BETHANY
OF THE NORTHWEST
P.O. BOX 13700, Mill Creek, WA 98082

January 28, 2021

RECEIVED
By CERTIFICATE OF NEED PROGRAM at 12:50 pm, Jan 29, 2021

CN21-45

Eric Hernandez, Manager
Certificate of Need Program
Department of Health
P.O. Box 47852
Olympia, WA 98504-7852

Dear Mr. Hernandez,

Please find Bethany Hospice LLC's certificate of need application proposing to establish a Medicare certified hospice agency in Snohomish County. Please note, per conversations with Certificate of Need staff, that the appropriate review and processing fee of $21,968 was delivered to the Department on Wednesday, January 27, 2021 via FedEx, tracking # 815292177277.

Bethany Hospice looks forward to working with the program over the coming months. If you have any questions, please do not hesitate to contact me at (425) 330-3671 or at JosephS@bethanynw.org.

Sincerely,

Joseph Scrivens, Chief Executive Officer
Bethany of the Northwest

Certificate of Need Application
Hospice Agency

Certificate of Need applications must be submitted with a fee in accordance with Washington Administrative Code (WAC) 246-310-990.

Application is made for a Certificate of Need in accordance with provisions in Revised Code of Washington (RCW) 70.38 and WAC 246-310, rules and regulations adopted by the Washington State Department of Health. I attest that the statements made in this application are correct to the best of my knowledge and belief.

Signature and Title of Responsible Officer Joseph Scrivens, Chief Executive Officer Bethany of the Northwest Email Address josephs@bethanynw.org	Date January 29, 2021 Telephone Number (425) 330-3671
Legal Name of Applicant Bethany of the Northwest, Bethany Hospice LLC Address of Applicant 3202 Colby Ave, Suite G Everett, WA 98201	Provide a brief project description ☒ New Agency ☐ Expansion of Existing Agency ☐ Other: ____________ Estimated capital expenditure: $ 0

Identify the county proposed to be served for this project. Note: Each hospice application must be submitted for one county only. If an applicant intends to obtain a Certificate of Need to serve more than one county, then an application must submitted for each county separately.

Snohomish County

BETHANY HOSPICE LLC

CERTIFICATE OF NEED APPLICATION TO ESTABLISH A SNOHOMISH COUNTY HOSPICE AGENCY

January 29, 2021

Section 1
APPLICATION DESCRIPTION

1. **Provide the legal name(s) and address(es)of the applicant(s).**
   Note: The term "applicant" for this purpose includes any person or individual with a ten percent or greater financial interest in the partnership or corporation or other comparable legal entity as defined in [WAC 246-310-010(6).](WAC 246-310-010(6).)

   The applicant is Bethany Hospice LLC dba Bethany Hospice. Bethany Hospice has filed a Washington Certificate of Formation document with the Washington Secretary of State. Bethany Hospice is a wholly owned subsidiary of Bethany of the Northwest. Bethany of the Northwest is a 501 (c) (3), and as such no party holds any financial interest in the organization.

2. **Identify the legal structure of the applicant (LLC, PLLC, etc.) and provide the Unified Business Identifier (UBI).**

   Bethany of the Northwest is a 501 (c)(3) continuing care ministry, dedicated to enhancing the quality and dignity of life of those who we serve, out of love for God and neighbor. Bethany Hospice, the entity that will operate the Medicare certified home health agency, is a Washington limited liability company and will be wholly owned by Bethany of the Northwest.

   Bethany Hospice has filed a Washington Certificate of Formation document with the Washington Secretary of State and is awaiting the issuance of its UBI.

3. **Provide the name, title, address, telephone number, and email address of the contact person for this application.**

Joseph Scrivens
Chief Executive Officer
Bethany of the Northwest
1902 120th Pl. SE, Suite 201
Everett, WA 98208
Email: JosephS@bethanynw.org
Phone: 425.330.3671

4. **Provide the name, title, address, telephone number, and email address of the consultant authorized to speak on your behalf related to the screening of this application (if any).**

Lisa Hoffmann Grundl
Health Facilities Planning & Development
120 1st Avenue West, Suite 100
Seattle, WA 98119
Email: heatlhfac@healthfacilitiesplanning.com
Phone: (206) 441-0971

5. **Provide an organizational chart that clearly identifies the business structure of the applicant(s).**

   The requested organizational chart is included as Exhibit 1.

6. **Identify all healthcare facilities and agencies owned, operated by, or managed by the applicant. This should include all facilities in Washington State as well as out-of-state facilities. The following identifying information should be included:**
   - **Facility and Agency Name(s)**
   - **Facility and Agency Location(s)**
   - **Facility and Agency License Number(s)**
   - **Facility and Agency CMS Certification Number(s)**
   - **Facility and Agency Accreditation Status**

   Bethany Hospice is a wholly owned subsidiary of Bethany of the Northwest which operates other licensed healthcare facilities in the State. The various entities and the requested information is included in Table 1.

Table 1
Bethany of the Northwest Entities

Facility	Address	License Type	License Number	Medicare Provider Number	Medicaid Provider Number
Bethany Home Health LLC	1902 120th Pl SE Ste 201, Everett, WA, 98208-6292	In Home Services Agency, Home Health	IHS.FS.60966822	Applying	Applying
Bethany at Pacific	916 Pacific Avenue, Floors 3,6 Everett, WA 98206	Nursing Home	1290	50-5404	4112900
Bethany at Silver Lake	2131 Lake Heights Drive, Everett, WA 98208	Nursing Home	1049	50-5403	4110490
Bethany at Silver Crest	2235 Lake Heights Drive, Everett, WA 98208	Assisted Living	1346	NA	219178
Everett Transitional Care Services	916 Pacific Avenue, Floor 4, Everett, WA 98206	Nursing Home	1617	50-5533	4116171

Source: Applicant

Bethany of the Northwest also has a pending CN application for Bethany Home Health LLC to seek Medicare certification/Medicaid eligibility for that entity. Please note that this agency is completely separate from Bethany Hospice. Both certificate of need applications were developed reflecting that separation. Each application is a “stand alone” application, with neither application dependent upon the approval of the other for financial or operational viability.

Section 2
PROJECT DESCRIPTION

1. Provide the name and address of the existing agency, if applicable.

Bethany Hospice is not an existing agency.

2. If an existing Medicare and Medicaid certified hospice agency, explain if/how this proposed project will be operated in conjunction with the existing agency.

This question is not applicable.

3. Provide the name and address of the proposed agency. If an address is not yet assigned, provide the county parcel number and the approximate timeline for assignment of the address.

Bethany Hospice will be located within existing space at the Bethany System Office, located at:

3202 Colby Ave Suite G
Everett, WA 98201

Mailing Address:
PO Box 13700
Mill Creek, WA 98082

4. Provide a detailed description of the proposed project.

Bethany proposes to establish a Medicare Certified Hospice Agency in Snohomish County that will provide a full range of hospice services to Snohomish County residents and their families in need of compassionate end of life and bereavement care.

Bethany has served Snohomish County for over 100 years. Originally Bethania College, “Bethany Home for the Aged” was established in 1901 by a group of Lutherans who believed there was a need for a Christian “Old People’s Home” in the Everett area. Today, Bethany is the fourth largest not-for-profit long-term care provider in the State of Washington. Bethany provides 262 beds for skilled and sub-acute nursing and 60 apartments for assisted living at three separate locations in Snohomish County. Bethany serves over 1,000 predominantly elderly individuals and their families annually in its non-hospice programs. In both long-term care and rehabilitation.

Bethany also enjoys strong partnerships with key health care providers in the County that support care coordination and timely access to post-acute services. With a staff of more than 400, and a dedicated group of volunteers, people continue to look to Bethany to provide Snohomish County residents with a life of independence, dignity, and purpose.

Bethany's core values include:

- Integrity: Acting with honesty without compromising the truth.
- Compassion: Caring for each person with dignity and respect.
- Respect: Honoring ourselves and those whom we serve.
- Excellence: Continually improving and striving to be the best.
- Stewardship: Using our talents and resources wisely.

These values require that Bethany continue to grow and expand our array of services as needs are identified. Most recently this is reflected in:

- A partnership established with Providence Everett Medical Center to redesign the transitional care model, moving from traditional post-acute patients (now being managed well in community nursing homes) to hard to place long-stay/non-acute patients impacting occupancy and bed availability at Providence Everett, and more importantly, the quality of life of these individuals.

- The establishment of a licensed in-home services agency to meet the needs of patients needing safe transitions to home. A separate CN application has also been submitted for this agency to seek Medicare certification/Medicaid eligibility for this agency.

Providing hospice services was a logical next step in Bethany's continuum of services. In addition to the Department of Health's (Department) October 2020 need forecast for two additional hospice agencies in Snohomish County, Bethany independently evaluated the market and concluded that there would be real community benefit associated with a Bethany based Medicare certified/Medicaid eligible hospice service.

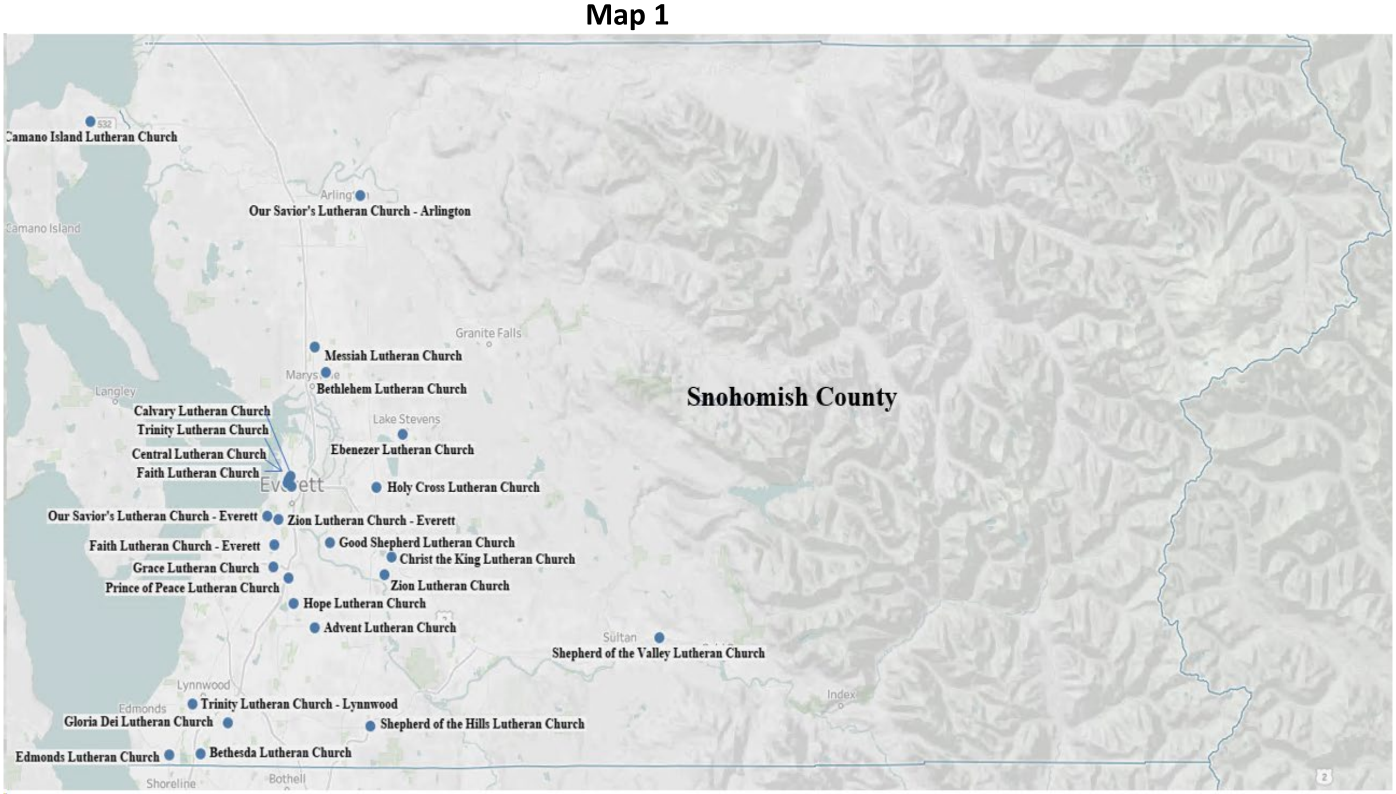
Bethany Hospice's program will provide person-centered care of body and mind to terminally ill patients and their families. Services will be delivered by an interdisciplinary care team which includes a physician, nurse, social worker, hospice aides, chaplains, physical therapists, occupational therapists, and speech-language pathologists. The services for each patient will be developed as a part of the plan of care, developed together with the individual patient and their family and adjusted as the patient's illness progresses.

5. **Confirm that this agency will be available and accessible to the entire geography of the county proposed to be served.**

   Bethany is fully committed to ensuring that a full continuum of high-quality care is available and accessible to our patients and to the entire community of Snohomish County. As can be identified in Bethany Hospice's utilization assumptions, we do expect a significant percentage of our patients to come from Bethany's current facilities but also have included in our start-up costs and ongoing financial assumptions dollars for outreach to address the unmet need throughout Snohomish County.

   Importantly, Bethany of the Northwest is sponsored by 32 churches in Snohomish, Whatcom and Skagit counties. Bethany will work closely with the 26 sponsoring congregations throughout Snohomish County identified in Map 1 during the implementation of our hospice program. Bethany already meets monthly with the churches and their representatives through our Church and Community Committee. At these meetings, we discuss the needs of the community and collaborate on efforts for delivering healthcare and other services to those in need. We often hear of those who are struggling, with end-of-life scenarios and strongly believe having a Medicare certified/Medicaid eligible agency can help meet this need in the community. We also get feedback on the care we have provided and those we have been able to positively touch.

Map 1



Bethany has also expended considerable time over the past few years to develop partnerships that support the delivery of coordinated care and ensure readiness for participation in value-based care. Our central location in Snohomish County, coupled with our partnerships with other health care entities in the County including Providence and the Everett Clinic assure Bethany Hospice will also be an integral part of the health care system. Bethany is also actively working to expand its relationship with several other key providers. Provider interest is high in Bethany because we have a history of offering high-quality options for post-acute and direct admit care. Bethany has also been exploring partnerships that support workforce development and training. As a current provider of health care services in the County, we also have existing relationships with existing health plans in the community as well.

Per our utilization assumptions contained in Exhibit 4, we conservatively estimate by the third year of operation to be caring for almost 30 patients per day from the larger Snohomish County community.

6. **With the understanding that the review of a Certificate of Need application typically takes at least six to nine months, provide an estimated timeline for project implementation, below:**

Event	**Anticipated Month/Year**
CN Approval (per WAC)	11/2021
Design Complete (if applicable)	NA
Construction Commenced (if applicable)	NA
Construction Completed (if applicable)	NA
Agency Prepared for Survey	11/2022
Agency Providing Medicare and Medicaid hospice services in the proposed county.	1/2023

7. **Identify the hospice services to be provided by this agency by checking all applicable boxes below. For hospice agencies, at least two of the services identified below must be provided.**

X Skilled Nursing	X Durable Medical Equipment
X Home Health Aide	X IV Services
X Physical Therapy	Nutritional Counseling
X Occupational Therapy	X Bereavement Counseling
X Speech Therapy	X Symptom and Pain Management
X Respiratory Therapy	X Pharmacy Services
X Medical Social Services	X Respite Care
Palliative Care	X Spiritual Counseling
Other (please describe)	

8. **If this application proposes expanding an existing hospice agency, provide the county(ies) already served by the applicant and identify whether Medicare and Medicaid services are provided in the existing county(ies).**

   This question is not applicable.

9. **If this application proposes expanding the service area of an existing hospice agency, clarify if the proposed services identified above are consistent with the existing services provided by the agency in other planning areas.**

   This question is not applicable.

10. **Provide a general description of the types of patients to be served by the agency at project completion (e.g., age range, diagnoses, special populations, etc).**

    Bethany will provide the full range of hospice services designed to meet the physiological, psychological, social, and spiritual needs of Snohomish County residents facing the end of life. We also plan a strong bereavement program.

    Table 2 identifies the diagnoses of terminal patients cared for in Bethany's existing services. We expect our hospice will experience a similar mix of patients.

Table 2
Diagnoses of Patients Cared for in 2020

Diagnoses	
Cancer	30%
Heart/Cardiac	17%
Alzheimer's/Dementia	16%
COPD/Respiratory	11%
Stroke	10%
All Others	16%

Source: Applicant

11. **Provide a copy of the letter of intent that was already submitted according to [WAC 246-310-080] and [WAC 246-310-290(3).]**

    The letter of intent for this application is included in Exhibit 2.

12. Confirm that the agency will be licensed and certified by Medicare and Medicaid. If this application proposes the expansion of an existing agency, provide the existing agency's license number and Medicare and Medicaid numbers.

Bethany Hospice intends to seek licensure as an in-home services provider with a hospice service category and to seek Medicare certification and a Medicaid contract. Since Bethany Hospice is not an existing agency, the below information is not applicable.

IHS.FS.______________________________

Medicare #:___________________________

Medicaid #:___________________________

13. Identify whether this agency will seek accreditation. If yes, identify the accrediting body.

Bethany Hospice will seek accreditation through CHAP.

Section 3
CERTIFICATE OF NEED REVIEW CRITERIA
Need (WAC 246-310-210)

1. **For existing agencies, using the table below, provide the hospice agency's historical utilization broken down by county for the last three full calendar years. Add additional tables as needed.**

   Bethany Hospice is not an existing hospice agency, so the below information is not applicable.

COUNTY			
Total number of admissions			
Total number of patient days			
Average daily census			

2. **Provide the projected utilization for the proposed agency for the first three full years of operation. For existing agencies, also provide the intervening years between historical and projected. Include all assumptions used to make these projections.**

COUNTY	2023	2024	2025
Total number of admissions	114	219	269
Total number of patient days	6,840	13,140	16,856
Average daily census	19.6	37.6	46.2

   The assumptions for Bethany Hospice's projections are included in detail in Exhibit 4.

3. **Identify any factors in the planning area that could restrict patient access to hospice services.**

   The Department of Health's methodology identifies a need for two additional agencies in the planning area – and this methodology uses the statewide ALOS of 62.66 in determining this need. This is conservative because data from the National Hospice and Palliative Care Organization data demonstrates the ALOS for all Medicare patients enrolled in hospice in 2017 was 76.1 days and has consistently been above Washington's ALOS since 2012. In the case of hospice, a longer length of stay is widely accepted as being "better" for the patient and family.

   Table 3 reflects this information.

Table 3
National ALOS
Medicare Patients

Year	Patients	Total Days of Care	ALOS
2012	1.3M	98.7M	77.6
2013	1.3M	103.7M	79.0
2014	1.3M	100.7M	76.1
2015	1.4M	102.6M	74.5
2016	1.4M	108.2M	75.7
2017	1.5M	113.6M	76.1

Source: NHPCO

Research has not only found that patients receiving hospice care tend to experience better end-of-life treatment than those who did not, they also found that the positive effects of hospice care increased alongside duration of stay. For example, families of patients who spent a shorter time in hospice care (defined as less than or equal to three days) were less likely to report that patients died in their preferred place. The researchers noted that the relationship between hospice care effectiveness and duration was not linear. The difference between patients receiving little (less than three days) and moderate (between three and eight days) hospice care was negligible. The starkest difference emerged when patients entered hospice care 30 or more days prior to death.

These findings suggest that providers should prioritize early enrollment in hospice care when possible. Although this may not be realistic for all patients, the research points to significant benefit to enrolling patients earlier and increasing time spent in hospice.

Importantly, studies have shown that duration of care also has significant impact on total cost of care. Estimated annual cost savings ranged from $316 million (if 20 percent of the decedent beneficiaries used hospice care for a duration of 4 weeks) to $2.43 billion (if 100 percent of the decedent beneficiaries used hospice care for a duration of 24 weeks). The study was based on the estimate that about 60 percent of decedent Medicare beneficiaries enter hospice care for an average stay of under two weeks. The hospice program could potentially save the Medicare program between $705 million to $1.34 billion annually. Table 4 reflects this information.

Table 4
Annual Cost Savings by Hospice Uptake and Duration of Hospice Stay ($ MILLIONS)

Hospice Uptake Medicare Decedent (%)	Duration of Hospice Stay (weeks)						
	2	4	8	12	16	20	24
20%	$237	$316	$411	$446	$466	$484	$487
40%	$469	$630	$825	$890	$935	$965	$970
60%	$705	$940	$1,235	$1,340	$1,395	$1,445	$1,455
80%	$940	$1,260	$1,645	$1,785	$1,860	$1,925	$1,940
100%	$1,175	$1,570	$2,060	$2,230	$2,330	$2,410	$2,430

Source: Powers et al. Cost Savings Associated with Expanded Hospice Use in Medicare. J Palliative Med. 2015 May 1; 18(5):400-401.[43]

While Bethany has used the 62.66-day LOS for purposes of projecting need; this data clearly suggests that patients in our state and their families would benefit by a longer length of stay and that real and quantifiable cost savings would be a secondary benefit.

4. Explain why this application is not considered an unnecessary duplication of services for the proposed planning area. Provide any documentation to support the response.

The Department of Health's 2020 published methodology identifies a need for 2 additional agencies by 2022. Program's applying in this concurrent review cycle won't be approved until the end of 2021, so the need will likely be for at least 3 agencies by the time any of the applicant's programs are at their third full year of operation. Again, these estimates are based also on maintaining a status quo of an ALOS of 62.66 – and not a longer ALOS per national standards that result in both cost savings and improved outcomes and patient and family satisfaction. Clearly, the need for 2 agencies is a very conservative estimate and will not result in unnecessary duplication but will instead allow new providers to address unmet need.

Further, and importantly, in projecting our opening date, Bethany reviewed the timelines of other recently approved Snohomish County hospice agencies. We purposefully delayed our opening date to January 1, 2023 to assure that these CN approved providers have the opportunity to pass through start-up.

5. **Confirm the proposed agency will be available and accessible to the entire planning area.**

   Bethany is fully committed to ensuring that a full continuum of high-quality care is available and accessible to our patients and to the entire community of Snohomish County. As can be identified in Bethany Hospice's assumptions, we do expect a significant percentage of our patients to come from the existing relationships with Bethany of Northwest's current facilities but also have included in our start-up costs and ongoing financial assumptions dollars for outreach to address the unmet need throughout Snohomish County. Per our assumptions we conservatively estimate by the third year of operation to caring for almost 30 patients per day from the larger Snohomish County underserved community.

6. **Identify how this project will be available and accessible to under-served groups.**

   Bethany of the Northwest has a long and proven history of accepting all patients in need regardless of race, religion, disability, sex, or income. Bethany's proposed draft charity care policy is included as Exhibit 3.

7. **Provide a copy of the following policies:**
   - **Admissions policy**
   - **Charity care or financial assistance policy**
   - **Patient Rights and Responsibilities policy**
   - **Non-discrimination policy**
   - **Any other policies directly related with patient access (example, involuntary discharge)**

   The relevant policies are included in Exhibit 3.

8. If there is not sufficient numeric need to support approval of this project, provide documentation supporting the project's applicability under WAC 246-310-290(12). This section allows the department to approve a hospice agency in a planning area absent numeric need if it meets the following review criteria:

- **All applicable review criteria and standards with the exception of numeric need have been met;**
- **The applicant commits to serving Medicare and Medicaid patients; and**
- **A specific population is underserved; or**
- **The population of the county is low enough that the methodology has not projected need in five years, and the population of the county is not sufficient to meet an ADC of thirty-five.**

Note: The department has sole discretion to grant or deny application(s) submitted under this subsection.

The Department's methodology identified a need for 2 additional agencies by 2022. This question is not applicable.

Section 3
CERTIFICATE OF NEED REVIEW CRITERIA
FINANCIAL FEASIBILITY (WAC 246-310-220)

Financial feasibility of a hospice project is based on the criteria in WAC 246-310-220.

1. **Provide documentation that demonstrates the immediate and long-range capital and operating costs of the project can be met. This should include but is not limited to:**
    - **Utilization projections. These should be consistent with the projections provided under the Need section. Include all assumptions.**
    - **Pro Forma revenue and expense projections for at least the first three full calendar years of operation. Include all assumptions.**
    - **Pro Forma balance sheet for the current year and at least the first three full calendar years of operation. Include all assumptions.**
    - **For existing agencies proposing addition of another county, provide historical revenue and expense statements, including the current year. Ensure these are in the same format as the projections. For incomplete years, identify whether the data is annualized.**

The requested documents are included in Exhibit 4.

2. **Provide the following agreements/contracts:**
    - **Management agreement.**
    - **Operating agreement**
    - **Medical director agreement**
    - **Joint Venture agreement**

    Note, all agreements above must be valid through at least the first three full years following completion or have a clause with automatic renewals. <u>Any agreements in draft form must include a document signed by both entities committing to execute the agreement as submitted following CN approval.</u>

Exhibit 5 includes the management agreement and medical director agreement. There is not an operating agreement or joint venture agreement associated with this project.

