington State Department of Labor and Industries to insure liability arising from risk of loss for job related injuries and illnesses to employees.

In addition, EMS maintains a risk management program which includes documented protocols, policies, and procedures. A state-approved county Medical Program Director provides oversight of the agency. EMS has contracted with a supervising physician who supports field operations regarding patient care and provides quality assurance and quality improvement.

Note 8 - Other Disclosures

Contingencies & Litigation

In October 2015, the Washington State Office of the Attorney General, Medicaid Fraud Control Unit (MFCU) served San Juan Island EMS with a Civil Investigative Demand focusing on submitted claims to the Health Care Authority for air ambulance services. EMS cooperated fully with the investigation and received no substantive communication from the MFCU after April 2016. On September 26, 2019, EMS received a letter from the MFCU summarizing their conclusions of the investigation and proposed settlement. The MFCU alleges EMS improperly submitted claims for fixed-wing air ambulance

transport. The MFCU stated in their letter that if EMS was found liable for the alleged improper billings under the Washington State False Claims Act, the maximum liability would well exceed a million dollars. The MFCU proposed a settlement of \$200,000.

EMS has responded to the MFCU challenging their assertions made and conclusions reached. EMS believes the air ambulance transports billed to the Washington Medicaid program were medically necessary, appropriate, and appropriately billed. EMS does not expect a final negotiated settlement to reach or exceed \$200,000, however no liability can be currently estimated.

San Juan County Public Hospital District No. 1
Schedule of Liabilities
For the Year Ended December 31, 2023

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2022 GO Bond	6/1/2042	4,814,199	-	216,539	4,597,660
263.96	LOCAL Loan Lease	12/1/2027	202,995	-	36,643	166,352
Total General Obligation Debt/Liabilities:			5,017,194	-	253,182	4,764,012
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		127,381	32,653	-	160,034
264.30	Pension Liabilities		104,720	101,593	-	206,313
263.57	Building Lease	9/1/2032	492,258	377,038	58,896	810,400
263.57	Land Lease	10/1/2106	5,257,198	-	61,560	5,195,638
263.57	Equipment Lease	2/9/2028	-	10,500	1,750	8,750
263.57	SBITA	12/31/2025	-	99,381	33,127	66,254
263.12	EMS Settlement	3/19/2024	-	90,000	-	90,000
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,981,557	711,165	155,333	6,537,389
Total Liabilities:			10,998,751	711,165	408,515	11,301,401

San Juan County Public Hospital District No. 1
Schedule of Liabilities
For the Year Ended December 31, 2022

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2022 GO Bond	6/1/2042	-	5,000,000	185,801	4,814,199
263.96	LOCAL Loan Lease	12/1/2027	-	202,995	-	202,995
Total General Obligation Debt/Liabilities:			-	5,202,995	185,801	5,017,194
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		88,500	38,881	-	127,381
264.30	Pension Liabilities		20,175	84,545	-	104,720
263.57	Building Lease	9/1/2032	-	503,232	10,974	492,258
263.57	Land Lease	10/1/2106	5,315,266	-	58,068	5,257,198
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,423,941	626,658	69,042	5,981,557
Total Liabilities:			5,423,941	5,829,653	254,843	10,998,751

San Juan County Public Hospital District No. 1
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 GO Bond - EMS Building	11/1/2023	621,496	-	621,496	-
	Total General Obligation Debt/Liabilities:		621,496	-	621,496	-
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		194,393	-	105,893	88,500
264.30	Pension Liabilities		66,226	-	46,051	20,175
	Total Revenue and Other (non G.O.) Debt/Liabilities:		260,619	-	151,944	108,675
	Total Liabilities:		882,115	-	773,440	108,675

Teresa D Johnson CPA, Inc did not perform an audit, review or compilation engagement on these financial statements, and no assurance is provided on them.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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