3. **Provide documentation of site control. This could include either a deed to the site or a lease agreement for the site.**

   If this is an <u>existing</u> hospice agency and the proposed services would be provided from an existing main or branch office, provide a copy of the deed or lease agreement for the site. If a lease agreement is provided, the agreement must extend through at least the projection year. Provide any amendments, addendums, or substitute agreements to be created as a result of this project to demonstrate site control.

   If this is a new hospice agency at a new site, documentation of site control includes one of the following:

   a. **An <u>executed</u> purchase agreement or deed for the site.**
   b. **A <u>draft</u> purchase agreement for the site. The draft agreement must include a document signed by both entities committing to execute the agreement as submitted following CN approval.**
   c. **An <u>executed</u> lease agreement for at least three years with options to renew for not less than a total of two years.**
   d. **A <u>draft</u> lease agreement. For Certificate of Need purposes, draft agreements are acceptable if the draft identifies all entities entering into the agreement, outlines all roles and responsibilities of the entities, identifies all costs associated with the agreement, includes all exhibits referenced in the agreement. The draft agreement must include a document signed by both entities committing to execute the agreement as submitted following CN approval.**

   A lease agreement is included in Exhibit 6.

4. **Complete the table on the following page with the estimated capital expenditure associated with this project. Capital expenditure is defined under WAC 246-310-010(10). If you have other line items not listed in the table, include the definition of the line item. Include all assumptions used to create the capital expenditure estimate.**

   WAC 246-310-010(10) defines a capital expenditure as:

   …an expenditure…, ***which, under generally accepted accounting principles, is not properly chargeable as an expense of operation or maintenance.***

   Generally Accepted Accounting Principles (GAAP) establish which equipment should be treated as an expense versus those that should be treated as an asset and depreciated over their useful lives based on their estimated useful lives and the initial cost. Per GAAP, minor equipment of $5,000 or less with a short estimated useful life should be expensed. Bethany is not making any renovations to the current space nor acquiring any equipment with a value in excess of $1,000. Therefore, for this project, there is no capital expenditure.

Item	Cost
a. Land Purchase	$
b. Utilities to Lot Line	$
c. Land Improvements	$
d. Building Purchase	$
e. Residual Value of Replaced Facility	$
f. Building Construction	$
g. Fixed Equipment (not already included in the construction contract)	$
h. Movable Equipment	$
i. Architect and Engineering Fees	$
j. Consulting Fees	$
k. Site Preparation	$
l. Supervision and Inspection of Site	$
m. Any Costs Associated with Securing the Sources of Financing (include interim interest during construction)	
1. Land	$
2. Building	$
3. Equipment	$
4. Other	$
n. Washington Sales Tax	$
Total Estimated Capital Expenditure	**$**

5. **Identify the entity responsible for the estimated capital costs identified above. If more than one entity is responsible, provide breakdown of percentages and amounts for each.**

   This question is not applicable.

6. **Identify the amount of start-up costs expected to be needed for this project. Include any assumptions that went into determining the start-up costs. Start-up costs should include any non-capital expenditure expenses incurred prior to the facility opening or initiating the proposed service. If no start-up costs are expected, explain why.**

   Startup costs are defined as those costs that related to opening the agency, hiring staff, securing licensure, preparing for accreditation survey, and outreach/marketing. These costs are estimated below:

   - Hiring staff

- Administrator/Director hired: $30,000- Assuming this position is hired 3 months early to begin coordination of policies and procedures, and to begin hiring staff and training.
  - Admin Asst./Medical Records: $13,000- Assuming this position is brought on 2 months early to assist the Administrator/Director.
  - Facility Liaison/Community Outreach- $21,666- Assuming this position is hired 2 months early to begin start-up projects.
  - Bereavement- $3,156- Assuming this person is hired 1 month early for training.
  - Spiritual Counselor- $3,156- Assuming this person is hired 1 month early for training.
  - Manager of Patient Services-$3,098- Assuming this person is hired 1 month early.
  - RN/LPN- $13,250- Assuming these LNs are hired 1 month early for training and policy development.
  - Med Social Work- $4,362- Assuming this position is hired 1 month early. For training.
  - Home Health Aide- $7,747- Assuming these positions are hired 1 month early for training.
- Policy development, software, licensure, and accreditation: $15,000

7. Identify the entity responsible for the estimated start-up costs identified above. If more than one entity is responsible, provide breakdown of percentages and amounts for each.

The start-up costs were determined after CEO-to-CEO consultation with another non-profit long-term care based agency operating in the Puget Sound that established a hospice agency a number of years ago. We also extensively reviewed various literature regarding start-up agencies, reviewed other approved certificates of need, consulted with our CPA consultant, and relied on the experience and expertise of Bethany in other recent program startups.

8. Explain how the project would or would not impact costs and charges for healthcare services in the planning area.

Hospice rates paid are not modified based on a specific provider's cost and charges. As such this project will not have a negative impact on health care costs in the County. The reality is that this project will reduce total end of life health care expenditures.

A number of studies have demonstrated that hospice care results in substantive cost savings to the Medicare program.[2, 3] Patients in hospice care generally do not receive procedures, treatments, or tests solely meant to prolong life as related to the terminal illness. These types of services can drive up the cost of caring for a terminally ill patient while not increasing quality of life. For instance, a study by Powers et al. indicates that longer durations of hospice care use and higher percentages of hospice users in the Medicare population equate to greater savings for the

Medicare program. As an example, if 80 percent (as opposed to the current 50 percent) of decedent Medicare beneficiaries used hospice for 24 months, nearly $2 billion could be saved by the Medicare program annually.[4]

As identified in table 5, in a sample of Medicare fee-for-service beneficiaries with poor-prognosis cancer, those receiving hospice care vs not (comparison group) had significantly lower rates of hospitalization, intensive care unit admission, and invasive procedures along with significantly lower total costs during the last year of life.[40]

Table 5
Medicare Fee-for-Service Beneficiaries
Total Costs During the Last Year of Life

	Non-hospice, % (95% CI)	Hospice, % (95% CI)
Hospital admission	65.1 (64.4-65.8)	42.3 (41.5-43.0)
ICU Admission	35.8 (35.1-36.5)	14.8 (14.3-15.3)
Invasive Procedures	51.0 (50.3-51.7)	26.7 (26.1-27.4)
Death in hospital or SNF	74.1 (73.5-74.8)	14.0 (13.5-14.5)
Long term hospital/SNF	23.9 (23.3-24.5)	10.5 (10.1-11.0)
Total Costs ($)	71,517 (70,543-72,490)	62,819 (62,082-63,557)

Source: Obermeyer, et al (2014).

Currently, providers, payers, and policymakers are recognizing the potential benefit of the hospice care delivery model by recognizing the value of hospice as a bundled payment model and at the same time honoring patient and family preferences. Specifically, the Centers for Medicare & Medicaid Services' (CMS) Innovation Center (CMMI) is testing the Medicare Care Choice Model (MCCM) which recognizes the value of hospices being able to offer support to a patient and families without requiring them to elect the hospice benefit until the patient and family are ready, through their experience with MCCM or at any time. The Innovation Center continues to emphasize the value of hospice by announcing that the CY 2021 Medicare Advantage Value Based Insurance Design (VBID) model would include the hospice benefit and actively seeks stakeholder engagement and expertise.

9. Explain how the costs of the project, including any construction costs, will not result in an unreasonable impact on the costs and charges for health services in the planning area.

As stated above, Bethany Hospice's project does not include any remodel or construction. And further, Hospice rates are not modified based on a specific provider's cost and charges.

10. **Provide the projected payer mix by revenue and by patients by county as well as for the entire agency using the example table below. Medicare and Medicaid managed care plans should be included within the Medicare and Medicaid lines, respectively. If "other" is a category, define what is included in "other."**

Payer Mix	Percentage of Gross Revenue	Percentage by Patient
Medicare	85%	85%
Medicaid	5%	5%
Commercial	5%	5%
Other Payers (list in individual lines)	5%	5%
Total	100%	100%

11. **If this project proposes the addition of a county for an existing agency, provide the historical payer mix by revenue and patients for the existing agency. The table format should be consistent with the table shown above.**

This question is not applicable.

12. **Provide a listing of equipment proposed for this project. The list should include estimated costs for the equipment. If no equipment is required, explain.**

No equipment will be replaced. The new equipment is basic office equipment and is included in Table 6.

Table 6
Proposed Equipment List

Office Equipment	QTY	Cost S
Computers	5	2,000
Desks	5	2,000
Chairs	13	1,217
File Cabinets	8	1,200
Refrigerator	1	600
Printer/Copier/Fax	5	1,200
Networking/Router	1	1,000
Software & License	5	$8,783
Total		**$18,000**

Source: Applicant

13. **Identify the source(s) of financing (loan, grant, gifts, etc.) and provide supporting documentation from the source. Examples of supporting documentation include: a letter from the applicant's CFO committing to pay for the project or draft terms from a financial institution.**

A letter from Bethany's CEO committing to the funding of this project is included in Exhibit 7.

14. If this project will be debt financed through a financial institution, provide a repayment schedule showing interest and principal amount for each year over which the debt will be amortized.

This question is not applicable.

15. Provide the most recent audited financial statements for:

- **The applicant, and**
- **Any parent entity responsible for financing the project.**

Included as Appendix 1 are audited financials for Bethany.

Section 3
CERTIFICATE OF NEED REVIEW CRITERIA
Structure and Process (Quality) of Care (WAC 246-310-230)

1. **Provide a table that shows FTEs [full time equivalents] by category for the county proposed in this application. All staff categories should be defined.**

Table 7
Bethany Hospice FTEs

Type of Staff	Year1 FTEs	Year 2 FTEs	Year 2 FTEs
Clinical Staff			
Bereavement	0.63	1.21	1.49
Spiritual Counselor	0.63	1.21	1.49
Volunteer Coordinator	0.53	1.02	1.25
Manager of Patient Services	0.39	0.75	0.92
RN/LPN	2.45	4.70	5.77
Med Social Work	0.81	1.55	1.90
Home Health Aide	2.45	4.70	5.77
Subtotals	**7.88**	**15.14**	**18.60**
Administrative Staff			
Administrator	1.00	1.00	1.00
Administrative Assistant/Medical Records	1.00	1.25	1.75
Facility Liaison/Community Outreach	2.00	2.50	3.00
QAPI Coordinator		0.50	1.00
Subtotals	**4.00**	**5.25**	**6.75**
Total	**11.88**	**20.39**	**25.35**

Source: Applicant

2. **If this application proposes the expansion of an existing agency into another county, provide an FTE table for the entire agency, including at least the most recent three full years of operation, the current year, and the first three full years of operation following project completion. There should be no gaps in years. All staff categories should be defined.**

This question is not applicable.

3. **Provide the assumptions used to project the number and types of FTEs identified for this project.**

   The staffing ratios were determined after Clinical manager to Clinical manager consultation with an existing non-profit long-term care based agency operating in the Puget Sound that established a hospice agency a number of years ago. We also extensively reviewed literature regarding staffing ratios and reviewed other approved certificate of need applications in Snohomish County.

Table 8
Staff/Patient Ratios

Type of Staff	Bethany Hospice	National Hospice and Palliative Care Association - National Average
Bereavement	1:31	
Spiritual Counselor	1:31	1:31.4
Volunteer Coordinator	1:37	1:37.3
Manager of Patient Services	1:50	
RN/LPN	1:8	1:11.2
Med Social Work	1:24	1:24.3
Hospice Aide	1:8	1:10.8

Source: Applicant and NHPCO

4. **Provide a detailed explanation of why the staffing for the agency is adequate for the number of patients and visits projected.**

   Bethany Hospice went to great lengths to ensure adequate staffing for its agency and to ensure that staffing was linked to patient census. Bethany Hospice not only consulted with an existing hospice agency operating in the Puget Sound, but also evaluated the three most recent approved Certificate of Need applications for Snohomish County and national literature regarding current staffing ratios to develop its staffing.

   We have purposely been conservative in these assumptions in that even where we believe our staff will be able to achieve greater efficiencies, we have assumed maximum staffing to ensure patient access, quality, and viability of our agency. Our staffing ratios are in line with or better than the recently approved agencies serving Snohomish County, and as can be identified in Table 8 above, our staffing ratios are also in line with, or better than, NHPCO provided national averages.

5. **Provide the name and professional license number of the current or proposed medical director. If not already disclosed under 210(1) identify if the medical director is an employee or under contract.**

   The Medical Director for Bethany Hospice will be Don Nguyen license # MD60957806. The relevant Medical Director contract is included in Exhibit 5.

6. **If the medical director is/will be an employee rather than under contract, provide the medical director's job description.**

   This question is not applicable.

7. **Identify key staff by name and professional license number, if known. (nurse manager, clinical director, etc.)**

   Through its affiliation with Bethany, Bethany Hospice will have the ability to cross-train our nurses and therapists to serve multiple programs. Many of the staff needed for Bethany Hospice, then, will be addressed through existing Bethany programs and/or increasing part-time FTEs from existing facilities to full time (after specific training in hospice). However, at this point in the process we have not solicited interest from any existing staff. We will not do that until, at the earliest, CN approval. That said, we have heard from clinical staff repeatedly about their interest in hospice, as well as their conviction that adding a hospice component to our business will create a wholistic environment for our clients.

8. **For existing agencies, provide names and professional license numbers for current credentialed staff.**

   This question is not applicable.

9. Describe your methods for staff recruitment and retention. If any barriers to staff recruitment exist in the planning area, provide a detailed description of your plan to staff this project.

Bethany Hospice's parent, Bethany has been a non-profit icon of the healthcare industry in the Northwest for nearly 100 years and has a long and distinguished track record of recruiting top-notch staff. Because of its affiliation with Bethany of the Northwest, Bethany Hospice will have the ability to cross-train our nurses and therapists to serve both functions. Many of the staff needed for Bethany Hospice, then, will be addressed through existing Bethany of the Northwest programs and/or increasing part-time FTEs from existing facilities to full time (after specific training in hospice).

Bethany offers very competitive salaries, generous 403B end-of-year matching, strong health, dental and vision benefits, as well as a sign-on bonus when applicable. Bethany also offers an excellent mission-based environment, a local commute, paid time off (including personal days), tuition reimbursement, scholarship opportunity, longevity bonuses, grief counseling, Employee Assistance Program, The Perks at Work program, and many other benefits. For these reasons we do not expect any problems with recruiting qualified employees.

Additionally, Bethany Hospice has access to excellent recruiting professionals that have been successful finding staff to meet its needs.

Bethany Hospice is aware that there are staffing challenges within the community that have been exacerbated by the COVID-19 pandemic with staff being recruited for higher pay temporary positions. We also acknowledge that there are startup agencies currently in the Snohomish community. While these agencies' volumes have been appropriately accounted for in the methodology and a significant need has still been identified, we do recognize that they are also in the process of recruitment. For these reasons, in addition to allowing time for appropriate planning, licensure, certification and accreditation, Bethany Hospice has delayed our opening to 2023 to ensure not to compromise other providers and reduce recruiting challenges.

10. Identify your intended hours of operation and explain how patients will have access to services outside the intended hours of operation.

Bethany's business hours will be Monday through Friday from 8:00 a.m. to 5:00 p.m. Bethany will have staff on call 24 hours per day to support patients and families.

11. For existing agencies, clarify whether the applicant currently has a method for assessing customer satisfaction and quality improvement for the hospice agency.

Bethany's Quality Assessment and Performance Improvement Plan, included in Exhibit 3, provides for the objective and systemic monitoring, evaluation and coordination of the quality, appropriateness, and cost-effectiveness of patient care, resolves identified problems and improves the Agency's performance. This QAPI program is designed to show measurable improvement in indicators for which there is evidence that improvement in the indicators will improve health outcomes, patient safety, and quality of care. Specific measures are used to capture significant outcomes that are essential to optimal care and will be used in care planning and coordination of services and events. Assessment of these measures are achieved through data collection, consists of clinical record review, patient interviews, and patient satisfaction reports.

Also included in Exhibit 3 is Bethany's patient satisfaction policy confirming that patients will be surveyed at least upon discharge to obtain information regarding their satisfaction with the services provided. The information obtained is analyzed and any problems identified are addressed.

12. For existing agencies, provide a listing of ancillary and support service vendors already in place.

Bethany Hospice is not an existing agency, so this question is not applicable. However, given the strength, breadth, and expertise of Bethany Hospice's parent's existing post-acute and long-term care operations in Snohomish County, Bethany Hospice will enjoy easy access to the existing ancillary support service vendors in place with Bethany of the Northwest.

13. Identify whether any of the existing ancillary or support agreements are expected to change as a result of this project.

Bethany Hospice is not an existing agency, so this question is not applicable.

14. For new agencies, provide a listing of ancillary and support services that will be established.

Below is a preliminary listing of the anticipated ancillary and support services.

- Durable Medical Equipment
- Primary care providers
- Pharmacy
- Social Service agencies
- Other government services (if applicable)
- Palliative care
- Home health/home care
- Respite and inpatient (acute and long-term care)

15. **For existing agencies, provide a listing of healthcare facilities with which the hospice agency has working relationships.**

    This question is not applicable.

16. **Clarify whether any of the existing working relationships would change as a result of this project.**

    This question is not applicable.

17. **For a new agency, provide a listing of healthcare facilities with which the hospice agency would establish working relationships.**

    Bethany is already a well-respected provider of long-term care, transitional care, and assisted living services in Snohomish County and has recently established a home health agency for which it is seeking Certificate of Need approval so as to be able to include Medicare and Medicaid patients. Bethany also works closely with local physicians, hospitals, and other providers and organizations to ensure patients' comprehensive medical, social, and spiritual needs are met. As a subsidiary of Bethany, Bethany Hospice will greatly benefit from these existing relationships.

    Bethany will promote continuity in care delivery and support the needs of hospice patients and their families by facilitating the transition of care and closing the care gaps for those served in Bethany's existing programs. That said, Bethany is not intending to limit is services to those we currently care for and will work with/outreach to any provider/patient/family transferring a patient to hospice service to assure seamless transitions.

18. **Identify whether any facility or practitioner associated with this application has a history of the actions listed below. If so, provide evidence that the proposed or existing facility can and will be operated in a manner that ensures safe and adequate care to the public and conforms to applicable federal and state requirements. [WAC 246-310-230(3) and (5)]**
    a. **A criminal conviction which is reasonably related to the applicant's competency to exercise responsibility for the ownership or operation of a hospice care agency; or**
    b. **A revocation of a license to operate a health care facility; or**
    c. **A revocation of a license to practice a health profession; or**
    d. **Decertification as a provider of services in the Medicare or Medicaid program because of failure to comply with applicable federal conditions of participation.**

    Neither Bethany, its parent nor any affiliated entity has any history in respect to criminal convictions, denial or renovate of licenses, or decertification as cited above.

19. Provide a discussion explaining how the proposed project will promote continuity in the provision of health care services in the planning area, and not result in an unwarranted fragmentation of services. WAC 246-310-230

Bethany is already a well-respected provider of long-term care, transitional care, and assisted living services in Snohomish County. Bethany works closely with local physicians, hospitals, and other providers and organizations to ensure patients' comprehensive medical, social, and spiritual needs are met. As a subsidiary of Bethany, Bethany Hospice will greatly benefit from these existing relationships.

Bethany Hospice will promote continuity in care delivery and support the needs of hospice patients and their families by facilitating the transition of care and closing the care gaps for patients at end of life.

We will additionally accomplish this through enhanced cooperation and coordination between our Bethany division of SNFs, and ALFs, and our subsidiary companies (Bethany Home Health, LLC and Bethany Hospice, LLC).

20. Provide a discussion explaining how the proposed project will have an appropriate relationship to the service area's existing health care system as required in WAC 246-310-230.

Given the strength, breadth, and expertise of our existing post-acute and long-term care operations in Snohomish County, Bethany is already a critical provider in the existing health care system in Snohomish County. As discussed above our values require that Bethany continue to grow and expand our array of services as needs are identified. Most recently this is reflected in:

- A partnership established with Providence Everett Medical Center to redesign the transitional care model, moving from traditional post-acute patients (now being managed well in community nursing homes) to hard to place long-stay/non-acute patients impacting occupancy and bed availability at Providence Everett, and more importantly, the quality of life of these individuals.

- The establishment of a licensed in-home services agency to meet the needs of patients needing safe transitions to home. An application has also been submitted for a Certificate of Need for this agency in order to become a Medicare certified/Medicaid eligible home health agency.

Bethany has also expended considerable time over the past few years to develop partnerships that support the delivery of coordinated care and ensure readiness for participation in value-based care. Our central location in Snohomish County, coupled with our partnerships with other health care entities in the County including Providence and the Everett Clinic assure Bethany Hospice will also be an integral part of the health care system. Bethany is also actively working to expand its relationship with several other key providers. Provider interest is high in Bethany because we have a history of offering high-quality options for post-acute and direct admit care. Bethany has also been exploring partnerships that support workforce development and training.

As a current provider of health care services in the County, we also have existing relationships with existing health plans in the community as well.

21. **The department will complete a quality of care analysis using publicly available information from CMS. If any facilities or agencies owned or operated by the applicant reflect a pattern of condition-level findings, provide applicable plans of correction identifying the facility's current compliance status.**

    All of Bethany's existing facilities are rated either a 4 or 5 Star in quality by CMS. Bethany monitors quality very closely and is committed to providing high quality services. None of Bethany's existing facilities have any ongoing issues/concerns in the CMS QCOR reports over the last four years.

22. **If information provided in response to the question above shows a history of condition-level findings, provide clear, cogent, and convincing evidence that the applicant can and will operate the proposed project in a manner that ensures safe and adequate care, and conforms to applicable federal and state requirements.**

    This question is not applicable.

Section 3
CERTIFICATE OF NEED REVIEW CRITERIA
Cost Containment (WAC 246-310-240)

1. **Identify all alternatives considered prior to submitting this project. At a minimum include a brief discussion of this project versus no project.**

   Given the need defined through application of the home health methodology, Bethany Hospice identified and evaluated only three alternatives prior to submitting this CN.
   1. Do nothing.
   2. Establish a licensed only or volunteer hospice agency.
   3. File a CN to meet a community need.

2. **Provide a comparison of the project with alternatives rejected by the applicant. Include the rationale for considering this project to be superior to the rejected alternatives. Factors to consider can include, but are not limited to: patient access to healthcare services, capital cost, legal restrictions, staffing impacts, quality of care, and cost or operation efficiency.**

   Given the unmet need, coupled with the lower length of stay in Washington state than the national standard utilized to identify that need, we decided that Option 1 was not responsive to community need.

   Option 2, becoming a licensed only or volunteer hospice agency was deemed not a financially viable option since the vast majority of hospice patients are Medicare or Medicaid and a Certificate of Need is required to achieve these certifications/contracts. Further, volunteer agencies tend to provide less clinical (nursing, PT, etc.) support than most certified agencies. This coupled with the fact that this option would mean that we are not accessible to all patients and families that may choose our care by virtue of their desire to access their Medicare hospice benefit, allowed us to easily rule out this option.

   Option 3, filing a certificate of need to become a Medicare Certified/Medicaid eligible hospice agency was deemed the best option and will allow Bethany to serve the unmet hospice needs in Snohomish County.

3. **If the project involves construction, provide information that supports conformance with WAC 246-310-240(2):**
    - **The costs, scope, and methods of construction and energy conservation are reasonable; and**
    - **The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.**

    This project does not involve construction, so this question is not applicable.

4. **Identify any aspects of the project that will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.**

    The 2019 Report to the National Hospice and Palliative Care Organization, *Hospice: Leading Interdisciplinary Care, identified that:*

    > *Today, value across the health care system in large part involves diverse clinical disciplines to coordinate care, while reducing overall costs without compromising patient outcomes. For decades, the hospice program includes terminally ill patients and their families to collaboratively develop care plans with their hospice interdisciplinary team and take control of patients' end of life care. The hospice value proposition brings care to patients and their families that is unique and meaningful, as it provides comfort care as well as physical, emotional, and spiritual support to patients and their families on terms that they themselves choose. Hospice provides each family services that are tailored to their preferences and the patient's clinical condition.*
    >
    > This report also referenced data demonstrating that *"hospice care is cost-effective for Medicare and its beneficiaries. By avoiding expensive treatments and procedures solely designed to prolong the life of terminally-ill patients, hospice users save Medicare dollars while still receiving quality, patient-preferred, end-of-life care on their own terms."*[1]

    Ensuring immediate access to high quality hospice services is critical to the financing and delivery of health care in Snohomish County. As a non-profit, mission-driven organization, Bethany not only has the proven track record, commitment to the highest quality services and understanding and value of a continuum, but also has a history of cost-effective operations. Adding hospice to Bethany's existing services will further our cost effectiveness. Bethany already operates 262 skilled and sub-acute nursing beds and 60 apartments for assisted living at three separate locations in Snohomish County. Bethany also has recently opened a licensed home health agency for which it is seeking CN approval, and provides a number of services that support providers such as Providence and the Everett Clinic in managing patients.

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[1] *Hospice: Leading Interdisciplinary Care,* Submitted to the National Hospice and Palliative Care Organization, Dboson, Davanzo, March 25, 2019

The Hospice agency will be able to share staff, administration, and ancillary services with Bethany of the Northwest, requiring very little investment, but a great complement of services to the community.

Hospice Agency Superiority

In the event that two or more applications meet all applicable review criteria and there is not enough need projected for more than one approval, the department uses the criteria in WAC 246-310-290(11) to determine the superior proposal.

Multiple Applications in One Year

In the event you are preparing more than one application for different planning areas under the same parent company – regardless of how the proposed agencies will be operated – the department will require additional financial information to assess conformance with WAC 246-310-220. The type of financial information required from the department will depend on how you propose to operate the proposed projects. Related to this, answer the following questions:

1. **Is the applicant (defined under WAC 246-310-010(6)) submitting any other hospice applications under either of this year's concurrent review cycles? This could include the same parent corporation or group of individuals submitting under separate LLCs under their common ownership.**

   If the answer to this question is no, there is no need to complete further questions under this section.

   No, Bethany is only applying for an agency in Snohomish County.

2. **If the answer to the previous question is yes, clarify:**
   - **Are these applications being submitted under separate companies owned by the same applicant(s); or**
   - **Are these applications being submitted under a single company/applicant?**
   - **Will they be operated under some other structure? Describe in detail.**

   This question is not applicable.

3. **Under the financial feasibility section, you should have provided a pro forma balance sheet showing the financial position of this project in the first three full calendar years of operation. Provide pro forma balance sheets for the applicant, assuming approval of this project showing the first three full calendar years of operation. In addition, provide a pro forma balance sheet for the applicant assuming approval of all proposed projects in this year's review cycles showing the first three full calendar years of operation.**

This question is not applicable.

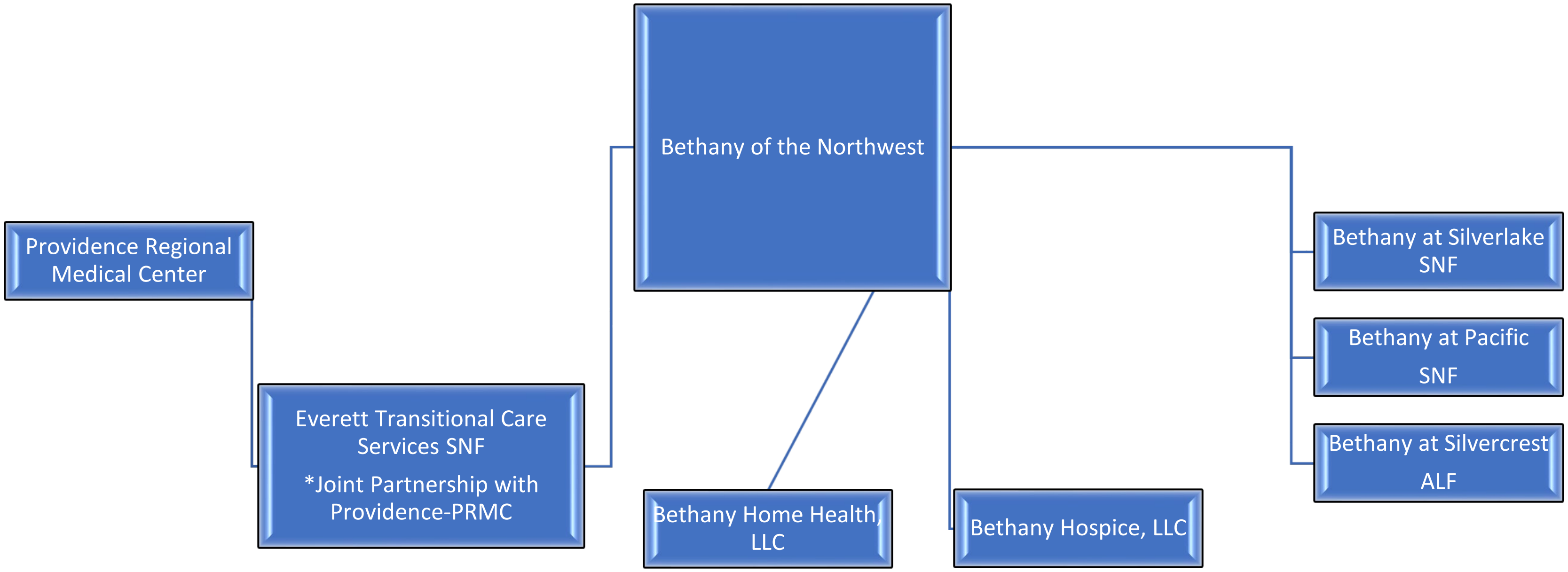
4. **In the event that the department can approve more than one county for the same applicant, further pro forma revenue and expense statements may be required.**
   - **If your applications propose operating multiple counties under the same license, provide combined pro forma revenue and expense statements showing the first three full calendar years of operation assuming approval of all proposed counties.**
   - **If your applications propose operating multiple counties under separate licenses, there is no need to provide further pro forma revenue and expense statements.**

This question is not applicable.

EXHIBIT 1

ORGANIZATIONAL CHART

Organizational Chart- Bethany of the Northwest



Bethany of the Northwest has the following divisions:

- Bethany at Silverlake
- Bethany at Pacific
- Bethany at Silvercrest

Bethany of the Northwest is the sole member of the following subsidiaries:

- Bethany Home Health, LLC
- Bethany Hospice, LLC

Bethany of the Northwest has joint ownership with Providence Regional Medical Center, it is as follows:

- 50/50 ownership of *Everett Transitional Care Services, SNF
- Operated and managed by Bethany of the Northwest

EXHIBIT 2

LETTER OF INTENT

BETHANY OF THE NORTHWEST

Bethany of the Northwest, PO Box 13700, Mill Creek WA 98082

RECEIVED
By CERTIFICATE OF NEED PROGRAM at 11:11 am, Dec 31, 2020

December 28, 2020

LOI20-12BNWHS
ex: JAN 29, 2021

Eric Hernandez, Manager
Certificate of Need Program
Department of Health
P.O. Box 47852
Olympia, WA 98504-7852

Dear Mr. Hernandez:

Bethany of the Northwest is submitting a letter of intent, on behalf of a to-be-formed wholly owned subsidiary to apply for a certificate of need for the establishment of a Medicare certified hospice agency in Snohomish County. In conformance with the requirements of WAC 246-310-080, the following information is provided:

1. **Services Proposed**
   The to be formed wholly owned subsidiary, Bethany Hospice Services, LLC, will provide Medicare certified hospice services in Snohomish County.

2. **Estimated Expenditure**
   Estimated Capital Expenditure is $0.

3. **Description of the Service Area**
   The service area is Snohomish County.

As always, Bethany of the Northwest looks forward to working with the program over the coming months. Please contact me directly if you have any questions.

Sincerely,

Joseph Scrivens
Chief Executive Officer

EXHIBIT 3

POLICIES AND PROCEDURES

Bethany Hospice, LLC

Category:	Clinical		
Subject:	Admissions Criteria		
Applies to:	Clinical Staff	Page:	1 of 3

Purpose:

1. To admit and to service only those patients that meet hospice admission criteria and whose needs can be met by Bethany Hospice, LLC.
2. To provide the patient and/or family with information about services available through Bethany Hospice, LLC

Affected Areas: Clinical and clinical administrative staff.

Policy:

1. Services are available to patients without regard for disease, race, color, religion, ancestry or national origin, age, sex or sexual orientation, mental or physical handicap.
2. Patients are admitted to service if their service needs are congruent with Bethany Hospice, LLC mission, goals, and scope of service. The patient is admitted to Bethany Hospice, LLC service only after a staff member conducts the initial home visit and determines that the patient meets admission criteria, that staff can provide needed services at the level of intensity required by the patient's condition, and that there is reasonable expectation that the patient's needs can be met by Bethany Hospice, LLC. When possible, the admission will be performed by a nurse and a social worker.
3. If the patient does not meet admission criteria, the referring person or organization is notified and the patient is referred to appropriate alternate services, if available.
4. Prior to acceptance to hospice service and delivery of any care and treatment, the following criteria must be met:
    a. Bethany Hospice, LLC has obtained a verbal or written order for hospice care by the patient's primary physician.
    b. The attending physician and hospice Medical Director certify a prognosis of 6 months or less for Medicare patients if the disease follows its expected course.
    c. Medicare guidelines for non-cancer diagnosis issued by the fiscal intermediary (FI) should be reviewed and patient compliance with guidelines documented, if appropriate.
    d. The patient and/or surrogate decision maker agrees to palliative goals/philosophy of hospice services.
    e. The patient must sign the Consent/Admission to Service Agreement. If the patient is unable to sign the admission agreement and has no designated legal representative, the next of kin may sign on the patient's behalf.

   f. Referral orders for start of care are received.
   g. The interdisciplinary group (IDG) establishes an initial plan of care.
5. A registered nurse may make the initial visit to the patient to evaluate appropriateness of services, according to:
   a. Scope of services provided.
   b. Geographic area: the patient lives within the geographical area served by Bethany Hospice, LLC.
   c. Medical supervision:
      i. The patient is under the care of a physician or osteopath licensed in the state. The office staff completes verification of physician licensure when referrals are received.
      ii. The patient has a plan of care that is signed and periodically reviewed by his/her physician who agrees to follow-up responsibility for the patient. In the absence of an attending physician, the patient may be placed under the care of Bethany Hospice, LLC Medical Director, at the patient's request.
   d. Payment for services:
      i. Insurance coverage for Bethany Hospice, LLC is verified at the time of referral.
      ii. Admission of patients with inadequate or no insurance coverage is determined on a case-by-case basis by Bethany Hospice, LLC Executive Director.
         1. A financial assessment will be done by the social worker pursuant to Bethany Hospice, LLC's Charity Care Policy to determine charitable cases. National poverty guidelines will be used.
   e. Other criteria for admission:
      i. Bethany Hospice, LLC has the ability to meet the needs of the patient/family, according to the level and intensity of care required.
      ii. There is an available, able, and willing caregiver to assist in patient care, or suitable arrangements have been made for the patient's care or support. The patient, or the patient's caregiver(s), with intermittent support from Bethany Hospice, LLC staff, is able to meet the range and nature of care required by the patient.
      iii. There is adequate cooperative effort by the patient/family to establish safety measures and a plan for medical and non-medical emergencies.

iv. The patient's home situation is conducive to the needed care of the patient. There are provision for the safety of the patient and hospice personnel, as well as, food, clothing, shelter, and necessary supplies needed by the patients.

v. Bethany Hospice, LLC has adequate and suitable personnel and resources to provide the services required by the patient and family.

Procedure:

The admitting nurse performs the following functions:

1. Provides the patient and/or family with information regarding the procedures and services Bethany Hospice, LLC provides.
2. Provides the following forms and information to the patient/family:
    a. Consent for hospice services.
    b. Patient's rights and responsibilities.
    c. Information regarding advance directives (POLST).
    d. Hours of services, after-hours, and weekend availability of a professional nurse, and how to contact the on-call nurse.

Bethany Hospice, LLC

Category: Rights, Responsibilities and Ethics

Subject: Non Discrimination

Applies: All Staff

Purpose: To provide guidelines that prevent discrimination against other personnel and/or patients on the basis of race, age, color, creed, sex, national origin, ancestry, religion, handicap, disability, marital status, or sexual preference in the organization's employment practices and service delivery.

Policy: In accordance with Title VI of the Civil Rights Act of 1964 and its implementing regulation, this Agency will directly or through contractual or other arrangements, admit and treat all persons without regard to race, age, color, creed, sex, national origin, ancestry, religion, handicap, disability, marital status, or sexual preference; regarding delivery of service and benefits, including assignments or transfers within facilities.

In accordance with Section 504 of the Rehabilitation Act, this Agency will not directly or through contractual or other arrangements, discriminate on the basis of handicap (mental or physical) regarding admissions, access, treatment or employment.

In accordance with the Age Discrimination Act of 1975 and its implementing regulation, this Agency will not, directly or through contractual or other arrangements, discriminate on the basis of age in the delivery of services unless age is a factor necessary to the normal operation of the achievement of any statutory objective.

Procedure:

The Administrator or designee will be the Agency Civil Rights Coordinator and will be responsible for implementation of this policy.

A clause will be in place on any publicly distributed material that states "Patients will receive quality services without regard to patient's race, age, color, creed, sex, marital status, sexual preference, national origin, ancestry, religion, handicap, disability or HIV.

Category:	Rights, Responsibilities and Ethics
Subject:	Non Discrimination
Applies:	All Staff

This agency does not discriminate either through contractual or other arrangements against, sexual orientation, diagnosis/infectious disease, ability to pay and DNR status.

In case of questions, please contact:

Attention Administrator
Bethany Hospice, LLC
3202 Colby Ave, Suite G
Everett, WA 98201
Phone: 555-555-5555

Bethany Hospice LLC

Category:	Quality Management	Number:	8.001.1
Subject:	Quality Assessment & Performance Improvement Plan		
Applies to:	All Staff	Page:	1 of 5

Purpose: To provide for the objective and systemic monitoring, evaluation and coordination of the quality, appropriateness and cost-effectiveness of patient care, resolve identified problems and improve the Agency's performance.

Policy: The governing body shall establish and maintain an ongoing Quality Assessment and Performance Improvement Program comprised of a system of measures that captures significant outcomes that are essential to optimal care, and are used in the care planning and coordination of services and events. The QAPI committee is appointed by the Administrator and approved by the governing body. The Clinical Manager is responsible for the day to day QI activities. The frequency and detail of the data collection has been set forth by the governing body.

The governing body is responsible for ensuring the following:

a. That an ongoing program for quality improvement and patient safety is defined, implemented, and maintained;
b. That the agency wide quality assessment and performance improvement efforts address priorities for improved quality of care and patient safety, and that all improvement actions are evaluated for effectiveness;
c. That clear expectations for patient safety are established, implemented, and maintained; and
d. That any findings of fraud or waste are appropriately addressed

Procedure:

A. Monitoring of the QAPI Program
   1. The QAPI Committee will be responsible for the ongoing monitoring of the QAPI Program. Findings are to be used by the Agency to correct identified problems and revise policies, if necessary.
   2. The QAPI Committee will review the plan at least quarterly within a calendar year and revise the plan if needed.

B. QAPI Committee Membership Qualifications and Frequency of Meetings
   1. At a minimum, the QAPI Committee must consist of at least (1) the Administrator; (2) the Clinical Manager; (3) a therapist (one person may represent all therapies, e.g., PT, OT, SLP, SW, provided however, that should be the therapy being delivered); (4) representation from an unskilled discipline.
      NOTE: *A nurse cannot represent the therapies and a therapist cannot represent the skilled nurses.*
   2. The QAPI Committee must meet at least quarterly and more often if needed.
   3. Members are trained on QAPI activities which includes:
      - The purpose of QAPI activities
      - Persons responsible for coordinating QAPI activities
      - Individual's role in QAPI
      - QAPI outcomes

FOCUS:
1. This agency's performance improvement activities shall:
   a. Focus on high risk, high volume, or problem-prone areas;
   b. Consider incidence, prevalence, and severity of problems in those areas; and
   c. Lead to an immediate correction of any identified problem that directly or potentially threaten the health and safety of patients.
2. Performance improvement activities must track adverse patient events, analyze their causes, and implement preventive actions.
3. The HHA must take actions aimed at performance improvement, and, after implementing those actions, the HHA must measure its success and track performance to ensure that improvements are sustained.
4. Prevention and reduction of medical errors.
5. This agency shall use the data collected to—
   a. Monitor the effectiveness and safety of services and quality of care;
   b. Determine and define problematic areas for the purpose of conducting performance improvement projects; and
   c. Identify opportunities for improvement.
6. This agency shall document the quality improvement projects undertaken, the reasons for conducting these projects, and the measurable progress achieved on these projects.

SCOPE:
The number and scope of distinct improvement projects conducted annually must reflect the scope, complexity, and past performance of the HHA's services and operations.
The HHA must document the quality improvement projects undertaken, the reasons for conducting these projects, and the measurable progress achieved on these projects.

PROGRAM:
This QAPI program shall show measurable improvement in indicators for which there is evidence that improvement in those indicators will improve health outcomes, patient safety, and quality of care. The following measures (at a minimum) will be used to capture significant outcomes that are essential to optimal care and will be used in care planning and coordination of services and events. (Assessment of these measures will be through data collection, which at a minimum will consist of clinical record review, patient interviews, and patient satisfaction reports).

1. An analysis of services furnished to existing and prior patients. (Utilization Review). The following elements are considered within the plan:
    - Program objectives
    - All patient care disciplines
    - Description of how the program will be administered and coordinated
    - Methodology for monitoring and evaluating the quality of care
    - Priorities for resolution of problems
    - Monitoring to determine effectiveness of the action
    - Oversight and responsibility for reports to the governing body
    - Documentation of the review of its own program
    - Annual Evaluation

2. The QAPI committee will review at least the following:
    a. Prior QAPI Action Plans and their outcomes
    b. Program Evaluation
    c. Negative patient care outcomes
    d. Patient Care
    e. Operating Systems

f. Direct observation of clinical performance
g. Issues of unprofessional conduct by licensed staff and misconduct by unlicensed staff
h. Infection control activities
i. Communicable diseases
j. Incidents/Accidents
k. Worker Compensation Claims
l. Track and Trend Employee Turnover Rates
m. At least one important aspect related to the care provided
n. At least one important administrative aspect of function or care
o. Emergency preparedness review
p. Medication administration and errors
q. Adverse Drug Reactions
r. Emergent care services, hospital admissions and re-admissions
s. On call responses
t. Supervision appropriate to the level of service
u. Staffing Patterns and Performance
v. Provision of services appropriate to the patients' needs
w. OBQM and OBQI reports
x. Quality indicator data, including measures derived from OASIS and other relevant data to ensure a data driven program.
y. OASIS Submission Statistics
z. OASIS Error Summary Report
aa. Determination that services have been performed as outlined in the plan of care as well as revised and updated as necessary.
bb. An analysis of patient complaint and satisfaction survey data.
cc. Complete Chart Audits as defined in Policy 4.005.1 Clinical Record Review/Quarterly Review
dd. Compliance with completing employee performance evaluations.
ee. Review and evaluation of coordination of services through documentation of written reports, telephone consultation, or case conferences.
ff. Patient and Staff Complaints (ongoing monitoring)

gg. An annual review of applicable state and federal health authority recommendations related to infection control practices, communicable disease testing, and vaccinations and update trainings and policies and procedures as necessary.

hh. Effectiveness and safety of all services provided, including
- the competency of the agency's clinical staff
- the promptness of service delivery
- appropriateness of the agency's responses to patient complaints and incidents
- review all incidents

3. The annual QAPI report includes, but is not limited to:
    - The effectiveness of the QAPI program
    - The effectiveness, quality and appropriateness of care/service provided to the patients, care/service areas and community served, including culturally diverse populations
    - Effectiveness of all programs including care/service provided under contractual arrangements
    - Utilization of personnel
    - Review and revision of policies and procedures, and forms used by the organization
    - Summary of all PI activities, findings and corrective actions
    - The Annual Evaluation

4. Each performance improvement activity/study includes the following items:
    - A description of indicator(s) to be monitored/activities to be conducted
    - Frequency of activities
    - Designation of who is responsible for conducting the activities
    - Methods of data collection
    - Acceptable limits for findings
    - Written plan of correction when thresholds are not met
    - Plans to re-evaluate if findings fail to meet acceptable limits in addition to any other activities required under state or federal laws or regulations

5. Must use the evaluation process to correct identified problems and, if necessary, to revise policies
   - This agency must document corrective action to ensure that improvements are sustained over time.
   - This agency will immediately correct identified problems that directly or potentially threaten the patient care and safety.
   - In-service education will be provided to all staff in relation to new policies or process to be changed.

6. The QAPI committee will meet 30 days after implementing the QAPI Action Plan for the purpose of evaluating the effectiveness of any changes and to make modifications as needed.

7. At the conclusion of every QAPI meeting a QAPI Action Plan will be completed and made available to the agency and the Administrator will give a copy to the governing body within 15 days of concluding the meeting.

8. The administrator allocates resources for implementation of the Performance Improvement program. Resources include, but are not limited to:
   - Training and education programs related to PI
   - Personnel time
   - Information management systems
   - Computer support

Attachment
QAPI Action Plan

Bethany Hospice, LLC

Category: Non-Clinical

Subject: Billing

Applies to: Billing Staff/Administrator Page:

Purpose: To ensure accurate submission of billing and insurance claims.

Policy: The Agency will submit accurate and timely billing information to the billing department.

Procedure:

Under the direction of the Administrator:

1. The Intake Coordinator will validate payer on each patient.

2. As notes are turned in, the Intake Coordinator will:
   a. Verify them against master schedule.
   b. Log visits and supplies into the computer system.
   c. Consumable Medical Supplies are billed using the applicable HCPCS code(s) at the usual and customary rate.

The Administrator (and/or designee) will:

1. Run patient billing logs from the computer system and check against clinical notes.
2. Correct any errors identified above.
3. Check that signed orders are on the chart for all services to be billed at the end of an episode. **HOLD** any billing for which there is no signed order.
4. Billing information is encoded into the billing system for processing.
5. Bills submitted to the payment source will be itemized with services, supplies, and their respective charges.

The Billing Department will submit billing to the appropriate payer via electronic data processing or claim forms.

Upon receipt of payment, the Accounting Department and Intake Coordinator will check payment against billing and adjust overpayments and/or underpayments. Payments will be applied to the invoice for which it was billed. Revenue will be assigned to the appropriate program.

Claims Must Contain at least the following information:

a. The recipient's full name;
b. The recipient's medical record number;
c. Third-party liability information;
d. Date of service;
e. Place of service;
f. The provider's usual and customary charge;
g. The procedure codes for services;
h. The applicable diagnostic codes as contained in the International Classification of Diseases;
i. The units of service furnished, if more than one; and
j. The provider's name and medical assistance identification number.

A separate claim must be submitted for each recipient.

This agency does not accept gifts or contributions. All gifts and contributions will be returned. If it is not able to find the benefactor for the purpose of retuning the contribution/gift, the agency will donate the gift/contribution to a charity.

The agency must inform a patient orally and in writing of any changes in these charges as soon as possible, but no later than five (5) days from the date the hospice agency provider becomes aware of the change;

If an agency is implementing a scheduled rate increase to all patients, the agency shall provide a written notice to each affected consumer at least 30 days before implementation.

This agency does not extend credit.

A patient cannot be transferred for non-payment if the bill has been submitted to a third-party payer for payment. Non-payment occurs if a third-party payer, including Medicare or Medicaid, denies the claim, or a private pay patient fails to pay claims and the patient, after being properly notified and advised of his or her right to appeal and exhaust all appeals, refuses to pay for his or her care, may then be transferred/discharged.

Delinquent Accounts
All accounts that are not paid within sixty days from the billing date become subject to collections. The agency may enter into a payment agreement with the patient and provided all provisions of said agreement are met, no further action will be taken by the agency. If the provisions of the agency payment agreement are not met, the account becomes subject to collection. The agency will move forward with taking actions to collect the debt as allowed by state laws and city codes. All fees for collection shall be paid by the defaulting party.

Overpayment/Refund
In the event of overpayment or billing error that results in overcharging the overage in payment will be refund to the payer within 5 business days of detecting the overpayment. An itemized statement will be included with the refund.

Financial Hardship
This agency bills all patients exactly the same regardless of financial situation.
This agency does not use a sliding fee schedule.

Washington State Bill of Rights for Bethany Hospice LLC Patients

Below are your rights verbatim as set forth by Washington Regulations RCW 70.127.140 and WAC 246-335-535. This agency honors all the rights listed below.

1. Receive effective treatment and quality services from Bethany Hospice LLC for services identified in the plan of care;
2. Be cared for by appropriately trained or credentialed personnel, contractors and volunteers with coordination of services;
3. A statement advising of the right to ongoing participation in the development of the plan of care;
4. A statement advising of the right to have access to the Department of Health's listing of licensed home health agencies and to select any licensee to provide care, subject to the individual's reimbursement mechanism or other relevant contractual obligations;
5. A listing of the total services offered by Bethany Hospice LLC and those being provided to the patient;
6. Refuse specific treatments or services;
7. The name of the individual within Bethany Hospice LLC responsible for supervising the patient's care and the manner in which that individual may be contacted;
8. Be treated with courtesy, respect, and privacy;
9. Be free from verbal, mental, sexual, and physical abuse, neglect, exploitation, and discrimination;
10. Have property treated with respect;
11. Privacy and confidentiality of personal information and health care related records;
12. Be informed of what Bethany Hospice LLC charges for services, to what extent payment may be expected from health insurance, public programs, or other sources, and what charges the patient may be responsible for paying;
13. A fully itemized billing statement upon request, including the date of each service and the charge. Agencies providing services through a managed care plan are not required to provide itemized billing statements;
14. Be informed about advanced directives and POLST and the agency's scope of responsibility;
15. Be informed of Bethany Hospice LLC’s policies and procedures regarding the circumstances that may cause Bethany Hospice LLC’s to discharge a patient;
16. Be informed of the agency's policies and procedures for providing back-up care when services cannot be provided as scheduled;
17. A description of Bethany Hospice LLC ‘s process for patients and family to submit complaints to Bethany Hospice LLC about the services and care they are receiving and to have those complaints addressed without retaliation;
18. Be informed of the Department of Health's complaint hotline number to report complaints about the licensed agency or credentialed health care professionals; and
19. Be informed of the DSHS end harm hotline number to report suspected abuse of children or vulnerable adults.
20. Bethany Hospice LLC must ensure that the patient rights under this section are implemented and updated as appropriate.

EXHIBIT 4

FINANCIAL

ASSUMPTIONS AND

DOCUMENTS

Bethany Hospice Assumptions

Utilization Assumptions

<table>
<tr><th rowspan="2">Baseline Reference – Utilization Assumptions</th><th rowspan="2">Assumption</th><th colspan="3">Estimated Annual Admissions</th></tr>
<tr><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>In 2020, approximately 72 patients residing in one of our facilities enrolled in hospice.</td><td rowspan="3">65% would choose Bethany in Year 1; 75% in Year 2; 85% in Year 3.

After 2023, we have assumed a 2% annual growth based on historical experience</td><td rowspan="3">70</td><td rowspan="3">83</td><td rowspan="3">96</td></tr>
<tr><td>An additional 36 Bethany short-term facility patients were discharged home to hospice, for a total of 108 in 2020.</td></tr>
<tr><td>This number has been increasing about 2% per year.</td></tr>
<tr><td>Bethany is sponsored by 32 churches, of which 26 are located in Snohomish County. Bethany meets monthly to discuss health care needs of these church communities and the community at large. In fact, the submittal of this CN application was in part, in response to a request from our sponsors. The membership of these churches have significant outreach to the underserved in our community and therefore, and in addition to referring congregants, the churches will be an important connection to the underserved or otherwise needy for Bethany Hospice.</td><td>Very conservatively, we have assumed 2 referrals per month in Year 1; 4 in Year 2, and 6 in Year 3.</td><td>24</td><td>48</td><td>72</td></tr>
<tr><td>Focused outreach and marketing to the general community and key payers and providers</td><td>Here, we conservatively assumed less than one admission per month in the first year as marketing and outreach is expanded. We increased this to approximately 7 in Year 2 and 8 in year 3.</td><td>20</td><td>88</td><td>101</td></tr>
</table>

Baseline Reference – Utilization Assumptions	Assumption	Estimated Annual Admissions		
		2023	2024	2025
Total Projected Admissions	In the start-up year, the majority of patients are expected to come from Bethany's existing patient base. In years 2 & 3, the patient census from the underserved and the general community will increase through. Hence, Bethany's market share of the total net need will be just over 20% in Year 1, increasing to about 1/3 of the net need in years 2 & 3.	114	219	269
ALOS		**62.66**	**62.66**	**62.66**
Patient Days		**7,143**	**13,723**	**16,856**
Projected Bethany ADC		**19.6**	**37.6**	**46.2**
Unmet ADC in Snohomish County		**87**	**113**	**139**

Staffing Assumptions

			Salary Expense Projections		
Clinical Staff	**Expected patients served per 1 FTE**	**General Pay per FTE**	**2023**	**2024**	**2025**
Bereavement	**31**	$60,000.00	$37,878	$72,766	$89,394
Spiritual Counselor	**31**	$60,000.00	$37,878	$72,766	$89,394
Volunteer Coordinator	**37**	$42,000.00	$22,215	$42,677	$52,428
Manager of Patient Services	**50**	$95,000.00	$37,184	$71,432	$87,755
RN/LPN	**8**	$65,000.00	$159,010	$305,468	$375,269
Med Social Work	**24.3**	$65,000.00	$52,349	$100,565	$123,545
Home Health Aide	**8**	$38,000.00	$92,960	$178,581	$219,388

					Salary Expense Projection		
Administrative Staff	**2023 FTE**	**2024 FTE**	**2025 FTE**	**General Pay per FTE**	**2023**	**2024**	**2025**
Administrator	1.00	1.00	1.00	$120,000	$120,000	$120,000	$120,000
Admin Asst./Medical Records	1.00	1.25	1.75	$52,000	$52,000	$65,000	$91,000
Facility Liaison/Community Outreach	2.00	2.50	3.00	$65,000	$130,000	$162,500	$195,000
QAPI Coordinator	-	0.50	1.00	$95,000	-	$47,500	$95,000

Payer Mix Assumptions

	2023		2024		2025	
		Admissions		**Admissions**		**Admissions**
Medicare	85%	97	85%	186	85%	229
Medicaid	5%	6	5%	11	5%	13
Commercial	5%	6	5%	11	5%	13
Private Pay & Other	5%	6	5%	11	5%	13
Totals		**114**		**219**		**269**

Other Financial Assumptions

Deductions from Patient Revenue	
Contractual Adjustments	2% of gross revenue, net of bad debt and adjustments
Bad Debt	1% of gross patient revenue
Adjustment for Charity Care	2.5% of gross patient revenue
Operating Expenses	
Salaries and Wages	**See Above**
Payroll Taxes	**9.5% of Salaries**
Employee benefits	**7.5% of salaries**
Supplies	**$29.00/day of care – includes medical supplies, DME, pharmacy supplies, IV supplies, office supplies**
Management Agreement – administrative purchased services	**Management agreement - $10,000/month**
Medical Director	**$250/patient/month – capped at $135,000**

Inpatient Care Costs	**$750/inpatient day**
Mileage	**$4.00/day of care**
Other patient costs	**$3.00/day of care**
Advertising	**$3,000/month – includes computer and facility repairs and maintenance**
Utilities	**$1,800/month – includes telephones and purchased services related to utilities**
Rent	**$1,380.75/month**
Building Operations	**$705.29/month**
Taxes and Licenses	**1.5% of gross revenue – includes B&O tax**
Information Technology	**$3,000/month**
Minor Equipment	**$18,000 for initial year 1 set up, $5,000 per year thereafter**
Other	**$3,500/month**

Bethany Hospice Income Statements

		2023		2024		2025
Patient service revenue						
Medicare	**$**	**1,437,000**	$	2,761,000	$	3,391,000
Medicaid		**85,000**		162,000		199,000
Commercial		**85,000**		162,000		199,000
Private pay and other		**85,000**		162,000		199,000
Total gross patient service revenue		**1,692,000**		3,247,000		3,988,000
Deductions from patient service revenue						
Contractual adjustments		**34,000**		65,000		80,000
Bad debt		**17,000**		32,000		40,000
Adjustment for charity care		**42,000**		81,000		100,000
Total deductions from patient service revenue		**93,000**		178,000		220,000
Total net patient service revenue		**1,599,000**		3,069,000		3,768,000
Operating expenses						
Salaries and wages		**741,000**		1,239,000		1,538,000
Payroll taxes		**70,000**		118,000		146,000
Employee benefits		**56,000**		93,000		115,000
Supplies		**207,000**		398,000		489,000
Administrative purchased services		**120,000**		120,000		120,000
Contract labor - physician medical director		**59,000**		113,000		135,000
Inpatient care costs		**54,000**		103,000		126,000
Mileage		**29,000**		55,000		67,000
Other patient care costs		**21,000**		41,000		51,000
Advertising		**36,000**		36,000		36,000
Utilities		**22,000**		22,000		22,000
Rent		**17,000**		17,000		17,000

Building operations	**8,000**	8,000	8,000
Taxes and licenses	**25,000**	49,000	60,000
Information technology	**36,000**	36,000	36,000
Minor equipment	**18,000**	5,000	5,000
Other	**42,000**	42,000	42,000
Total operating expenses	**1,561,000**	2,495,000	3,013,000
Change in net assets without donor restrictions	**38,000**	574,000	755,000

Bethany of the Northwest Income Statements

	2023	2024	2025
Revenue, gains, and other support without donor restrictions			
Resident care service revenue	**$ 27,748,766**	$ 27,748,766	$ 27,748,766
Other revenue	**162,211**	162,211	162,211
Total revenue and other support without donor restrictions	**27,910,977**	27,910,977	27,910,977
Net assets released from restriction	**13,852**	13,852	13,852
Operating expenses			
Salaries and wages	**16,605,943**	16,605,943	16,605,943
Payroll taxes	**1,449,070**	1,449,070	1,449,070
Employee benefits	**1,239,296**	1,239,296	1,239,296
Supplies	**2,676,235**	2,676,235	2,676,235
Purchased services	**2,874,312**	2,874,312	2,874,312
Depreciation	**720,378**	720,378	720,378
Insurance	**168,927**	168,927	168,927
Repairs and maintenance	**74,095**	74,095	74,095
Utilities	**498,840**	498,840	498,840
Rent	**451,231**	451,231	451,231
Minor equipment	**177,766**	177,766	177,766
Taxes and licenses	**860,445**	860,445	860,445
Other	**442,371**	442,371	442,371
Total operating expenses	**28,238,909**	28,238,909	28,238,909
Operating income (loss)	**(314,080)**	(314,080)	(314,080)
Nonoperating revenues (expenses)			
Investment return, net	**1,627,166**	1,627,166	1,627,166
Grants and contributions	**29,480**	29,480	29,480
Loss on investment in Everett Transitional Care Services	**(470,994)**	(470,994)	(470,994)
Loss on property disposal	**(19,064)**	(19,064)	(19,064)
Total nonoperating revenues (expenses), net	**1,166,588**	1,166,588	1,166,588
Excess of revenues over expenses	**852,508**	852,508	852,508
Change in net assets without donor restrictions	**852,508**	852,508	852,508

Combined Income Statements

	2023	2024	2025
Revenue, gains, and other support without donor restrictions			
Resident care service revenue	**$ 27,748,766**	$ 27,748,766	$ 27,748,766
Patient service revenue	**1,599,000**	3,069,000	3,768,000
Other revenue	**162,211**	162,211	162,211
Total revenue and other support without donor restrictions	**29,509,977**	30,979,977	31,678,977
Net assets released from restriction	**13,852**	13,852	13,852
Operating expenses			
Salaries and wages	**17,346,943**	17,844,943	18,143,943
Payroll taxes	**1,519,070**	1,567,070	1,595,070
Employee benefits	**1,295,296**	1,332,296	1,354,296
Supplies	**2,883,235**	3,074,235	3,165,235
Purchased services	**2,994,312**	2,994,312	2,994,312
Depreciation	**720,378**	720,378	720,378
Contract labor - physician medical director	**59,000**	113,000	135,000
Inpatient care costs	**54,000**	103,000	126,000
Mileage	**29,000**	55,000	67,000
Other patient care costs	**21,000**	41,000	51,000
Advertising	**36,000**	36,000	36,000
Insurance	**168,927**	168,927	168,927
Repairs and maintenance	**74,095**	74,095	74,095
Utilities	**520,840**	520,840	520,840
Rent	**468,231**	468,231	468,231
Building operations	**8,000**	8,000	8,000
Minor equipment	**177,766**	177,766	177,766
Taxes and licenses	**885,445**	909,445	920,445
Information technology	**36,000**	36,000	36,000
Information technology	**18,000**	5,000	5,000
Other	**484,371**	484,371	484,371
Total operating expenses	**29,799,909**	30,733,909	31,251,909
Operating income (loss)	**(276,080)**	259,920	440,920
Nonoperating revenues (expenses)			
Investment return, net	**1,627,166**	1,627,166	1,627,166
Grants and contributions	**29,480**	29,480	29,480
Loss on investment in Everett Transitional Care Services	**(470,994)**	(470,994)	(470,994)
Loss on property disposal	**(19,064)**	(19,064)	(19,064)
Total nonoperating revenues (expenses), net	**1,166,588**	1,166,588	1,166,588
Excess of revenues over expenses	**890,508**	1,426,508	1,607,508
Change in net assets without donor restrictions	**890,508**	1,426,508	1,607,508

Bethany Hospice Balance Sheets

ASSETS		**2023**		**2024**		**2025**
Current assets						
Cash and cash equivalents	**$**	**-**	$	378,000	$	1,077,000
Accounts receivable, net		**197,000**		378,000		465,000
Total current assets		**197,000**		756,000		1,542,000
Total assets	**$**	**197,000**	$	756,000	$	1,542,000
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	**$**	**19,000**	$	29,000	$	33,000
Accrued compensation and related liabilities		**68,000**		115,000		142,000
Related party line of credit		**72,000**		-		-
Total current liabilities		**159,000**		144,000		175,000
Net assets without donor restrictions		**38,000**		612,000		1,367,000
Total liabilities and net assets	**$**	**197,000**	$	756,000	$	1,542,000

Bethany of the Northwest Balance Sheets

ASSETS	2023	2024	2025
Current assets			
Cash and cash equivalents	**$ 2,971,150**	$ 3,907,248	$ 4,771,346
Receivables:			
Resident accounts	**2,569,826**	2,569,826	2,569,826
Due from Everett Transitional Care Services	**47,459**	47,459	47,459
Due from Bethany Home Health	**72,000**	-	-
Investments	**250,050**	250,050	250,050
Other current assets	**470,077**	470,077	470,077
Total current assets	**6,380,562**	7,244,660	8,108,758
Noncurrent assets			
Cash and cash equivalents restricted by bond for capital acquisitions	**2,620,968**	2,620,968	2,620,968
Investments limited as to use	**18,512,119**	18,512,119	18,512,119
Investment in Everett Transitional Care Services	**510,908**	510,908	510,908
Property and equipment, net	**11,320,435**	11,320,435	11,320,435
Total noncurrent assets	**32,964,430**	32,964,430	32,964,430
Total assets	**$ 39,344,992**	$ 40,209,090	$ 41,073,188

LIABILITIES AND NET ASSETS	2023	2024	2025
Current liabilities			
Accounts payable	**$ 158,791**	$ 158,791	$ 158,791
Accrued compensation and related liabilities	**1,215,015**	1,215,015	1,215,015
Current maturities of long-term debt	**31,505**	31,505	31,505
Total current liabilities	**1,405,311**	1,405,311	1,405,311
Noncurrent liabilities			
Construction accounts payable	**808,026**	808,026	808,026
Long-term debt, less current maturities	**4,768,495**	4,768,495	4,768,495
Total noncurrent liabilities	**5,576,521**	5,576,521	5,576,521
Net assets			
Net assets without donor restrictions	**32,304,038**	33,156,546	34,009,054
Net assets with donor restrictions	**59,122**	70,712	82,302
Total net assets	**32,363,160**	33,227,258	34,091,356
Total liabilities and net assets	**$ 39,344,992**	$ 40,209,090	$ 41,073,188

Combined Balance Sheets

ASSETS		2023		2024		2025
Current assets						
Cash and cash equivalents	$	**2,971,150**	$	4,285,248	$	5,848,346
Receivables:						
Resident accounts		**2,569,826**		2,569,826		2,569,826
Patient accounts		**197,000**		378,000		465,000
Due from Everett Transitional Care Services		**47,459**		47,459		47,459
Investments		**250,050**		250,050		250,050
Other current assets		**470,077**		470,077		470,077
Total current assets		**6,505,562**		8,000,660		9,650,758
Noncurrent assets						
Cash and cash equivalents restricted by bond for capital acquisitions		**2,620,968**		2,620,968		2,620,968
Investments limited as to use		**18,512,119**		18,512,119		18,512,119
Investment in Everett Transitional Care Services		**510,908**		510,908		510,908
Property and equipment, net		**11,320,435**		11,320,435		11,320,435
Total noncurrent assets		**32,964,430**		32,964,430		32,964,430
Total assets	$	**39,469,992**	$	40,965,090	$	42,615,188

LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	$	**177,791**	$	187,791	$	191,791
Accrued compensation and related liabilities		**1,283,015**		1,330,015		1,357,015
Current maturities of long-term debt		**31,505**		31,505		31,505
Total current liabilities		**1,492,311**		1,549,311		1,580,311
Noncurrent liabilities						
Construction accounts payable		**808,026**		808,026		808,026
Long-term debt, less current maturities		**4,768,495**		4,768,495		4,768,495
Total noncurrent liabilities		**5,576,521**		5,576,521		5,576,521
Net assets						
Net assets without donor restrictions		**32,342,038**		33,768,546		35,376,054
Net assets with donor restrictions		**59,122**		70,712		82,302
Total net assets		**32,401,160**		33,839,258		35,458,356
Total liabilities and net assets	$	**39,469,992**	$	40,965,090	$	42,615,188

EXHIBIT 5

MANAGEMENT AGREEMENT

AND

MEDICAL DIRECTOR AGREEMENT

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT (this "Agreement") is made and entered into as of the 1st day of January, 2021, by and between Bethany Hospice, LLC, a Washington nonprofit limited liability company ("BH"), and Bethany of the Northwest, a Washington nonprofit corporation ("Manager" or “Bethany”)).

RECITALS

A. BH is a Washington nonprofit limited liability company in the business of providing hospice services. BH was formed by Bethany and Bethany is the sole member of BH.

B. Manager is a Washington nonprofit corporation experienced in the operation of health care facilities and provision of health care services.

C. BH has determined that:

1. Certain management and administrative services needed for provision of hospice services can be obtained more effectively and most prudently using an outside contractor;

2. Manager has the qualifications and experience to provide management and administrative services in a manner to achieved BH's goals of providing hospice services, minimizing costs, maximizing efficiency, and improving quality; and

3. The community served by BH will benefit from an arrangement between BH and Manager whereby services are managed to achieve the goals described above.

D. BH therefore desires to contract with Manager for management and administrative services in connection with hospice services, and Manager desires to provide such services, on the terms and conditions further described herein.

NOW, THEREFORE, in consideration of the recitals, covenants, conditions and promises herein contained, the parties hereby agree as follows:

AGREEMENT

1. ENGAGEMENT OF MANAGER.

Subject to the terms and conditions set forth in this Agreement, BH hereby engages Manager to provide the following services in connection with the proper and efficient operation of BHH, and Manager hereby accepts such responsibilities.

1.1 Day to Day Management. Manager shall be responsible for providing day to day management of the operations of the BH, including but not limited to:

1.1.1 Developing the annual operating, capital and cash flow budgets for BH, to be submitted to the Administrator of BH (the "Administrator").

1.1.2 Establishing and administering operating policies and procedures for BH including without limitation quality and risk management programs. All such policies and procedures shall be consistent with applicable law, and shall promote high quality patient care, standardization of procedures, efficiency of scheduling, and highly trained professional and technical personnel.

1.1.3 Negotiating the terms of agreements with (a) contractors providing supplies and services to BH and (b) purchasers of BH services.

1.1.4 Working with the Administrator to develop annual performance objectives which shall, at a minimum, address measures of quality and financial performance to be used by BH to evaluate the Administrator's performance.

1.1.5 Employ and provide all staff necessary for the efficient operation of BH, in accordance with staffing plans as included in the budgets.

1.2 Staff, Management Staff and Consultants.

1.2.1 Staff. Manager shall employ such personnel and retain such advisors and consultants as are required to fulfill Manager's obligations under this Agreement. Manager shall have control of and responsibility for the hiring, compensation, supervision and termination of the individuals employed or retained by Manager to fulfill Manager's obligations hereunder, except as specifically set forth herein. Manager shall be responsible for the payment of salary, bonuses, and other compensation, benefits, payroll taxes, and all other taxes and charges now or hereafter applicable to the individuals employed by Manager to carry out its duties hereunder.

1.2.2 BH Administrator. Manager shall employ an individual to fill the role of executive director of BH. The Administrator shall be responsible for the day-to-day operations of BH pursuant to this Agreement, and shall report to Manager as it may request.

1.3 Business Plan and Budget. Manager shall undertake the development of the BH business plan as well as a capital expenditure, cash flow and operating budget for the operation of BH.

1.4 Finance and Accounting Services. Manager shall provide or contract for finance and accounting services, including but not limited to:

1.4.1 The maintenance, custody and supervision of business records, papers, documents, ledgers, journals and reports relating to the business operations of BH: the establishment, administration and implementation of accounting procedures, controls, forms and systems, the preparation of financial reports (as contemplated herein) the planning and administration of the business operations of BH; and the payment of accounts payable incurred by

BH and Manager within the scope of this Agreement. All of the foregoing accounting functions shall be performed in accordance with generally accepted accounting principles (GAAP) and applicable local, state and federal laws and regulations.

1.4.2 Manager shall also be responsible for developing a range of accounting systems for BH that will assist BH in achieving the goals of efficiency and cost effectiveness set forth in this Agreement. Among the responsibilities of Manager is the maintenance of an accounting system, the development of cost/benefit reports for the purchase of all new equipment, and the development and implementation and maintenance of various clinical, cost and payment reports to reflect the systems that it develops.

1.5 Financial Reports. Manager shall provide or arrange for the provision to BH of monthly and annual financial statements relating to the operation of BH,

1.6 Sales and Marketing Services. Manager shall provide for appropriate sales and marketing services to BH.

1.7 Contract Negotiating. During the term of this Agreement, Manager shall assist BH to facilitate BH's entry into and maintenance of arrangements with purchasers from and sellers to BH, including but not limited to third party payers. Manager shall, through discussions with payers and otherwise, assess the demand for managed care products and, in response to that assessment, develop global fee and package price for BH service products on behalf of BH.

1.8 Billing and Collection. Manager shall be responsible, as agent for BH, for providing or arranging for billing and collection services for all charges on behalf of BH. Manager or an agent hired by BH for such purpose, will bill patients and third parties on behalf of BH in compliance with applicable laws, regulations, rules and payer agreements. Manager will receive and handle, as agent for BH, all amounts collected on behalf of BH. Manager shall place accounts for collection; settle and compromise claims; and institute legal action for the recovery of accounts.

1.9 Licensure and Accreditation Compliance with Law. Manager shall be responsible to ensure that BH obtains and maintains all required licenses, accreditation, Medicare and Medicaid certification and provider numbers, and shall be responsible to ensure that BH is operated at all times in compliance with all applicable federal, state and local laws and regulations.

1.10 Customer Satisfaction.

1.10.1 Manager shall make recommendations and otherwise assist BH in promoting good community relations and recognition, including but not limited to participating in any BH customer relations program and the development and implementation of customer surveys.

1.10.2 Complaints and Inquiries. Manager will review, evaluate and supervise responses to complaints and inquiries of BH patients concerning BH services in a manner consistent with BH's customer service philosophy. In addition, Manager will furnish BH with a summary analysis of complaints and recommendations for improving any deficiencies, as appropriate.

1.11 Staff Education. Manager shall assist in providing training of BH personnel and shall develop and provide such continuing education materials and instruction as necessary to properly instruct members of BH's medical, nursing, and allied health professional staffs, as well as other employee groups deemed appropriate by BH and Manager. Manager shall assist BH in the development and implementation of a staff education development plan for staff.

1.12 Compliance with Quality Standards. Manager shall conduct such investigation as it reasonably determines necessary to determine that each person providing services for BH has all licenses, registrations or certificates as required by federal, state or local laws. Manager shall undertake such investigation as it reasonably determines to be necessary to determine that each such person maintains such insurance as is required by the applicable rules and policies of BH. Manager shall also undertake such investigation as it reasonably determines to be necessary to determine that persons who provide services at BH do so in accordance with all applicable laws and regulations, and with prevailing standards of care in the community and in accordance with all rules and policies of BH. Manager shall provide BH and any affected person with prompt notice of any material concerns relating to the quality of service provided by such person, and Manager shall implement such corrective action as it reasonably determines is necessary and appropriate.

1.13 Compliance with Laws, Directives and Mission. Manager shall provide the services required hereunder in compliance with applicable federal, state and local laws, BH Board directives and the BH mission and values.

1.14 Contracts with Member. Where the Manager determines it is most cost effective and efficient to do so, the Manager may contract for provision of services or purchase of products from a Member, provided that all such contracts are disclosed to the Administrator and subject to their review. Such contracts may include, but are not limited to, agreements for provision of facility maintenance, IT support, lab and pharmacy services, imaging, billing and accounting. Unless the contracting party and the Manager agree otherwise with regard to provision of a particular service or product, it is intended that services provided by employees of a Member will be reimbursed at the allocable gross wage amount of the employee plus 25%, and materials and products provided by a Member will also be paid for at their cost to the Member plus a reasonable markup for overhead and administration costs (in the amount of 10% unless otherwise agreed). However, the amounts payable under any such contract may not exceed the cost of purchasing comparable services from an independent third party. Any such contracts shall comply with Medicare\Medicaid rules regarding related party transactions and be in accordance with all other applicable state and federal rules and regulations.

1.15 Overhead Reimbursement and Management Fee. During the term of this Agreement, in addition to other reimbursements and compensation as provided for elsewhere herein, Bethany will be paid a management fee for general oversight and management of BH in the amount of $10,000 per month.

2. REVIEW OR AUDIT OF FINANCIAL RECORDS. BH shall have the right to review or audit the financial books and records of Manager or of any delegated member of BH who keeps financial records for BH relating to the operation of BH's business. BH may arrange for an audit of such financial books and records as they relate to the operation of BH. Manager and any delegated member of BH shall, upon reasonable notice, allow BH's representatives access to all information and documents reasonably required for such review or audit during reasonable business hours, and provide copies of such documents at BH's expense.

3. PERFORMANCE CRITERIA. All services to be provided by Manager hereunder shall be provided to the reasonable satisfaction of BH, subject to criteria that may be developed and agreed on between Manager and BH from time to time.

4. CONFIDENTIAL INFORMATION.

4.1 Legal Restriction. Notwithstanding any other term or provision in this Agreement to the contrary, neither party hereto shall be obligated to reveal or supply information in violation of any applicable state or federal law.

4.2 Nondisclosure of Confidential Information.

6.2.1 In the course of the relationship established between BH and Manager certain Confidential Information may be disclosed by one party to another. During the term of this Agreement and thereafter, BH and Manager and their respective officers, directors or trustees, employees and agents shall: (a) hold Confidential Information disclosed to them in confidence and shall not, voluntarily or involuntarily, sell, transfer, publish, disclose, display or otherwise make available to any third party any portion of the Confidential Information or related materials without the express written consent of the party which disclosed the information, and (b) not use the Confidential Information, in any manner which would harm or compete with the party which disclosed the information.

4.2.2 The undertaking of the parties pursuant to this section shall include, without limitation, each party's agreement, subject to applicable state and federal laws, to keep all documents and information obtained in the performance of quality assurance, utilization management and peer review activities strictly confidential and not to disclose such documents or information to any person or entity, without the disclosing party's prior written consent.

4.2.3 A party shall promptly return all Confidential Information provided in written or other fixed form, upon demand by the disclosing party.

4.2.4 The obligations of the parties under this Section 4 shall survive any termination or expiration of this Agreement.

5. INSURANCE AND INDEMNIFICATION.

5.1 Manager Liability Insurance. Manager shall procure and maintain policies of general and professional liability insurance and other insurance that shall be necessary to insure it and its employees, contractors, agents, directors or trustees, and officers against any claim or claims for damages arising by reason of personal injuries or death arising directly or indirectly, in connection with the negligent or wrongful acts or omissions of Manager.

5.2 BH Liability Insurance. Manager shall, on behalf of BH, procure and maintain policies of general and professional liability insurance, and fire, casualty and other insurance that shall be necessary to insure BH and its employees, contractors, agents, directors or trustees, and officers against any claim or claims for damages arising by reason of personal injuries or death arising directly or indirectly, in connection with the negligent or wrongful acts or omissions of BH.

6. TERMS AND TERMINATION.

6.1 Term of Agreement. The term of this Agreement shall commence on October 1, 2022 and shall terminate on December 31st, 2024 unless terminated as provided herein. However, the Agreement will automatically be extended for successive one-year terms commencing the day after it would otherwise terminate, unless a party gives the other party notice of non-extension at least four (4) months in advance of the termination date.

6.2 Termination for Cause. Either party may terminate this Agreement if the other party fails to perform any material obligation required hereunder, and such default continues for ninety (90) days after the giving of written notice by the terminating party to the other parties, specifying the nature and extent of such default.

6.3 Effect of Termination. Upon termination or expiration of this Agreement for any cause or reason:

6.3.1 Manager shall deliver to BH all records necessary for the conduct of BH's business, and all other property of BH in its possession, and Manager shall remain subject to the confidentiality provisions of this Agreement with respect to such records; and

6.3.2 Manager and BH shall thereafter be automatically relieved and released from all further obligations hereunder, except for the obligations that by their terms required continuing performance.

7. RECORDS AND INFORMATION.

7.1 Access to Information. Each party shall at all reasonable times during the term of this Agreement and thereafter permit the other party to have reasonable access to its documents, books and records relating to this Agreement.

7.2 Ownership of Records and Information. All business records and information relating exclusively to the business and activities of a party shall be the property of that party, irrespective of the identity of the party responsible for producing or maintaining such records and information. Without limiting the foregoing, all records and information maintained by Manager relating to the business of BH, including corporate, personnel and financial records and information, shall be the sole property of BH.

7.3 Maintenance of Records. Except as otherwise provided in this Agreement, the parties shall safeguard all records maintained by them pursuant to this Agreement as required by law and, prior to destruction of any such records, shall give the other party notice of such destruction and, if the other party so elects and the law so permits, shall deliver such records to the other party in lieu of destroying them.

7.4 Confidentiality of Patient Records. The Manager agrees to hold all individually identifiable patient health information ("Protected Health Information") that may be shared, transferred, transmitted, or otherwise obtained pursuant to this Agreement strictly confidential, and provide all reasonable protections to prevent the unauthorized use or disclosure of such information, including, but not limited to the protection afforded by applicable federal, state and local laws and/or regulations regarding the security and the confidentiality of patient health care information. Manager further agrees to make every reasonable effort to comply with any regulations, standards, or rules promulgated pursuant to the authority of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), including those provisions listed below, as soon as possible. The Manager may use and disclose Protected Health Information when necessary for Manager's proper management and administration (if such use or disclosure is necessary), or to carry out the Manager's specific legal responsibilities pursuant to this Agreement. Specifically, the Manager agrees as follows: (1) to maintain safeguards as necessary to ensure that the Protected Health Information is not used or disclosed except as provided herein; (2) to mitigate, if possible, any harmful effect known to Manager of a use or disclosure of Protected Health Information by Manager; (3) to ensure that any subcontractors or agents to whom it provides BH's Protected Health Information will agree to the same restrictions and conditions that apply with respect to such information; (4) to make available respective internal practices, books and records relating to the use and disclosure of Protected Health Information received from BH to the Department of Health and Human Services or its agents; (5) to incorporate any amendments or corrections to Protected Health Information when notified by BH that the information is inaccurate or incomplete; (6) to return or destroy all Protected Health Information received from BH that Manager still maintains in any form and not to retain any such Protected Health Information in any form upon termination or expiration of this Agreement, if feasible or, if not feasible, Manager agrees to limit any uses of BH's Protected Health Information after this Agreement's termination or expiration to those specific uses or disclosures that make it necessary for Manager to retain the information; (7) to ensure applicable policies are in place for providing the Protected Health Information to BH to satisfy an individuals' request to access their information; (8) to report to BH any use or disclosure of Protected Health Information which is not provided for in the Agreement; and (9) to make Protected Health Information available to BH as requested to provide an accounting of disclosures to an individual who is the subject of the information, to the extent required by HIPAA. If at any time after the effective date of this Agreement it is determined that Manager is in breach of this Section, BH, in its sole discretion, may immediately terminate this Agreement. Manager further agrees to sign any other documents, as appropriate, including but not limited to a Business Associate Agreement with BH, if requested to do so by BH.

8. GENERAL PROVISIONS.

8.1 Delegation and Assignment. Except as expressly provided herein, no party shall delegate its duties or assign its rights hereunder in whole or in part, without the prior written consent of the other party. Subject to the requirements of the preceding sentence, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

8.2 Amendment. Amendments to this Agreement must be approved in writing by the parties hereto.

8.3 Counterparts. For the convenience of the parties hereto, this Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.4 Governing Law. This Agreement shall be interpreted in accordance with and governed by the laws of the State of Washington.

8.5 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the matters contained herein, and supersede all prior agreements, proposals, negotiations, representations and other communications among the parties, regarding its subject matter.

8.6 No Waiver. The failure of a party to object to or take affirmative action with respect to any conduct of another party which is in violation of the provisions of this Agreement shall not be construed as a waiver of that violation or of any future violations of the provisions of this Agreement.

8.7 Section Headings. The headings of sections in this Agreement are for reference only and shall not affect the meaning of this Agreement.

8.8 Severability. In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining. provisions, or portions thereof, shall not be affected thereby.

8.9 Changes in Law. If at any time during the term hereof, applicable state or federal statutes or regulations are amended, revised or interpreted in such a manner as to require modification of the terms and conditions of this Agreement, this Agreement shall be deemed to be automatically amended to conform to the requirements of such statutes or regulations.

8.10 Notices. Any notice required or permitted to be given hereunder shall be written, and may be delivered personally to the addressee or sent to it by telecopier or by United States registered or certified mail, postage prepaid and return receipt requested, and addressed or delivered to each of the parties at the fax numbers or addresses set forth below or such other address as may hereafter be designated by a party by written notice thereof to the other party.

8.11 Omnibus Budget Reconciliation Act of 1980. To the extent required under the provisions of the Omnibus Budget Reconciliation Act of 1980 and its implementing regulations, Manager shall provide access to its books and records pertaining to this Agreement to the Comptroller General of the United States, the Secretary of Health and Human Services, the Secretary of the Washington State Department of Social and Health Services, and their duly authorized representatives, for a minimum of four years following the termination of this Agreement. If Manager carries out its duties through a subcontract that is subject to such law and regulations, Manager shall include a provision in the subcontract providing for similar access to the subcontractor's books and records. Manager shall notify BH and its Members immediately upon receipt of any request to disclose its books and records for the purpose of an audit or investigation and will make available to BH and its Members the books and records it intends to disclose in response to any such request. If the law or regulations governing disclosure of records change, Manager shall comply with the law and regulations as changed.

8.12 Licenses, Permits and Certificates. Manager shall take all reasonable and necessary actions to apply and reapply (as necessary) in order to obtain and maintain in effect, during the term of this Agreement, all licenses, permits and certificates required by law and relating to the operation of BH, and all accreditations applicable to the operation of BH pursuant to this Agreement.

8.13 Relationship of the Parties. In the performance of the work, duties and obligations under this Agreement, it is mutually understood and agreed that each party is at all times acting and performing as an independent contractor with respect to the other parties. Each party to this Agreement shall be responsible for all applicable state and federal payroll taxes, Social Security withholding, employee benefits and other taxes, expenses or deductions in connection with any compensation received by such party under the terms of this Agreement. Each party shall file a schedule of expenses with the IRS in connection with its business tax filing as required by law. Each party shall maintain an account with the Washington Department of Revenue and other appropriate state agencies. Each party shall maintain its own books and records with respect to its business.

8.14 Medicare/Medicaid Participation. Manager hereby represents and warrants that neither Manager nor Manager's principals (if applicable) are presently debarred, suspended, proposed for debarment, declared ineligible, or excluded from participation in any federally funded health care program, including Medicare and Medicaid. Manager hereby agrees to immediately notify BH of any threatened, proposed, or actual debarment, suspension, or exclusion from any federally funded health care program, including Medicare and Medicaid. In the event that Manager is debarred, suspended, proposed for debarment, declared ineligible, or excluded from participation in any federally funded health care program during the term of this Agreement, or if at any time after the effective date of this Agreement it is determined that Manager is in breach of this Section, this Agreement shall, as of the effective date of such action or breach, automatically terminate.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first written above.

BETHANY OF THE NORTHWEST

By____
Its CEO

Address: PO Box 13700
Mill Creek, WA 98082

BETHANY HOSPICE, LLC

By____
Its Administrator

Address: 3202 Colby Ave Suite 6
Everett, WA 98201

Medical Director Service Agreement

This medical director services agreement (**"Agreement"**) is entered into on this 1st day of January, 2021 **(the "Effective Date")** by and between Bethany Hospice, LLC (**"Agency"**) and Swenson Healthcare, PLLC (**"Group"**).

RECITALS:

A. Group is a professional medical practice that employs and contracts with physicians licensed to practice medicine in the State of Washington who are qualified, skilled, and experienced in providing end-of-life services to terminally ill patients.

B. Agency operates a hospice care program (**"Program"**) that is Medicare certified and licensed by the state of Washington and is required by the terms of its license and participation agreement with the Medicare program to engage physician(s) to provide professional medical directorship and clinical services for the benefit of its patients.

C. Agency desires to engage Group to provide the services of one of its physicians to serve as the medical director of the Program in accordance with the terms herein, and Group desires to accept such engagement.

In consideration of the foregoing recitals, which are incorporated herein, the mutual promises herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Responsibilities of Group.**

   a. **Services.** During the term of this Agreement, Group, through its designated Physician (defined below), shall perform the duties and obligations set forth in **Exhibit A** attached hereto and made a part hereof (collectively, **"Services"**).

   b. **Designation of Physician.** Group shall provide and cause **Don Nguyen, MD** or such replacement as designated by Group from time to time and approved by Agency in accordance with Section 1.c below (**"Physician"**), to provide the Services.

   c. **Substitution of Physician.** If the designated Physician is unable to provide Services due to illness, disability, vacation or any other reason, or Agency requests in writing that Group remove the designated Physician from such position, then Group shall designate a replacement Group physician to provide the Services, subject to the prior written approval of Agency. Group shall ensure that any designated replacement meets all qualifications and satisfies all obligations of Physician under this Agreement.

2. **Responsibilities of Agency.**

   a. **Space and Equipment.** Agency shall provide such space and equipment as are reasonably necessary for Group and Physician to provide the Services.

   b. **Policies and Procedures.** Agency shall provide or make accessible to Group and Physician a copy of its rules, regulations, policies and procedures related the Services contemplated by this Agreement. Agency agrees to notify Group and Physician of any amendments, modifications, or changes to such rules, regulations, policies and procedures.

c. **Compliance with Regulatory Requirements.** Notwithstanding any other provision in this Agreement, the Agency shall remain responsible for ensuring that the Services provided pursuant to this Agreement comply with all pertinent provisions of federal, state and local statutes, rules and regulations.

3. **Representations and Warranties of Group.** Group represents and warrants to Agency as follows:

   a. Physician is duly licensed and qualified as a doctor of medicine in the state of Washington and Physician's license to practice medicine has never been denied, suspended, revoked, terminated, relinquished under threat of disciplinary action, or restricted in any way.

   b. Physician's medical staff privileges at any health care Agency have never been denied, suspended, revoked, terminated, relinquished under threat of disciplinary action, or made subject to terms of probation or any other restriction.

   c. (i) Physician is not and to Group's knowledge, has not been excluded from participation in any federal health care program, as defined under 42 U.S.C. §1320a-7b(f), for the provision of items or services for which payment may be made under such federal health care programs and is not currently excluded, debarred, suspended, or otherwise ineligible to participate in Federal procurement or non-procurement programs; (ii) Group has not arranged or contracted (by employment or otherwise) with any employee, contractor, or agent that Group or its affiliates know or should know is excluded from participation in any federal health care program to provide items or services hereunder; or (iii) neither Group nor Physician has been convicted of a criminal offense that falls within the scope of 42 U.S.C. § 1320a-7(a), but has not yet been excluded, debarred, suspended, or otherwise declared ineligible. In the event that any of (i)-(iii) above has occurred, this Agreement shall, as of the effective date of such exclusion or breach, automatically terminate.

   d. Group further represents and warrants to Agency that no Final Adverse Action has occurred, is pending or, to Group's knowledge, is threatened against Group or Physician. "Final Adverse Action" shall mean any of the following involving Group or Physician: (a) any final civil judgments in federal or state court related to the delivery of a health care item or service; (b) any federal or state criminal convictions related to the delivery of a health care item or service; (c) any final actions by federal or state agencies responsible for the licensing and certification of health care providers, suppliers, and licensed health care practitioners, including: (1) formal or official actions, such as revocation or suspension of a license (and the length of any such suspension), reprimand, censure, or probation; (2) any other temporary or final loss of license or the right to apply for, or renew, a license of the provider, supplier, or practitioner, whether by operation of law, voluntary surrender, non-renewability, or otherwise; (3) any other negative action or finding by such federal or state agency; or (d) exclusion from participation in any federal or state health care programs, being listed as an excluded provider or banned contractor by the United States Department of Health and Human Services Office of Inspector General or United States General Services Administration, or being listed in the Office of Foreign Assets Control's "Specially Designated Nationals and Blocked Persons" list. The term "Final Adverse Action" does not include any action or judgment solely with respect to a professional malpractice claim.

   e. During the Term, Group shall notify Agency of (a) any Final Adverse Action or basis for a Final Adverse Action that relates to or arises from actions occurring during the Term or relating to the Services, or (b) any complaint, investigation, inquiry, or review by any governmental agency or third party payor relating to or arising from actions occurring during the Term or relating to the Services. Such notice shall be provided within five (5) business days of learning of the event giving rise to such notice and shall include a description of the matters at issue.

f. Group will, and shall ensure that Physician will, perform the Services required hereunder in accordance with:

(1) all applicable federal, state, and local laws, rules and regulations;

(2) all applicable standards of the Joint Commission on Accreditation of Healthcare Organizations (if applicable) and any other relevant accrediting organizations; and

(3) all applicable bylaws, rules, regulations, procedures, and policies of the Agency.

g. Group will notify Agency in writing immediately if it becomes aware that any of the above representations or warranties are no longer true.

4. **Representations and Warranties of Agency.** Agency represents and warrants to Group as follows:

a. Agency (a) is not and has not been excluded from participation in any federal health care program, as defined under 42 U.S.C. §1320a-7b(f), for the provision of items or services for which payment may be made under such federal health care programs and is not currently excluded, debarred, suspended, or otherwise ineligible to participate in Federal procurement or non-procurement programs; (b) has not arranged or contracted (by employment or otherwise) with any employee, contractor, or agent that such party or its affiliates know or should know is excluded from participation in any federal health care program to provide items or services hereunder; or (c) has not been convicted of a criminal offense that falls within the scope of 42 U.S.C. § 1320a-7(a), but has not yet been excluded, debarred, suspended, or otherwise declared ineligible. In the event that any of (a)-(c) above has occurred, this Agreement shall, as of the effective date of such exclusion or breach, automatically terminate.

b. No Final Adverse Action has occurred, is pending or, to Agency's knowledge, is threatened against Agency or any of its owners or employees.

c. During the Term, Agency shall notify Group of (a) any Final Adverse Action or basis for a Final Adverse Action that relates to or arises from actions occurring during the Term, or (b) any complaint, investigation, inquiry, or review by any governmental agency or third party payor relating to or arising from actions occurring during the Term or relating to the Services. Such notice shall be provided within five (5) business days of learning of the event giving rise to such notice and shall include a description of the matters at issue.

d. Agency is in good standing under the laws of Washington and has the authority to enter into this Agreement.

e. Agency will notify Group in writing immediately if it becomes aware that any of the above representations or warranties are no longer true.

5. **Independent Contractor.** In performing the Services, Group and Physician are acting as independent contractors, and shall not be considered employees of Agency. It is agreed and acknowledged by the parties that, as independent contractors, Group and Physician retain the right to engage in the private practice of medicine, and nothing in this Agreement shall be interpreted as limiting or restricting that right in any way. In no event shall this Agreement be construed as establishing a partnership or joint venture or similar relationship between the parties hereto, and nothing herein contained shall be construed to authorize either party to act as agent for the other.

6. **Term and Termination.**

   a. **Initial Term and Renewals.** The initial term of this Agreement shall be one (1) year commencing on the Effective Date (the "**Initial Term**"). Thereafter, this Agreement shall automatically renew for successive one (1) year terms (a "**Renewal Term,**" the Initial Term and each Renewal Term collectively, the "**Term**") unless and until terminated in accordance with this Section 6.

   b. **Voluntary Termination.** Either party may terminate this Agreement at any time, and for any reason or no reason, upon thirty (30) days' prior written notice to the other party.

   c. **Termination by Group.** Group may terminate this Agreement prior to expiration of the Initial Term or any Renewal Term upon notice to Agency specifying the date on which the Agreement will terminate, for any of the following reasons:

      (1) A failure by Agency to pay any undisputed compensation due under this Agreement within thirty (30) days of Agency's receipt of notice from Group.

      (2) Any other material breach of this Agreement by Agency, provided that Group provides Agency thirty (30) days' advance notice detailing such breach and such breach is not cured within such thirty (30) day period or, if Agency is actively engaged in attempting to cure such breach and such breach cannot reasonably be cured in thirty (30) days, then Agency shall have such longer period as is reasonably required to cure the breach.

      (3) Upon the filing of a case by or against Agency under the Bankruptcy Code which is not stayed or terminated within thirty (30) days.

      (4) Upon the occurrence of a Final Adverse Action.

   d. **Termination by Agency.** Agency may terminate this Agreement prior to expiration of the Initial Term or any Renewal Term upon notice to Group, specifying the Termination Date, for any of the following reasons:

      (1) Violation of any applicable laws or regulations, or Agency's policies or procedures, by Physician which in Agency's reasonable opinion interferes with Physician's ability to fulfill Physician's obligations under this Agreement and Group fails to remove and replace Physician after written notice by Agency;

      (2) The revocation or suspension of any medical license of Physician, or the restriction or elimination of privileges of Physician at any hospital for any reason related to the quality of the patient care provided by Physician and Group fails to remove and replace Physician after written notice by Agency;

(3) Any felony charge, indictment, or conviction of Physician, or any charge, indictment, or conviction involving moral turpitude of Physician and Group fails to remove and replace Physician after written notice by Agency;

(4) The failure of Group to secure or maintain the insurance required under Section 12; and

(5) Upon the occurrence of a Final Adverse Action.

e. **Effect of Termination.** As of the effective date of termination of this Agreement, neither party shall have any further rights or obligations hereunder except: (i) as otherwise provided herein; (ii) for rights and obligations accruing prior to such effective date of termination; and (iii) arising as a result of any breach of this Agreement.

7. **Compensation.**

a. **Compensation.** As sole consideration for the Medical Director Services rendered hereunder during the term of this Agreement, and upon receipt of the invoice required pursuant to Section 7.a.(2), Agency will pay Group a fee of $250.00 per hour not to exceed 45 hours per month, paid monthly commencing on the first month after the Effective Date.

b. **Invoice**. Physician shall record promptly and maintain all information pertaining to Physician's performance of duties under this Agreement. Time logs shall be submitted to Agency by the fifteenth (15th) day of the month following the month in which services were rendered to receive payment for the previous month.

c. **Fair Market Value.** The parties agree that the compensation provided under this Agreement has been determined based on arm's-length bargaining between the parties and reflects fair market value for the Services to be furnished by Group. Furthermore, the compensation is not and has not been determined in a manner that takes into account the volume or value of any referrals or business otherwise generated for or with respect to the Agency or between the parties for which payment may be made in whole or in part under Medicare, Medicaid or any federal or state health care program or under any other third-party payor program.

8. **Access to Book and Records.**

a. If the value or cost of services rendered under this Agreement is Ten Thousand Dollars ($10,000.00) or more over a twelve (12) month period, in accordance with section 1861 (v)(l)(I) of the Social Security Act, each party agrees to the following:

(1) Until the expiration of four (4) years after the furnishing of such Services, each party shall, upon written request, make available to the Secretary of the United States Department of Health and Human Services (the "**Secretary**"); (the Comptroller General of the United States, or their respective duly authorized representatives) such books, documents and records as may be necessary to certify the nature and extent of the cost of such services; and

(2) If any such services are performed by way of subcontract with another organization and the value or cost of such subcontracted services is Ten Thousand Dollars ($10,000.00) or more over a twelve (12) month period, such subcontract shall contain, and the applicable party shall enforce, a clause to the same effect as Section 8.a.(1) above.

b. The availability of either party's books, documents, and records shall be subject at all times to all applicable legal requirements, including, without limitation, such criteria and procedures for seeking and obtaining access that may be promulgated by the Secretary by regulation. The provisions of Sections 8.a. and 8.b. shall survive expiration or other termination of this Agreement, regardless of the cause of such termination.

9. **Patient Privacy.** Group agrees to maintain, the confidentiality, privacy, and security of patient information to the extent required by law and Agency policy. The Agency shall be responsible for providing patients with a notice of privacy practices that covers Group's and Physician's rights to access protected health information for patients managed by Physician. In addition, Group shall enter into and comply with the obligations set forth in the Business Associate Agreement attached hereto as Exhibit C and incorporated herein by reference.

10. **Non-Discrimination.** Each party agrees to act in accordance with all laws regarding discrimination on the basis of race, color, religion, creed, sex, sexual orientation, sexual identity, age, national origin, handicap, political affiliation or belief in the course of fulfilling its respective obligations under this Agreement.

11. **Insurance**

    a. **Agency's Coverage**. Agency shall maintain during the Term, at Agency's own expense, general and professional liability insurance with a minimum annual coverage limitation of One Million Dollars ($1,000,000) per occurrence and Three Million Dollars ($3,000,000) in the aggregate, or such higher coverage as may be required by law. The parties acknowledge and agree that the insurance coverage maintained by Agency in accordance with this Section 11.a shall cover Group and Physician for the Services but shall not extend to any claims of professional malpractice against Group or Physician.

    b. **Group Coverage**. Group shall maintain during the Term, at Group's own expense, general and professional liability insurance with a minimum annual coverage limitation of One Million Dollars ($1,000,000) per occurrence and Three Million Dollars ($3,000,000) in the aggregate, or such higher coverage as may be required by law.

12. **Dispute Resolution**. Any dispute between or among the parties shall be resolved as provided in this Section 12. Nothing in this section shall limit or delay a party's termination rights.

    a. **Informal Resolution**. Notice of the dispute shall be delivered from one party to the other parties and, thereafter, the parties' business representatives shall meet in person and attempt to resolve the dispute in face-to-face negotiations. This meeting shall occur within thirty (30) days of the time the notice of such dispute is received by the other party.

    b. **Resolution Through Mediation**. If a dispute is not resolved pursuant to Section 12.a above, the parties shall, within forty-five (45) days of the first meeting referred to in Section 13.a above, attempt to settle such dispute by formal mediation. If the parties cannot otherwise agree upon a mediator and the place of the mediation within such forty-five (45) day period, the American Arbitration Association shall administer the mediation. In the event that the mediation does not resolve the dispute, the parties shall be entitled to seek any and all available legal remedies.

13. **Entire Agreement/Modification.** This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements, oral or

written, and all other communications between the parties relating to such subject matter. This Agreement may not be amended or modified except by mutual written agreement.

14. **Governing Law.** This Agreement shall be construed in accordance with the laws of the state of Washington.

15. **Counterparts, Facsimile or Electronic Signature.** This Agreement may be signed in one or more counterparts including via facsimile, email or by electronic signature, all of which shall be considered one and the same agreement, binding on all parties hereto.

16. **Notices.** All notices, claims, and other communications hereunder ("Notices") shall be made in writing and addressed to the appropriate party at the following addresses or otherwise as designated by each such party in writing:

If to Agency:	Bethany Hospice, LLC 3202 Colby Ave, Suite G Everett, WA 98201 Attn: Joseph Scrivens
If to Group:	Swenson Healthcare, PLLC c/o US Post Acute Care, LLC 1201 Pacific Ave., Suite 400 Tacoma, WA 98402 Attn: Darren Swenson

All Notices shall be delivered either by (i) personal delivery; (ii) electronic mail; (iii) overnight courier; or (iv) certified or registered mail, return receipt requested. Except as otherwise provided herein, such notices shall be deemed to have been given three (3) days after deposit in the United States mail if sent by regular, registered or certified mail, postage prepaid, immediately upon personal delivery, or one (1) day after delivery via electronic mail or delivery to an overnight delivery service.

17. **Waiver.** The failure of any party to insist in any one or more instances upon performance of any terms or conditions of this Agreement shall not be construed as a waiver of future performance of any such term, covenant, or condition, and the obligations of such party with respect thereto shall continue in full force and effect.

18. **Captions.** The captions contained herein are used solely for convenience and shall not be deemed to define or limit the provisions of this Agreement.

19. **Assignments; Binding Effect.** Group shall not assign or transfer, in whole or in part, this Agreement or any of Physician's duties or obligations under this Agreement without the prior written consent of Agency, and any assignment or transfer by Group without such consent shall be null and void.

20. **Referrals.** The parties acknowledge that none of the benefits granted Group and Physician hereunder are conditioned on any requirements that Group and/or Physician make referrals to, be in a position to make or influence referrals to, or otherwise generate business for Agency. The parties further acknowledge that Group and Physician are not, as applicable, restricted from establishing staff privileges or referring any patient to, or otherwise generating any business for any other Agency or agency of Group's or Physician's choosing.

21. **No Third Party Beneficiary Rights.** This Agreement shall not confer or be construed to confer any rights or benefits to any person or entity other than Agency and Group.

22. **Severability.** If any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected thereby and this Agreement will be construed and enforced as if such invalid, illegal or unenforceable provisions had not been included herein. To the extent permitted by applicable law, each party waives any provision of law which renders any version of this Agreement invalid, illegal or unenforceable in any respect.

[Signature Page to follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement on the dates set forth below, which is effective as of the Effective Date.

AGENCY:
Bethany Hospice, LLC

Sign:

Print Name: Joseph Scrivens

Title: CEO

Date: 1/28/2021

GROUP:
Swenson Healthcare, PLLC

Sign:

Print Name: Darren Swenson

Title: CEO

Date: 1/28/2021

Acknowledged & Agreed to by Physician:

Sign:

Print Name: Don Nguyen, MD

Date: 1/29/21

EXHIBIT A

DESCRIPTION OF SERVICES

This Exhibit A sets forth the Services Group, through Physician will provide at the Agency during the Term of the Agreement.

Physician will direct and supervise the clinical operations of the Program assuming overall responsibility for the medical component of the patient care as required by the Medicare Conditions of Participation for hospice care. 42 C.F.R. Part 418. In addition to the forgoing, during the term of this Agreement, Physician will do the following:

A. Supervise, evaluate and be responsible for the standards and overall quality of the hospice care services rendered to patients by physicians through the Program;

B. Attend and participate in all scheduled interdisciplinary team meetings or secure the attendance of an alternate physician approved by Agency;

C. Review the clinical activities of all non-physician staff within the Program, and consult with Agency as requested to help assure that the work of such non-physician personnel is satisfactorily performed;

D. As reasonably requested, attend and represent the Program at meetings of the Program's committees and community organizations;

E. Coordinate and participate in the Program's quality assurance activities to assure the adequacy and safety of hospice services rendered at the Program;

F. Provide consultation concerning the delivery of hospice services, and assist in obtaining other required professional consultations;

G. Develop guidelines for selecting individual practitioners qualified to exercise clinical privileges at the Program; and

H. Recommend equipment and supplies necessary for the proper functioning of the Program.

EXHIBIT B

TIME LOG

Agreement References:
Document Number:

Agreement:	Medical Director Services Agreement
Agency Name:	[Name of Agency]
Group Name:	Swenson Healthcare, PLLC
Physician Name:	
Remit Payments for Services *with a copy of this Time Log* to:	

MONTH OF SERVICE:		***YEAR:***
DATE	**Time Spent**	**Service Performed (Brief Narrative)**

Total Time Spent Performing Services: **hours.**

By signing below, I hereby certify that the foregoing information is a true and correct record of services I have personally performed in accordance with the above referenced Agreement.

Physician Signature: **Date:**

EXHIBIT 7

LETTER OF COMMITMENT

BETHANY
OF THE NORTHWEST
P.O. BOX 13700, Mill Creek, WA 98082

January 29, 2021

Eric Hernandez, Manager
Certificate of Need Program
Department of Health
P.O. Box 47852
Olympia, WA 98504-7852

Dear Mr. Hernandez,

This letter serves as confirmation that Bethany of the Northwest will fund the initial equipment and initial startup costs for Bethany Hospice LLC. As can be identified in Appendix 1, Bethany of the Northwest has sufficient reserves available to be able to fund these costs.

Please do not hesitate to contact me if you have any questions or require additional information.

Sincerely,

Joseph Scrivens, CEO
Bethany of the Northwest

EXHIBIT 6

LEASE AGREEMENT

KW Everett
1000 SE Everett Mall Way #201
Everett, WA 98208
Phone: 425-212-2007
Fax: 425-212-2092

LEASE AGREEMENT

Multi Tenant Triple Net (NNN Lease)

THIS LEASE AGREEMENT (the "Lease") is entered into and effective as of this ______ day of ______ , 20 ____ between Bethany of the Northwest ("Landlord"), and Bethany Hospice, LLC ("Tenant"). Landlord and Tenant agree as follows:

1. **LEASE SUMMARY.**

a. **Leased Premises.** The leased commercial real estate i) consists of an agreed area of 1,417 rentable square feet and is outlined on the floor plan attached as Exhibit A (the "Premises"); ii) is located on the land legally described on attached Exhibit B; and iii) is commonly known as B 3202 Colby Ave. Everett WA 98201 Suite G). The Premises do not include, and Landlord reserves, the exterior walls and roof of the building in which the Premises are located (the "Building"), the land beneath the Building, the pipes and ducts, conduits, wires, fixtures, and equipment above the suspended ceiling; and the structural elements of the Building. The Building, the land upon which it is situated, all other improvements located on such land, and all common areas appurtenant to the Building are referred to as the "Property." The Building and all other buildings on the Property as of the date of this Lease consist of an agreed area of 1,417 rentable square feet.

b. **Lease Commencement Date.** The term of this Lease shall be for a period of sixty (60) months and shall commence on 01/01 , 2023 or such earlier or later date as provided in Section 3 (the "Commencement Date").

c. **Lease Termination Date.** The term of this Lease shall terminate at midnight on 12/31 , 20 25 or such earlier or later date as provided in Section 3 (the "Termination Date"). Tenant shall have no right or option to extend this Lease, unless otherwise set forth in a rider attached to this Lease (e.g., Option to Extend Rider, CBA Form OR).

d. **Base Rent.** The base monthly rent shall be (check one): ☒ $1,380.75 ☐ , or according to the Rent Rider attached hereto ("Base Rent"). Rent shall be payable at Landlord's address shown in Section 1(h) below, or such other place designated in writing by Landlord.

e. **Prepaid Rent.** Upon execution of this Lease, Tenant shall deliver to Landlord the sum of $ 0.00 as prepaid rent, to be applied to the Rent due for the months _____ through _____ of the Lease.

f. **Security Deposit.** Upon execution of this Lease, Tenant shall deliver to Landlord the sum of $ 0.00 to be held as a security deposit pursuant to Section 5 below. The security deposit shall be in the form of (check one): ☐ cash, ☐ letter of credit according to the Letter of Credit Rider (CBA Form LCR) attached hereto, or ☐ check.

g. **Permitted Use.** The Premises shall be used only for Bethany Hospice, LLC and for no other purpose without the prior written consent of Landlord (the "Permitted Use").

h. **Notice and Payment Addresses:**

Landlord: Bethany of the Northwest
PO Box 13700
Mill Creek, WA 98082
Fax No.: __________
Email: JosephS@bethanynw.org

Tenant: Bethany Hospice, LLC
3202 Colby Ave., Suite G
Everett, WA 98201
Fax No.: __________

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

Email: JosephS@bethanynw.org

i. **Tenant's Pro Rata Share.** Landlord and Tenant agree that Tenant's Pro Rata Share is 20.5 %, based on the ratio of the agreed rentable area of the Premises to the agreed rentable area of the Building and all other buildings on the Property as of the date of this Lease. Any adjustment to the Premises' or Building's rentable floor area measurements will be reflected in an adjustment to Tenant's Base Rent or Pro Rata Share.

2. **PREMISES.**

a. **Lease of Premises.** Landlord leases to Tenant, and Tenant leases from Landlord, the Premises upon the terms specified in this Lease.

b. **Acceptance of Premises.** Except as specified elsewhere in this Lease, Landlord makes no representations or warranties to Tenant regarding the Premises, including the structural condition of the Premises or the condition of all mechanical, electrical, and other systems on the Premises. Except for any tenant improvements to be completed by Landlord as described on attached Exhibit C (the "Landlord's Work"), Tenant shall be responsible for performing any work necessary to bring the Premises into a condition satisfactory to Tenant. By signing this Lease, Tenant acknowledges that it has had an adequate opportunity to investigate the Premises; acknowledges responsibility for making any corrections, alterations and repairs to the Premises (other than the Landlord's Work); and acknowledges that the time needed to complete any such items shall not delay the Commencement Date.

c. **Tenant Improvements.** Attached Exhibit C sets forth all Landlord's Work, if any, and all tenant improvements to be completed by Tenant (the "Tenant's Work"), if any, that will be performed on the Premises. Responsibility for design, payment and performance of all such work shall be as set forth on attached Exhibit C. If Tenant fails to notify Landlord of any defects in the Landlord's Work within thirty (30) days of delivery of possession to Tenant, Tenant shall be deemed to have accepted the Premises in their then condition. If Tenant discovers any major defects in the Landlord's Work during this 30-day period that would prevent Tenant from using the Premises for the Permitted Use, Tenant shall notify Landlord and the Commencement Date shall be delayed until after Landlord has notified Tenant that Landlord has corrected the major defects and Tenant has had five (5) days to inspect and approve the Premises. The Commencement Date shall not be delayed if Tenant's inspection reveals minor defects in the Landlord's Work that will not prevent Tenant from using the Premises for the Permitted Use. Tenant shall prepare a punch list of all minor defects in Landlord's Work and provide the punch list to Landlord, which Landlord shall promptly correct.

3. **TERM.** The term of this Lease shall commence on the Commencement Date specified in Section 1, or on such earlier or later date as may be specified by notice delivered by Landlord to Tenant advising Tenant that the Premises are ready for possession and specifying the Commencement Date, which shall not be less than 30 days (thirty (30) days if not filled in) following the date of such notice.

a. **Early Possession.** If Landlord permits Tenant to possess and occupy the Premises prior to the Commencement Date specified in Section 1, then such early occupancy shall not advance the Commencement Date or the Termination Date set forth in Section 1, but otherwise all terms and conditions of this Lease shall nevertheless apply during the period of early occupancy before the Commencement Date.

b. **Delayed Possession.** Landlord shall act diligently to make the Premises available to Tenant; provided, however, neither Landlord nor any agent or employee of Landlord shall be liable for any damage or loss due to Landlord's inability or failure to deliver possession of the Premises to Tenant as provided in this Lease. If possession is delayed, the Commencement Date set forth in Section 1 shall also be delayed. In addition, the Termination Date set forth in Section 1 shall be modified so that the length of the Lease term remains the same. If Landlord does not deliver possession of the Premises to Tenant within 60 days (sixty (60) days if not filled in) after the Commencement Date specified in Section 1, Tenant may elect to cancel this Lease by giving written notice to Landlord within ten (10) days after such time period ends. If Tenant gives such notice of cancellation, the Lease shall be cancelled, all prepaid rent and security deposits shall be refunded to Tenant, and neither Landlord nor Tenant shall have any further obligations to the other. The first "Lease year" shall commence on the Commencement Date and shall end on the date which is twelve (12) months from the end of the month in which the Commencement Date occurs. Each successive Lease year during the initial term and any extension terms shall be twelve (12) months, commencing on the first day following the end of the preceding Lease year. To the extent that the tenant improvements are not completed in time for the Tenant to occupy or take possession of the Premises on the Commencement Date due to the failure of Tenant to fulfill any of its obligations under this Lease, the Lease shall nevertheless commence on the Commencement Date set forth in Section 1.

4. **RENT.**

a. **Payment of Rent.** Tenant shall pay Landlord without notice, demand, deduction or offset, in lawful money of the United States, the monthly Base Rent stated in Section 1 in advance on or before the first day of each month during the Lease term beginning on (check one): ☒ the Commencement Date, or ☐ _____ (if no date specified, then on the Commencement Date), and shall also pay any other additional payments due to Landlord ("Additional Rent"), including Operating Costs (collectively the "Rent") when required under this Lease. Payments for any partial month at the beginning or end of the Lease shall be prorated. All payments due to Landlord under this Lease, including late fees and interest, shall also constitute Additional Rent, and upon failure of Tenant to pay any such costs, charges or expenses, Landlord shall have the same rights and remedies as otherwise provided in this Lease for the failure of Tenant to pay rent.

b. **Triple Net Lease.** This Lease is what is commonly called a "Net, Net, Net" or "triple-net" Lease, which means that, except as otherwise expressly provided herein, Landlord shall receive all Base Rent free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. In addition to Base Rent, Tenant shall pay to the parties respectively entitled thereto, or satisfy directly, all Additional Rent and other impositions, insurance premiums, repair and maintenance charges, and any other charges, costs, obligations, liabilities, requirements, and expenses, including without limitation the Operating Costs described in Section 8, which arise with regard to the Premises or may be contemplated under any other provision of the Lease during its term, except for costs and expenses expressly made the obligation of Landlord in this Lease.

c. **Late Charges; Default Interest.** If any sums payable by Tenant to Landlord under this Lease are not received within five (5) business days after their due date, Tenant shall pay Landlord an amount equal to the greater of $100 or five percent (5%) of the delinquent amount for the cost of collecting and handling such late payment in addition to the amount due and as Additional Rent. All delinquent sums payable by Tenant to Landlord and not paid within five (5) business days after their due date shall, at Landlord's option, bear interest at the rate of fifteen percent (15%) per annum, or the highest rate of interest allowable by law, whichever is less (the "Default Rate"). Interest on all delinquent amounts shall be calculated from the original due date to the date of payment.

d. **Less Than Full Payment.** Landlord's acceptance of less than the full amount of any payment due from Tenant shall not be deemed an accord and satisfaction or compromise of such payment unless Landlord specifically consents in writing to payment of such lesser sum as an accord and satisfaction or compromise of the amount which Landlord claims. Any portion that remains to be paid by Tenant shall be subject to the late charges and default interest provisions of this Section 4.

5. **SECURITY DEPOSIT.** Upon execution of this Lease, Tenant shall deliver to Landlord the security deposit specified in Section 1 above. Landlord's obligations with respect to the security deposit are those of a debtor and not of a trustee, and Landlord may commingle the security deposit with its other funds. If Tenant breaches

KW Everett
1000 SE Everett Mall Way #201
Everett, WA 98208
Phone: 425-212-2007
Fax: 425-212-2092

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

any covenant or condition of this Lease, including but not limited to the payment of Rent, Landlord may apply all or any part of the security deposit to the payment of any sum in default and any damage suffered by Landlord as a result of Tenant's breach. Tenant acknowledges, however, that the security deposit shall not be considered as a measure of Tenant's damages in case of default by Tenant, and any payment to Landlord from the security deposit shall not be construed as a payment of liquidated damages for Tenant's default. If Landlord applies the security deposit as contemplated by this Section, Tenant shall, within five (5) days after written demand therefore by Landlord, deposit with Landlord the amount so applied. If Tenant complies with all of the covenants and conditions of this Lease throughout the Lease term, the security deposit shall be repaid to Tenant without interest within thirty (30) days after the surrender of the Premises by Tenant in the condition required hereunder by Section 13 of this Lease.

6. **USES.** The Premises shall be used only for the Permitted Use specified in Section 1 above, and for no other business or purpose without the prior written consent of Landlord. No act shall be done on or around the Premises that is unlawful or that will increase the existing rate of insurance on the Premises, the Building, or the Property, or cause the cancellation of any insurance on the Premises, the Building, or the Property. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance. Tenant shall not do or permit anything to be done on the Premises, the Building, or the Property which will obstruct or interfere with the rights of other tenants or occupants of the Property, or their employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees or to injure or annoy such persons.

7. **COMPLIANCE WITH LAWS.** Tenant shall not cause or permit the Premises to be used in any way which violates any law, ordinance, or governmental regulation or order. Landlord represents to Tenant that, as of the Commencement Date, to Landlord's knowledge, but without duty of investigation, and with the exception of any Tenant's Work, the Premises comply with all applicable laws, rules, regulations, or orders, including without limitation, the Americans With Disabilities Act, if applicable, and Landlord shall be responsible to promptly cure at its sole cost any noncompliance which existed on the Commencement Date. Tenant shall be responsible for complying with all laws applicable to the Premises as a result of the Permitted Use, and Tenant shall be responsible for making any changes or alterations as may be required by law, rule, regulation, or order for Tenant's Permitted Use at its sole cost and expense. Otherwise, if changes or alterations are required by law, rule, regulation, or order unrelated to the Permitted Use, Landlord shall make changes and alterations at its expense.

8. **OPERATING COSTS.**

   a. **Definition.** As used herein, "Operating Costs" shall mean all costs of operating, maintaining and repairing the Premises, the Building, and the Property, determined in accordance with generally accepted accounting principles, and including without limitation the following: all taxes and assessments (including, but not limited to, real and personal property taxes and assessments, local improvement district assessments and other special purpose assessments, and taxes on rent or gross receipts); insurance premiums paid by Landlord and (to the extent used) deductibles for insurance applicable to the Property; water, sewer and all other utility charges (other than utilities separately metered and paid directly by Tenant or other tenants); janitorial and all other cleaning services; refuse and trash removal; supplies, materials, tools, and equipment used in the operation, repair, and maintenance of the Property; refurbishing and repainting; carpet replacement; to the extent serving areas other than just the Premises, heating, ventilation and air conditioning ("HVAC") service and repair and replacement of HVAC when necessary; elevator service and repair and replacement of elevators when necessary; pest control; lighting systems, fire detection and security services; landscape maintenance; management (fees and/or personnel costs); parking lot, road, sidewalk and driveway patching, resurfacing and maintenance; snow and ice removal; repair, maintenance, and, where reasonably required, replacement of signage; amortization of capital improvements as Landlord may in the future install to comply with governmental regulations and rules or undertaken in good faith with a reasonable expectation of reducing operating costs (the useful life of which shall be a reasonable period of time as determined by Landlord); costs of legal services (except those incurred directly relating to a particular occupant of the Building); and

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Phone: 425-212-2007
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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

accounting services, labor, supplies, materials and tools. Landlord and Tenant agree that if the Building is not ninety percent (90%) occupied during any calendar year (including the Base Year, if applicable), on a monthly average, then those portions of the Operating Costs that are driven by occupancy rates, as reasonably determined by Landlord, shall be increased to reflect the Operating Costs of the Building as though it were ninety percent (90%) occupied and Tenant's Pro Rata Share of Operating Costs shall be based upon Operating Costs as so adjusted. Operating Costs shall not include: Landlord's income tax or general corporate overhead; depreciation on the Building or equipment therein; loan payments; real estate broker's commissions; capital improvements to or major repairs of the Building shell (i.e., the Building structure, exterior walls, roof, and structural floors and foundations), except as described above; or any costs regarding the operation, maintenance and repair of the Premises, the Building, or the Property paid directly by Tenant or other tenants in the Building, or otherwise reimbursed to Landlord. If Tenant is renting a pad separate from any other structures on the Property for which Landlord separately furnishes the services described in this paragraph, then the term "Operating Costs" shall not include those costs of operating, repairing, and maintaining the enclosed mall which can be separately allocated to the tenants of the other structures. Operating Costs which cannot be separately allocated to the tenants of other structures may include but are not limited to: insurance premiums; taxes and assessments; management (fees and/or personnel costs); exterior lighting; parking lot, road, sidewalk and driveway patching, resurfacing and maintenance; snow and ice removal; and costs of legal services and accounting services. At time of lease signing, the annual Operating Costs are estimated as $5.95 per square foot, or $702.59 per month.

b. **Type of Payment.** Options one and two below address the manner in which Operating Costs are paid under this Lease. To select the pure triple net option, check option 1. To select the base year option, check option 2.

☒ **OPTION ONE: TRIPLE NET.** As additional Rent, Tenant shall pay to Landlord on the first of each month with payment of Tenant's base Rent one-twelfth of Tenant's Pro Rata Share of Operating Costs.

☐ **OPTION TWO: BASE YEAR.** The Base Rent paid by Tenant under this Lease includes Tenant's Pro Rata Share of Operating Costs for the calendar year in which the Commencement Date occurs (the "Base Year"). As additional Rent, Tenant shall pay to Landlord on the first day of each month commencing on the first day of the first year after the Commencement Date, with Tenant's payment of Base Rent, one-twelfth of the amount, if any, by which Tenant's Pro Rata Share of Operating Costs exceeds Tenant's annualized Pro Rata Share of Operating Costs for the Base Year.

c. **Method of Payment.** Tenant shall pay to Landlord Operating Costs pursuant to the following procedure:

i. Landlord shall provide to Tenant, at or before the Commencement Date, a good faith estimate of annual Operating Costs for the calendar year in which the Commencement Date occurs. Landlord shall also provide to Tenant, as soon as possible following the first day of each succeeding calendar year, a good faith estimate of Tenant's annual Pro Rata Share of Operating Costs for the then-current year.

ii. Each estimate of Tenant's annual Pro Rata Share of Operating Costs determined by Landlord, as described above, shall be divided into twelve (12) equal monthly installments. If Tenant pays Operating Costs under Option One, Tenant shall pay to Landlord such monthly installment of Operating Costs with each monthly payment of Base Rent. If Tenant pays Operating Costs under Option Two, Tenant shall pay to Landlord with each monthly payment of Base Rent the amount, if any, by which such monthly installments of Operating Costs exceed one twelfth of Tenant's annualized Pro Rate Share of Operating Costs for the Base Year. In the event the estimated amount of Tenant's Pro Rata Share of Operating Costs has not yet been determined for any calendar year, Tenant shall pay the monthly installment in the estimated amount determined for the preceding calendar year until the estimate for the current calendar year has been provided to Tenant. When the estimate for the current calendar year is received, Tenant shall then pay any shortfall or receive a credit for any surplus for the preceding months of the current calendar year and shall, thereafter, make the monthly installment payments in accordance with the current estimate.

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

iii. As soon as reasonably possible following the end of each calendar year of the Lease term, Landlord shall determine and provide to Tenant a statement (the "Operating Costs Statement") setting forth the amount of Operating Costs actually incurred and the amount of Tenant's Pro Rata Share of Operating Costs actually payable by Tenant with respect to such calendar year. In the event the amount of Tenant's Pro Rata Share of Operating Costs exceeds the sum of the monthly installments actually paid by Tenant for such calendar year, Tenant shall pay to Landlord the difference within thirty (30) days following receipt of the Operating Costs Statement. In the event the sum of the monthly installments actually paid by Tenant for such calendar year exceeds the amount of Tenant's Pro Rata Share of Operating Costs actually due and owing, the difference shall be applied as a credit to Tenant's future Pro Rata Share of Operating Costs payable by Tenant pursuant to this Section, or if the term has expired, the excess shall be refunded to Tenant within thirty (30) days after delivery of such Operating Costs Statement.

iv. Should Tenant dispute any amount shown on the Operating Costs Statement, Tenant may audit Landlord's books and records for the calendar year covered by such Operating Costs Statement upon written notice to Landlord given within ninety (90) days after Tenant's receipt of such Operating Costs Statement. If Tenant fails to provide notice of dispute within such ninety (90) day period, the Operating Costs Statement shall be final and conclusive. Any audit conducted by Tenant shall be completed within sixty (60) days after Tenant's request therefor. In the event the amount of Tenant's Pro Rata Share of Operating Costs exceeds the sum of the monthly installments actually paid by Tenant for such calendar year, Tenant shall pay to Landlord the difference within thirty (30) days following completion of the audit. In the event the sum of the monthly installments actually paid by Tenant for such calendar year exceeds the amount of Tenant's Pro Rata Share of Operating Costs actually due and owing, the difference shall be applied as a credit to Tenant's future Pro Rata Share of Operating Costs payable by Tenant pursuant to this Section, or if the term has expired, the excess shall be refunded to Tenant within thirty (30) days after completion of the audit. Landlord and Tenant shall cooperate as may be reasonably necessary in order to facilitate the timely completion of any audit. Nothing in this section shall in any manner modify Tenant's obligations to make payments as and when provided under this Lease.

9. **UTILITIES AND SERVICES.** Landlord shall provide the Premises the following services, the cost of which shall be included in the Operating Costs, to the extent not separately metered to the Premises: water and electricity for the Premises seven (7) days per week, twenty-four (24) hours per day, and HVAC from 7:00 a.m. to 7:00 p.m. Monday through Friday; 7:00 a.m. to 7:00 p.m. on Saturday; and 7:00 a.m. to 7:00 p.m. on Sunday. Landlord shall provide janitorial service to the Premises and Building five (5) nights each week, exclusive of holidays, the cost of which shall also be included in Operating Costs. HVAC services will also be provided by Landlord to the Premises during additional hours on reasonable notice to Landlord, at Tenant's sole cost and expense, at an hourly rate reasonably established by Landlord from time to time and payable by Tenant, as and when billed, as Additional Rent. Notwithstanding the foregoing, if Tenant's use of the Premises incurs utility service charges which are above those usual and customary for the Permitted Use, Landlord reserves the right to require Tenant to pay a reasonable additional charge for such usage. Landlord shall not be liable for any loss, injury or damage to person or property caused by or resulting from any variation, interruption, or failure of utilities due to any cause whatsoever, and Rent shall not abate as a result thereof.

Tenant shall furnish all other utilities (including, but not limited to, telephone, Internet, and cable service if available) and other services which Tenant requires with respect to the Premises, and shall pay, at Tenant's sole expense, the cost of all utilities separately metered to the Premises, and of all other utilities and other services which Tenant requires with respect to the Premises, except those to be provided by Landlord and included in Operating Expenses as described above.

10. **TAXES.** Tenant shall pay all taxes, assessments, liens and license fees ("Taxes") levied, assessed or imposed by any authority having the direct or indirect power to tax or assess any such liens, related to or required by Tenant's use of the Premises as well as all Taxes on Tenant's personal property located on the

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

Premises. Landlord shall pay all taxes and assessments with respect to the Property, including any taxes resulting from a reassessment of the Building or the Property due to a change of ownership or otherwise, all of which shall be included in Operating Costs and subject to partial reimbursement by Tenant as set forth in Section 8.

11. **COMMON AREAS.**

   a. **Definition.** The term "Common Areas" means all areas, facilities and building systems that are provided and designated from time to time by Landlord for the general non-exclusive use and convenience of Tenant with other tenants and which are not leased or held for the exclusive use of a particular tenant. To the extent that such areas and facilities exist within the Property, Common Areas include hallways, entryways, stairs, elevators, driveways, walkways, terraces, docks, loading areas, restrooms, trash facilities, parking areas and garages, roadways, pedestrian sidewalks, landscaped areas, security areas, lobby or mall areas, common heating, ventilating and air conditioning systems, common electrical service, equipment and facilities, and common mechanical systems, equipment and facilities. Tenant shall comply with reasonable rules and regulations concerning the use of the Common Areas adopted by Landlord from time to time. Without advance notice to Tenant and without any liability to Tenant, Landlord may change the size, use, or nature of any Common Areas, erect improvements on the Common Areas or convert any portion of the Common Areas to the exclusive use of Landlord or selected tenants, so long as Tenant is not thereby deprived of the substantial benefit of the Premises. Landlord reserves the use of exterior walls and the roof, and the right to install, maintain, use, repair and replace pipes, ducts, conduits, and wires leading through the Premises in areas which will not materially interfere with Tenant's use thereof.

   b. **Use of the Common Areas.** Tenant shall have the non-exclusive right, in common with such other tenants to whom Landlord has granted or may grant such rights, to use the Common Areas. Tenant shall abide by rules and regulations adopted by Landlord from time to time and shall use its best efforts to cause its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees to comply with those rules and regulations, and not interfere with the use of Common Areas by others.

   c. **Maintenance of Common Areas.** Landlord shall maintain the Common Areas in good order, condition and repair. This maintenance cost shall be an Operating Cost chargeable to Tenant pursuant to Section 8. In performing such maintenance, Landlord shall use reasonable efforts to minimize interference with Tenant's use and enjoyment of the Premises.

12. **ALTERATIONS.** Tenant may make alterations, additions or improvements to the Premises, including any Tenant Work identified on attached Exhibit C (the "Alterations"), only with the prior written consent of Landlord, which, with respect to Alterations not affecting the structural components of the Premises or utility systems therein, shall not be unreasonably withheld, conditioned, or delayed. Landlord shall have thirty (30) days in which to respond to Tenant's request for any Alterations so long as such request includes the name of Tenant's contractors and reasonably detailed plans and specifications therefor. The term "Alterations" shall not include the installation of shelves, movable partitions, Tenant's equipment, and trade fixtures that may be performed without damaging existing improvements or the structural integrity of the Premises, the Building, or the Property, and Landlord's consent shall not be required for Tenant's installation or removal of those items. Tenant shall perform all work at Tenant's expense and in compliance with all applicable laws and shall complete all Alterations in accordance with plans and specifications approved by Landlord, using contractors approved by Landlord, and in a manner so as not to unreasonably interfere with other tenants. Tenant shall pay, when due, or furnish a bond for payment (as set forth in Section 20) all claims for labor or materials furnished to or for Tenant at or for use in the Premises, which claims are or may be secured by any mechanics' or materialmens' liens against the Premises or the Property or any interest therein. Tenant shall remove all Alterations at the end of the Lease term unless Landlord conditioned its consent upon Tenant leaving a specified Alteration at the Premises, in which case Tenant shall not remove such Alteration, and it shall become Landlord's property. Tenant shall immediately repair any damage to the Premises caused by removal of Alterations.

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Phone: 425-212-2007
Fax: 425-212-2092

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

13. **REPAIRS AND MAINTENANCE; SURRENDER.** Tenant shall, at its sole expense, maintain the entire Premises in good condition and promptly make all non-structural repairs and replacements necessary to keep the Premises safe and in good condition, including all HVAC components and other utilities and systems to the extent exclusively serving the Premises. Landlord shall maintain and repair the Building structure, foundation, subfloor, exterior walls, roof structure and surface, and HVAC components and other utilities and systems serving more than just the Premises, and the Common Areas, the costs of which shall be included as an Operating Cost. Tenant shall not damage any demising wall or disturb the structural integrity of the Premises, the Building, or the Property and shall promptly repair any damage or injury done to any such demising walls or structural elements caused by Tenant or its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees. Notwithstanding anything in this Section to the contrary, Tenant shall not be responsible for any repairs to the Premises made necessary by the negligence or willful misconduct of Landlord or its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees therein. If Tenant fails to perform Tenant's obligations under this Section, Landlord may at Landlord's option enter upon the Premises after ten (10) days' prior notice to Tenant and put the same in good order, condition and repair and the cost thereof together with interest thereon at the default rate set forth in Section 4 shall be due and payable as additional rent to Landlord together with Tenant's next installment of Base Rent. Upon expiration of the Lease term, whether by lapse of time or otherwise, Tenant shall promptly and peacefully surrender the Premises, together with all keys, to Landlord in as good condition as when received by Tenant from Landlord or as thereafter improved, reasonable wear and tear and insured casualty excepted.

14. **ACCESS AND RIGHT OF ENTRY.** After twenty-four (24) hours' notice from Landlord (except in cases of emergency, when no notice shall be required), Tenant shall permit Landlord and its agents, employees and contractors to enter the Premises at all reasonable times to make repairs, inspections, alterations or improvements, provided that Landlord shall use reasonable efforts to minimize interference with Tenant's use and enjoyment of the Premises. This Section shall not impose any repair or other obligation upon Landlord not expressly stated elsewhere in this Lease. After reasonable notice to Tenant, Landlord shall have the right to enter the Premises for the purpose of (a) showing the Premises to prospective purchasers or lenders at any time, and to prospective tenants within one hundred eighty (180) days prior to the expiration or sooner termination of the Lease term; and (b) posting "for lease" signs within one hundred eighty (180) days prior to the expiration or sooner termination of the Lease term.

15. **SIGNAGE.** Tenant shall obtain Landlord's written consent as to size, location, materials, method of attachment, and appearance, before installing any signs upon the Premises. Tenant shall install any approved signage at Tenant's sole expense and in compliance with all applicable laws. Tenant shall not damage or deface the Premises in installing or removing signage and shall repair any injury or damage to the Premises caused by such installation or removal.

16. **DESTRUCTION OR CONDEMNATION.**

    a. **Damage and Repair.** If the Premises or the portion of the Building or the Property necessary for Tenant's occupancy are partially damaged but not rendered untenantable, by fire or other insured casualty, then Landlord shall diligently restore the Premises and the portion of the Property necessary for Tenant's occupancy to the extent required below and this Lease shall not terminate. Tenant may, however, terminate the Lease if Landlord is unable to restore the Premises within six (6) months of the casualty event by giving twenty (20) days written notice of termination.

       The Premises or the portion of the Building or the Property necessary for Tenant's occupancy shall not be deemed untenantable if twenty-five percent (25%) or less of each of those areas are damaged. If insurance proceeds are not available or are not sufficient to pay the entire cost of restoring the Premises, or if Landlord's lender does not permit all or any part of the insurance proceeds to be applied toward restoration, then Landlord may elect to terminate this Lease and keep the insurance proceeds, by notifying Tenant within sixty (60) days of the date of such casualty.

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

If the Premises, the portion of the Building or the Property necessary for Tenant's occupancy, or fifty percent (50%) or more of the rentable area of the Property are entirely destroyed, or partially damaged and rendered untenantable, by fire or other casualty, Landlord may, at its option: (a) terminate this Lease as provided herein, or (b) restore the Premises and the portion of the Property necessary for Tenant's occupancy to their previous condition to the extent required below; provided, however, if such casualty event occurs during the last six (6) months of the Lease term (after considering any option to extend the term timely exercised by Tenant) then either Tenant or Landlord may elect to terminate the Lease. If, within sixty (60) days after receipt by Landlord from Tenant of written notice that Tenant deems the Premises or the portion of the Property necessary for Tenant's occupancy untenantable, Landlord fails to notify Tenant of its election to restore those areas, or if Landlord is unable to restore those areas within six(6) months of the date of the casualty event, then Tenant may elect to terminate the Lease upon twenty (20) days' notice to Landlord unless Landlord,within such twenty (20) day period, notifies Tenant that it will in fact restore the Premises or actually completes such restoration work to the extent required below, as applicable.

If Landlord restores the Premises or the Property under this Section, Landlord shall proceed with reasonable diligence to complete the work, and the Rent shall be abated in the same proportion as the untenantable portion of the Premises bears to the whole Premises, provided that there shall be a Rent abatement only if the damage or destruction of the Premises or the Property did not result from, or was not contributed to directly or indirectly by the act, fault or neglect of Tenant, or Tenant's employees, officers, agents, servants, contractors, customers, clients,visitors, guests, or other licensees or invitees. No damages, compensation or claim shall be payable by Landlord for inconvenience, loss of business or annoyance directly,incidentally or consequentially arising from any repair or restoration of any portion of the Premises or the Property. Landlord shall have no obligation to carry insurance of any kind for the protection of Tenant; any alterations or improvements paid for by Tenant; any Tenant's Work identified in Exhibit C (regardless of who may have completed them); Tenant's furniture; or on any fixtures, equipment,improvements or appurtenances of Tenant under this Lease, and Landlord's restoration obligations hereunder shall not include any obligation to repair any damage thereto or replace the same.

b. **Condemnation.** If the Premises, the portion of the Building or the Property necessary for Tenant's occupancy, or 50% or more of the rentable area of the Property are made untenantable by eminent domain, or conveyed under a threat of condemnation, this Lease shall terminate at the option of either Landlord or Tenant as of the earlier of the date title vests in the condemning authority or the condemning authority first has possession of the Premises or the portion of the Property taken by the condemning authority. All Rents and other payments shall be paid to that date.

   If the condemning authority takes a portion of the Premises or of the Building or the Property necessary for Tenant's occupancy that does not render them untenantable, then this Lease shall continue in full force and effect and the Rent shall be equitably reduced based on the proportion by which the floor area of any structures is reduced. The reduction in Rent shall be effective on the earlier of the date the condemning authority first has possession of such portion or title vests in the condemning authority. The Premises or the portion of the Building or the Property necessary for Tenant's occupancy shall not be deemed untenantable if twenty-five percent (25%) or less of each of those areas are condemned. Landlord shall be entitled to the entire award from the condemning authority attributable to the value of the Premises or the Building or the Property and Tenant shall make no claim for the value of its leasehold. Tenant shall be permitted to make a separate claim against the condemning authority for moving expenses if Tenant may terminate the Lease under this Section, provided that in no event shall Tenant's claim reduce Landlord's award.

17. **INSURANCE.**

a. **Tenant's Liability Insurance.** During the Lease term, Tenant shall pay for and maintain commercial general liability insurance with broad form property damage and contractual liability endorsements. This

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Everett, WA 98208
Phone: 425-212-2007
Fax: 425-212-2092

policy shall name Landlord, its property manager (if any), and other parties designated by Landlord as additional insureds using an endorsement form acceptable to Landlord, and shall insure Tenant's activities and those of Tenant's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees with respect to the Premises against loss, damage or liability for personal injury or bodily injury (including death) or loss or damage to property with a combined single limit of not less than $2,000,000, and a deductible of not more than $10,000. Tenant's insurance will be primary and noncontributory with any liability insurance carried by Landlord. Landlord may also require Tenant to obtain and maintain business income coverage for at least six (6) months, business auto liability coverage, and, if applicable to Tenant's Permitted Use, liquor liability insurance and/or warehouseman's coverage.

b. **Tenant's Property Insurance.** During the Lease term, Tenant shall pay for and maintain special form clauses of loss coverage property insurance (with coverage for earthquake if required by Landlord's lender and, if the Premises are situated in a flood plain, flood damage) for all of Tenant's personal property, fixtures and equipment in the amount of their full replacement value, with a deductible of not more than $10,000.

c. **Miscellaneous.** Tenant's insurance required under this Section shall be with companies rated A-/VII or better in Best's Insurance Guide, and which are admitted in the State in which the Premises are located. No insurance policy shall be cancelled or reduced in coverage and each such policy shall provide that it is not subject to cancellation or a reduction in coverage except after thirty (30) days prior written notice to Landlord. Tenant shall deliver to Landlord upon commencement of the Lease and from time to time thereafter, copies of the insurance policies or evidence of insurance and copies of endorsements required by this Section. In no event shall the limits of such policies be considered as limiting the liability of Tenant under this Lease. If Tenant fails to acquire or maintain any insurance or provide any policy or evidence of insurance required by this Section, and such failure continues for three (3) days after notice from Landlord, Landlord may, but shall not be required to, obtain such insurance for Landlord's benefit and Tenant shall reimburse Landlord for the costs of such insurance upon demand. Such amounts shall be Additional Rent payable by Tenant hereunder and in the event of non-payment thereof, Landlord shall have the same rights and remedies with respect to such non-payment as it has with respect to any other non-payment of Rent hereunder.

d. **Landlord's Insurance.** Landlord shall carry special form clauses of loss coverage property insurance of the Building shell and core in the amount of their full replacement value, liability insurance with respect to the Common Areas, and such other insurance of such types and amounts as Landlord, in its discretion, shall deem reasonably appropriate. The cost of any such insurance shall be included in the Operating Costs, and if such insurance is provided by a "blanket policy" insuring other parties or locations in addition to the Building, then only the portion of the premiums allocable to the Building and Property shall be included in the Operating Costs.

e. **Waiver of Subrogation.** Landlord and Tenant hereby release each other and any other tenant, their agents or employees, from responsibility for, and waive their entire claim of recovery for any loss or damage arising from any cause covered by property insurance required to be carried or otherwise carried by each of them. Each party shall provide notice to the property insurance carrier or carriers of this mutual waiver of subrogation, and shall cause its respective property insurance carriers to waive all rights of subrogation against the other. This waiver shall not apply to the extent of the deductible amounts to any such property policies or to the extent of liabilities exceeding the limits of such policies.

18. **INDEMNIFICATION**.

a. **Indemnification by Tenant.** Tenant shall defend, indemnify, and hold Landlord and its property manager (if any) harmless against all liabilities, damages, costs, and expenses, including attorneys' fees, for personal injury, bodily injury (including death) or property damage arising from any negligent or wrongful act or omission of Tenant or Tenant's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees on or around the Premises or the Property, or arising

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

from any breach of this Lease by Tenant. Tenant shall use legal counsel reasonably acceptable to Landlord in defense of any action within Tenant's defense obligation.

b. **Indemnification by Landlord.** Landlord shall defend, indemnify and hold Tenant harmless against all liabilities, damages, costs, and expenses, including attorneys' fees, for personal injury, bodily injury (including death) or property damage arising from any negligent or wrongful act or omission of Landlord or Landlord's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees on or around the Premises or the Property, or arising from any breach of this Lease by Landlord. Landlord shall use legal counsel reasonably acceptable to Tenant in defense of any action within Landlord's defense obligation.

c. **Waiver of Immunity.** Landlord and Tenant each specifically and expressly waive any immunity that each may be granted under the Washington State Industrial Insurance Act, Title 51 RCW. Neither party's indemnity obligations under this Lease shall be limited by any limitation on the amount or type of damages, compensation, or benefits payable to or for any third party under the Worker Compensation Acts, Disability Benefit Acts or other employee benefit acts.

d. **Exemption of Landlord from Liability.** Except to the extent of claims arising out of Landlord's gross negligence or intentional misconduct, Landlord shall not be liable for injury to Tenant's business or assets or any loss of income therefrom or for damage to any property of Tenant or of its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, or any other person in or about the Premises or the Property.

e. **Survival.** The provisions of this Section 18 shall survive expiration or termination of this Lease.

19. **ASSIGNMENT AND SUBLETTING.** Tenant shall not assign, sublet, mortgage, encumber or otherwise transfer any interest in this Lease (collectively referred to as a "Transfer") or any part of the Premises, without first obtaining Landlord's written consent, which shall not be unreasonably withheld, conditioned, or delayed. No Transfer shall relieve Tenant of any liability under this Lease notwithstanding Landlord's consent to such Transfer. Consent to any Transfer shall not operate as a waiver of the necessity for Landlord's consent to any subsequent Transfer. In connection with each request for consent to a Transfer, Tenant shall pay the reasonable cost of processing same, including attorneys' fees, upon demand of Landlord, up to a maximum of $1,250.

    If Tenant is a partnership, limited liability company, corporation, or other entity, any transfer of this Lease by merger, consolidation, redemption or liquidation, or any change in the ownership of, or power to vote, which singularly or collectively represents a majority of the beneficial interest in Tenant, shall constitute a Transfer under this Section.

    As a condition to Landlord's approval, if given, any potential assignee or sublessee otherwise approved by Landlord shall assume all obligations of Tenant under this Lease and shall be jointly and severally liable with Tenant and any guarantor, if required, for the payment of Rent and performance of all terms of this Lease. In connection with any Transfer, Tenant shall provide Landlord with copies of all assignments, subleases and assumption agreement or documents.

20. **LIENS.** Tenant shall not subject the Landlord's assets to any liens or claims of lien. Tenant shall keep the Premises free from any liens created by or through Tenant. Tenant shall indemnify and hold Landlord harmless from liability for any such liens including, without limitation, liens arising from any Alterations. If a lien is filed against the Premises by any person claiming by, through or under Tenant, Tenant shall, within ten (10) days after Landlord's demand, at Tenant's expense, either remove the lien or furnish to Landlord a bond in form and amount and issued by a surety satisfactory to Landlord, indemnifying Landlord and the Premises against all liabilities, costs and expenses, including attorneys' fees, which Landlord could reasonably incur as a result of such lien.

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Everett, WA 98208
Phone: 425-212-2007
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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

21. **DEFAULT.** The following occurrences shall each constitute a default by Tenant (an "Event of Default"):

   a. **Failure To Pay.** Failure by Tenant to pay any sum, including Rent, due under this Lease following five (5) days' notice from Landlord of the failure to pay.

   b. **Vacation/Abandonment.** Vacation by Tenant of the Premises (defined as an absence for at least fifteen (15) consecutive days without prior notice to Landlord), or abandonment by Tenant of the Premises (defined as an absence of five (5) days or more while Tenant is in breach of some other term of this Lease). Tenant's vacation or abandonment of the Premises shall not be subject to any notice or right to cure.

   c. **Insolvency.** Tenant's insolvency or bankruptcy (whether voluntary or involuntary); or appointment of a receiver, assignee or other liquidating officer for Tenant's business; provided, however, that in the event of any involuntary bankruptcy or other insolvency proceeding, the existence of such proceeding shall constitute an Event of Default only if such proceeding is not dismissed or vacated within sixty (60) days after its institution or commencement.

   d. **Levy or Execution.** The taking of Tenant's interest in this Lease or the Premises, or any part thereof, by execution or other process of law directed against Tenant, or attachment of Tenant's interest in this Lease by any creditor of Tenant, if such attachment is not discharged within fifteen (15) days after being levied.

   e. **Other Non-Monetary Defaults.** The breach by Tenant of any agreement, term or covenant of this Lease other than one requiring the payment of money and not otherwise enumerated in this Section or elsewhere in this Lease, which breach continues for a period of thirty (30) days after notice by Landlord to Tenant of the breach.

   f. **Failure to Take Possession.** Failure by Tenant to take possession of the Premises on the Commencement Date or failure by Tenant to commence any Tenant Improvement in a timely fashion.

   Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event less than thirty (30) days after notice by Tenant to Landlord. If Landlord fails to cure any such default within the allotted time, Tenant's sole remedy shall be to seek actual money damages (but not consequential or punitive damages) for loss arising from Landlord's failure to discharge its obligations under this Lease. Nothing herein contained shall relieve Landlord from its duty to perform of any of its obligations to the standard prescribed in this Lease.

   Any notice periods granted herein shall be deemed to run concurrently with and not in addition to any default notice periods required by law.

22. **REMEDIES.** Landlord shall have the following remedies upon an Event of Default. Landlord's rights and remedies under this Lease shall be cumulative, and none shall exclude any other right or remedy allowed by law.

   a. **Termination of Lease.** Landlord may terminate Tenant's interest under the Lease, but no act by Landlord other than notice of termination from Landlord to Tenant shall terminate this Lease. The Lease shall terminate on the date specified in the notice of termination. Upon termination of this Lease, Tenant will remain liable to Landlord for damages in an amount equal to the Rent and other sums that would have been owing by Tenant under this Lease for the balance of the Lease term, less the net proceeds, if any, of any reletting of the Premises by Landlord subsequent to the termination, after deducting all of Landlord's Reletting Expenses (as defined below). Landlord shall be entitled to either collect damages from Tenant monthly on the days on which rent or other amounts would have been payable under the Lease, or alternatively, Landlord may accelerate Tenant's obligations under the Lease and recover from Tenant: (i) unpaid rent which had been earned at the time of termination; (ii) the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of rent loss that Tenant proves could reasonably have been avoided; (iii) the amount by which the unpaid rent for the balance of the term of the Lease after the time of award exceeds the amount of rent loss that Tenant proves could reasonably be avoided (discounting such amount by the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus 1%); and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease, or which in the ordinary course would be likely to result from the Event of Default, including without limitation Reletting Expenses described below.

b. **Re-Entry and Reletting.** Landlord may continue this Lease in full force and effect, and without demand or notice, re-enter and take possession of the Premises or any part thereof, expel the Tenant from the Premises and anyone claiming through or under the Tenant, and remove the personal property of either. Landlord may relet the Premises, or any part of them, in Landlord's or Tenant's name for the account of Tenant, for such period of time and at such other terms and conditions as Landlord, in its discretion, may determine. Landlord may collect and receive the rents for the Premises. To the fullest extent permitted by law, the proceeds of any reletting shall be applied: first, to pay Landlord all Reletting Expenses (defined below); second, to pay any indebtedness of Tenant to Landlord other than rent; third, to the rent due and unpaid hereunder; and fourth, the residue, if any, shall be held by Landlord and applied in payment of other or future obligations of Tenant to Landlord as the same may become due and payable, and Tenant shall not be entitled to receive any portion of such revenue. Re-entry or taking possession of the Premises by Landlord under this Section shall not be construed as an election on Landlord's part to terminate this Lease, unless a notice of termination is given to Tenant. Landlord reserves the right following any re-entry or reletting, or both, under this Section to exercise its right to terminate the Lease. Tenant will pay Landlord the Rent and other sums which would be payable under this Lease if repossession had not occurred, less the net proceeds, if any, after reletting the Premises and after deducting Landlord's Reletting Expenses. "Reletting Expenses" is defined to include all expenses incurred by Landlord in connection with reletting the Premises, including without limitation, all repossession costs, brokerage commissions and costs for securing new tenants, attorneys' fees, remodeling and repair costs, costs for removing persons or property, costs for storing Tenant's property and equipment, and costs of tenant improvements and rent concessions granted by Landlord to any new Tenant, prorated over the life of the new lease.

c. **Waiver of Redemption Rights.** Tenant, for itself, and on behalf of any and all persons claiming through or under Tenant, including creditors of all kinds, hereby waives and surrenders all rights and privileges which they may have under any present or future law, to redeem the Premises or to have a continuance of this Lease for the Lease term, or any extension thereof.

d. **Nonpayment of Additional Rent.** All costs which Tenant is obligated to pay to Landlord pursuant to this Lease shall in the event of nonpayment be treated as if they were payments of Rent, and Landlord shall have the same rights it has with respect to nonpayment of Rent.

e. **Failure to Remove Property.** If Tenant fails to remove any of its property from the Premises at Landlord's request following an uncured Event of Default, Landlord may, at its option, remove and store the property at Tenant's expense and risk. If Tenant does not pay the storage cost within five (5) days of Landlord's request, Landlord may, at its option, have any or all of such property sold at public or private sale (and Landlord may become a purchaser at such sale), in such manner as Landlord deems proper, without notice to Tenant. Landlord shall apply the proceeds of such sale: (i) to the expense of such sale, including reasonable attorneys' fees actually incurred; (ii) to the payment of the costs or charges for storing such property; (iii) to the payment of any other sums of money which may then be or thereafter become due Landlord from Tenant under any of the terms hereof; and (iv) the balance, if any, to Tenant. Nothing in this Section shall limit Landlord's right to sell Tenant's personal property as permitted by law or to foreclose Landlord's lien for unpaid rent.

23. **MORTGAGE SUBORDINATION AND ATTORNMENT.** This Lease shall automatically be subordinate to any mortgage or deed of trust created by Landlord which is now existing or hereafter placed upon the Premises including any advances, interest, modifications, renewals, replacements or extensions ("Landlord's

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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

Mortgage"). Tenant shall attorn to the holder of any Landlord's Mortgage or any party acquiring the Premises at any sale or other proceeding under any Landlord's Mortgage provided the acquiring party assumes the obligations of Landlord under this Lease. Tenant shall promptly and in no event later than fifteen (15) days after request execute, acknowledge and deliver documents which the holder of any Landlord's Mortgage may reasonably require as further evidence of this subordination and attornment. Notwithstanding the foregoing, Tenant's obligations under this Section to subordinate in the future are conditioned on the holder of each Landlord's Mortgage and each party acquiring the Premises at any sale or other proceeding under any such Landlord's Mortgage not disturbing Tenant's occupancy and other rights under this Lease, so long as no uncured Event of Default by Tenant exists.

24. **NON-WAIVER.** Landlord's waiver of any breach of any provision contained in this Lease shall not be deemed to be a waiver of the same provision for subsequent acts of Tenant. The acceptance by Landlord of Rent or other amounts due by Tenant hereunder shall not be deemed to be a waiver of any previous breach by Tenant.

25. **HOLDOVER.** If Tenant shall, without the written consent of Landlord, remain in possession of the Premises and fail to return them to Landlord after the expiration or termination of this Lease, the tenancy shall be a holdover tenancy and shall be on a month-to-month basis, which may be terminated according to Washington law. During such tenancy, Tenant agrees to pay to Landlord 150% of the rate of rental last payable under this Lease, unless a different rate is agreed upon by Landlord. All other terms of the Lease shall remain in effect. Tenant acknowledges and agrees that this Section does not grant any right to Tenant to holdover, and that Tenant may also be liable to Landlord for any and all damages or expenses which Landlord may have to incur as a result of Tenant's holdover.

26. **NOTICES.** All notices under this Lease shall be in writing and effective (i) when delivered in person or via overnight courier to the other party, (ii) three (3) days after being sent by registered or certified mail to the other party at the address set forth in Section 1; or (iii) upon confirmed transmission by facsimile to the other party at the facsimile numbers set forth in Section 1. The addresses for notices and payment of rent set forth in Section 1 may be modified by either party only by written notice delivered in conformance with this Section.

27. **COSTS AND ATTORNEYS' FEES.** If Tenant or Landlord engage the services of an attorney to collect monies due or to bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of Rent or other payments, or possession of the Premises, the losing party shall pay the prevailing party a reasonable sum for attorneys' fees in such action, whether in mediation or arbitration, at trial, on appeal, or in any bankruptcy proceeding.

28. **ESTOPPEL CERTIFICATES.** Tenant shall, from time to time, upon written request of Landlord, execute, acknowledge and deliver to Landlord or its designee a written statement specifying the following, subject to any modifications necessary to make such statements true and complete: (i) the total rentable square footage of the Premises; (ii) the date the Lease term commenced and the date it expires; (iii) the amount of minimum monthly Rent and the date to which such Rent has been paid; (iv) that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way; (v) that this Lease represents the entire agreement between the parties; (vi) that all obligations under this Lease to be performed by either party have been satisfied; (vii) that there are no existing claims, defenses or offsets which the Tenant has against the enforcement of this Lease by Landlord; (viii) the amount of Rent, if any, that Tenant paid in advance; (ix) the amount of security that Tenant deposited with Landlord; (x) if Tenant has sublet all or a portion of the Premises or assigned its interest in the Lease and to whom; (xi) if Tenant has any option to extend the Lease or option to purchase the Premises; and (xii) such other factual matters concerning the Lease or the Premises as Landlord may reasonably request. Tenant acknowledges and agrees that any statement delivered pursuant to this Section may be relied upon by a prospective purchaser of Landlord's interest or assignee of any mortgage or new mortgagee of Landlord's interest in the Premises. If Tenant shall fail to respond within ten (10) days to Landlord's request for the statement required by this Section, Landlord may provide the statement and Tenant shall be deemed to have admitted the accuracy of the information provided by Landlord.

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

29. **TRANSFER OF LANDLORD'S INTEREST.** This Lease shall be assignable by Landlord without the consent of Tenant. In the event of any transfer or transfers of Landlord's interest in the Premises, other than a transfer for collateral purposes only, upon the assumption of this Lease by the transferee, Landlord shall be automatically relieved of obligations and liabilities accruing from and after the date of such transfer, including any liability for any retained security deposit or prepaid rent, for which the transferee shall be liable, and Tenant shall attorn to the transferee.

30. **LANDLORD'S LIABILITY.** Anything in this Lease to the contrary notwithstanding, covenants, undertakings and agreements herein made on the part of Landlord are made and intended not as personal covenants, undertakings and agreements for the purpose of binding Landlord personally or the assets of Landlord but are made and intended for the purpose of binding only the Landlord's interest in the Premises, as the same may from time to time be encumbered. In no event shall Landlord or its partners, shareholders, or members, as the case may be, ever be personally liable hereunder.

31. **RIGHT TO PERFORM.** If Tenant shall fail to timely pay any sum or perform any other act on its part to be performed hereunder, Landlord may make any such payment or perform any such other act on Tenant's behalf. Tenant shall, within ten (10) days of demand, reimburse Landlord for its expenses incurred in making such payment or performance. Landlord shall (in addition to any other right or remedy of Landlord provided by law) have the same rights and remedies in the event of the nonpayment of sums due under this Section as in the case of default by Tenant in the payment of Rent.

32. **HAZARDOUS MATERIAL.** As used herein, the term "Hazardous Material" means any hazardous, dangerous, toxic or harmful substance, material or waste including biomedical waste which is or becomes regulated by any local governmental authority, the State of Washington or the United States Government, due to its potential harm to the health, safety or welfare of humans or the environment. Landlord represents and warrants to Tenant that, to Landlord's knowledge without duty of investigation, there is no Hazardous Material on, in, or under the Premises as of the Commencement Date except as may otherwise have been disclosed to Tenant in writing before the execution of this Lease. If there is any Hazardous Material on, in, or under the Premises as of the Commencement Date which has been or thereafter becomes unlawfully released through no fault of Tenant, then Landlord shall indemnify, defend and hold Tenant harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses including without limitation sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees, incurred or suffered by Tenant either during or after the Lease term as the result of such contamination.

    Tenant shall not cause or permit any Hazardous Material to be brought upon, kept, or used in or about, or disposed of on the Premises or the Property by Tenant, its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, except with Landlord's prior consent and then only upon strict compliance with all applicable federal, state and local laws, regulations, codes and ordinances. If Tenant breaches the obligations stated in the preceding sentence, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses including, without limitation, diminution in the value of the Premises or the Property; damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises or the Property, or elsewhere; damages arising from any adverse impact on marketing of space at the Premises or the Property; and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees incurred or suffered by Landlord either during or after the Lease term. These indemnifications by Landlord and Tenant include, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work, whether or not required by any federal, state or local governmental agency or political subdivision, because of Hazardous Material present in the Premises, or in soil or ground water on or under the Premises. Tenant shall immediately notify Landlord of any inquiry, investigation or notice that Tenant may receive from any third party regarding the actual or suspected presence of Hazardous Material on the Premises.

    Without limiting the foregoing, if the presence of any Hazardous Material brought upon, kept or used in or about the Premises or the Property by Tenant, its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, results in any unlawful release of any Hazardous Materials on the Premises or the Property, Tenant shall promptly take all actions, at its sole expense, as are necessary to return the Premises or the Property to the condition existing prior to the release of any such Hazardous Material; provided that Landlord's approval of such actions shall first be obtained, which approval may be withheld at Landlord's sole discretion. The provisions of this Section 32 shall survive expiration or termination of this Lease.

33. **QUIET ENJOYMENT.** So long as Tenant pays the Rent and performs all of its obligations in this Lease, Tenant's possession of the Premises will not be disturbed by Landlord or anyone claiming by, through or under Landlord.

34. **MERGER.** The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

35. **GENERAL.**

a. **Heirs and Assigns.** This Lease shall apply to and be binding upon Landlord and Tenant and their respective heirs, executors, administrators, successors and assigns.

b. **Brokers' Fees.** Tenant represents and warrants to Landlord that except for Tenant's Broker, if any, described and disclosed in Section 37 of this Lease, it has not engaged any broker, finder or other person who would be entitled to any commission or fees for the negotiation, execution or delivery of this Lease and shall indemnify and hold harmless Landlord against any loss, cost, liability or expense incurred by Landlord as a result of any claim asserted by any such broker, finder or other person on the basis of any arrangements or agreements made or alleged to have been made by or on behalf of Tenant. Landlord represents and warrants to Tenant that except for Landlord's Broker, if any, described and disclosed in Section 37 of this Lease, it has not engaged any broker, finder or other person who would be entitled to any commission or fees for the negotiation, execution or delivery of this Lease and shall indemnify and hold harmless Tenant against any loss, cost, liability or expense incurred by Tenant as a result of any claim asserted by any such broker, finder or other person on the basis of any arrangements or agreements made or alleged to have been made by or on behalf of Landlord.

c. **Entire Agreement.** This Lease contains all of the covenants and agreements between Landlord and Tenant relating to the Premises. No prior or contemporaneous agreements or understandings pertaining to the Lease shall be valid or of any force or effect and the covenants and agreements of this Lease shall not be altered, modified or amended except in writing, signed by Landlord and Tenant.

d. **Severability.** Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision of this Lease.

e. **Force Majeure.** Time periods for either party's performance under any provisions of this Lease (excluding payment of Rent) shall be extended for periods of time during which the party's performance is prevented due to circumstances beyond such party's control, including without limitation, fires, floods, earthquakes, lockouts, strikes, embargoes, governmental regulations, acts of God, public enemy, war or other strife.

f. **Governing Law.** This Lease shall be governed by and construed in accordance with the laws of the State of Washington.

g. **Memorandum of Lease.** Neither this Lease nor any memorandum or "short form" thereof shall be recorded without Landlord's prior consent.

h. **Submission of Lease Form Not an Offer.** One party's submission of this Lease to the other for review shall not constitute an offer to lease the Premises. This Lease shall not become effective and binding upon Landlord and Tenant until it has been fully signed by both of them.

i. **No Light, Air or View Easement.** Tenant has not been granted an easement or other right for light, air or view to or from the Premises. Any diminution or shutting off of light, air or view by any structure which may be erected on or adjacent to the Building shall in no way effect this Lease or the obligations of Tenant hereunder or impose any liability on Landlord.

j. **Authority of Parties.** Each party signing this Lease represents and warrants to the other that it has the authority to enter into this Lease, that the execution and delivery of this Lease has been duly authorized, and that upon such execution and delivery, this Lease shall be binding upon and enforceable against the party on signing.

k. **Time.** "Day" as used herein means a calendar day and "business day" means any day on which commercial banks are generally open for business in the state where the Premises are situated. Any period of time which would otherwise end on a non-business day shall be extended to the next following business day. Time is of the essence of this Lease.

36. **EXHIBITS AND RIDERS.** The following exhibits and riders are made a part of this Lease, and the terms thereof shall control over any inconsistent provision in the sections of this Lease:

Exhibit A: Floor Plan Outline of the Premises
Exhibit B: Legal Description of the Property
Exhibit C: Tenant Improvement Schedule

CHECK THE BOX FOR ANY OF THE FOLLOWING THAT WILL APPLY. CAPITALIZED TERMS USED IN THE RIDERS SHALL HAVE THE MEANING GIVEN TO THEM IN THE LEASE.

☒ Rent Rider
☐ Arbitration Rider
☐ Letter of Credit Rider
☐ Guaranty of Tenant's Lease Obligations Rider
☒ Parking Rider
☒ Option to Extend Rider
☐ Rules and Regulations

37. **AGENCY DISCLOSURE.** At the signing of this Lease, Landlord is represented by Gabriel Graumann, KW PNW (insert both the name of the Broker and the Firmas licensed) (the "Landlord's Broker"), and Tenant is represented by Gabriel Graumann, KW PNW (insert both the name of the Broker and the Firm as licensed) (the "Tenant's Broker").

This Agency Disclosure creates an agency relationship between Landlord, Landlord's Broker (if any such person is disclosed), and any managing brokers who supervise Landlord's Broker's performance (collectively the "Supervising Brokers"). In addition, this Agency Disclosure creates an agency relationship between Tenant, Tenant's Broker (if any such person is disclosed), and any managing brokers who supervise Tenant's Broker's performance (also collectively the "Supervising Brokers"). If Tenant's Broker and Landlord's Broker are different real estate licensees affiliated with the same Firm, then both Tenant and Landlord confirm their consent to that Firm and both Tenant's and Landlord's Supervising Brokers acting as dual agents. If Tenant's Broker and Landlord's Broker are the same real estate licensee who represents both parties, then both Landlord and Tenant acknowledge that the Broker, his or her Supervising Brokers, and his or her Firm are acting as dual agents and hereby consent to such dual agency. If Tenants' Broker, Landlord's Broker, their Supervising Brokers, or their Firm are dual agents, Landlord and Tenant consent to Tenant's Broker, Landlord's Broker and their Firm being compensated based on a percentage of the rent or as otherwise disclosed on the attached addendum. Neither Tenant's Broker, Landlord's Broker nor either of their Firms are

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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

receiving compensation from more than one party to this transaction unless otherwise disclosed on an attached addendum, in which case Landlord and Tenant consent to such compensation. Landlord and Tenant confirm receipt of the pamphlet entitled "The Law of Real Estate Agency."

38. **COMMISSION AGREEMENT.** If Landlord has not entered into a listing agreement (or other compensation agreement with Landlord's Broker), Landlord agrees to pay a commission to Landlord's Broker (as identified in the Agency Disclosure paragraph above) as follows:

☒ $ 0.00
☐ _____ % of the gross rent payable pursuant to the Lease
☐ $ _____ per square foot of the Premises
☐ Other _____

Landlord's Broker ☐ shall ☒ shall not (shall not if not filled in) be entitled to a commission upon the extension by Tenant of the Lease term pursuant to any right reserved to Tenant under the Lease calculated ☒ as provided above or ☐ as follows _____ (if no box is checked, as provided above). Landlord's Broker ☐ shall ☒ shall not (shall not if not filled in) be entitled to a commission upon any expansion of Premises pursuant to any right reserved to Tenant under the Lease, calculated ☒ as provided above or ☐ as follows _____ (if no box is checked, as provided above).

Any commission shall be earned upon execution of this Lease, and paid one-half upon execution of the Lease and one-half upon occupancy of the Premises by Tenant. Landlord's Broker shall pay to Tenant's Broker (as identified in the Agency Disclosure paragraph above) the amount stated in a separate agreement between them or, if there is no agreement, $ 0.00 or _____ % (complete only one) of any commission paid to Landlord's Broker, within five (5) days after receipt by Landlord's Broker.

If any other lease or sale is entered into between Landlord and Tenant pursuant to a right reserved to Tenant under the Lease, Landlord ☐ shall ☒ shall not (shall not if not filled in) pay an additional commission according to any commission agreement or, in the absence of one, according to the commission schedule of Landlord's Broker in effect as of the execution of this Lease. Landlord's successor shall be obligated to pay any unpaid commissions upon any transfer of this Lease and any such transfer shall not release the transferor from liability to pay such commissions.

39. **BROKER PROVISIONS.** LANDLORD'S BROKER, TENANT'S BROKER AND THEIR FIRMS HAVE MADE NO REPRESENTATIONS OR WARRANTIES CONCERNING THE PREMISES; THE MEANING OF THE TERMS AND CONDITIONS OF THIS LEASE; LANDLORD'S OR TENANT'S FINANCIAL STANDING; ZONING OR COMPLIANCE OF THE PREMISES WITH APPLICABLE LAWS; SERVICE OR CAPACITY OF UTILITIES; OPERATING COSTS; OR HAZARDOUS MATERIALS. LANDLORD AND TENANT ARE EACH ADVISED TO SEEK INDEPENDENT LEGAL ADVICE ON THESE AND OTHER MATTERS ARISING UNDER THIS LEASE.

IN WITNESS WHEREOF this Lease has been executed the date and year first above written.

LANDLORD	TENANT
LANDLORD	TENANT
BY	BY
ITS	ITS

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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

STATE OF WASHINGTON)
) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that he is the person who appeared before me and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of Bethany of the Northwest to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this ______ day of ______, 20 ______ ,

(Signature of Notary)

(Legibly Print or Stamp Name of Notary)
Notary public in and for the state of Washington,
residing at ______
My appointment expires ______

STATE OF WASHINGTON)
) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that he is the person who appeared before me and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of Bethany Hospice, LLC to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this ______ day of ______, 20 ______ .

(Signature of Notary)

(Legibly Print or Stamp Name of Notary)
Notary public in and for the state of Washington,
residing at ______
My appointment expires ______

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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

STATE OF WASHINGTON)
) ss.
COUNTY OF ____________________________)

I certify that I know or have satisfactory evidence that ____________________________ is the person who appeared before me and said person acknowledged that __________________________ signed this instrument, on oath stated that __________________________________ was authorized to execute the instrument and acknowledged it as the _____________________________ of _____________________________ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this ____________________________ day of ____________________________ , 20 ______ .

____
(Signature of Notary)

____
(Legibly Print or Stamp Name of Notary)
Notary public in and for the state of Washington,
residing at ____
My appointment expires _______________________________

STATE OF WASHINGTON)
) ss.
COUNTY OF ____________________________)

I certify that I know or have satisfactory evidence that ____________________________ is the person who appeared before me and said person acknowledged that __________________________ signed this instrument, on oath stated that __________________________________ was authorized to execute the instrument and acknowledged it as the _____________________________ of _____________________________ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this ____________________________ day of ____________________________ , 20 ______ .

____
(Signature of Notary)

____
(Legibly Print or Stamp Name of Notary)
Notary public in and for the state of Washington,
residing at ____
My appointment expires _______________________________

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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

EXHIBIT A

[Outline of the Premises]

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LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

EXHIBIT B

[Legal Description of the Property]

KW Everett
1000 SE Everett Mall Way #201
Everett, WA 98208
Phone: 425-212-2007
Fax: 425-212-2092

LEASE AGREEMENT
Multi Tenant Triple Net (NNN Lease)

EXHIBIT C

[Tenant Improvement Schedule]

1. Tenant Improvements to be Completed by Landlord

None

2. Tenant Improvements to be Completed by Tenant

None

APPENDIX 1

AUDITED FINANCIALS

Bethany of the Northwest and Subsidiaries

Consolidated Financial Statements and
Independent Auditors' Report

December 31, 2017 and 2016

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Bethany of the Northwest
and Subsidiaries
Table of Contents

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Bethany of the Northwest and Subsidiaries
Everett, Washington

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bethany of the Northwest and Subsidiaries (a nonprofit healthcare entity), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of operations and changes in net assets and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bethany of the Northwest and Subsidiaries as of December 31, 2017, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year (December 31, 2016) Auditors' Report

The financial statements of Bethany of the Northwest and Subsidiaries, as of and for the year ended December 31, 2016, were audited by Clark Nuber P.S. and whose report dated May 22, 2017, expressed an unmodified opinion on those financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The statement of financial position by department and statement of operations and changes in net assets by department on pages 22 and 23, respectively, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
March 20, 2018

Bethany of the Northwest
and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

ASSETS	2017	2016
Current assets		
Cash and cash equivalents	**$ 3,297,886**	$ 4,823,250
Receivables:		
Resident accounts, less allowances for uncollectible accounts of $200,000 and $250,000, respectively	**2,140,742**	2,533,989
Due from Everett Transitional Care Services	**361,196**	379,361
Investments	**1,143,168**	5,683,132
Other current assets	**320,789**	281,417
Total current assets	**7,263,781**	13,701,149
Noncurrent assets		
Investments limited as to use	**19,962,079**	10,625,250
Investment in Everett Transitional Care Services	**1,208,738**	1,248,271
Property and equipment, net	**6,168,193**	6,417,347
Total noncurrent assets	**27,339,010**	18,290,868
Total assets	**$ 34,602,791**	$ 31,992,017
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	**$ 702,297**	$ 469,376
Accrued compensation and related liabilities	**1,610,011**	2,026,797
Total current liabilities	**2,312,308**	2,496,173
Net assets		
Unrestricted net assets	**32,259,492**	29,377,031
Temporarily restricted net assets	**30,991**	118,813
Total net assets	**32,290,483**	29,495,844
Total liabilities and net assets	**$ 34,602,791**	$ 31,992,017

See accompanying notes to consolidated financial statements.

**Bethany of the Northwest
and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2017 and 2016**

	2017	2016
Unrestricted revenue, gains, and other support		
Resident revenue (net of contractual allowances and discounts)	**$ 24,388,116**	$ 24,646,725
Provision for bad debts	**(219,240)**	(327,216)
Net resident revenue less provision for bad debts	**24,168,876**	24,319,509
Investment income	**1,726,327**	992,858
Other revenue	**85,095**	65,848
Total unrestricted revenue, gains, and other support	**25,980,298**	25,378,215
Net assets released from restriction	**61,683**	4,188
Operating expenses		
Salaries and wages	**13,888,701**	13,429,743
Payroll taxes	**1,417,392**	1,297,917
Employee benefits	**949,163**	997,477
Supplies	**2,165,436**	2,285,757
Purchased services	**1,912,976**	1,790,826
Depreciation	**625,429**	607,089
Insurance	**150,736**	143,288
Repairs and maintenance	**103,473**	65,012
Utilities	**460,291**	468,225
Rent expense	**327,568**	318,041
Minor equipment	**378,848**	256,789
Taxes and licenses	**799,830**	807,036
Donations	**44,857**	36,992
Other	**327,106**	312,552
Total operating expenses	**23,551,806**	22,816,744
Operating income	**2,490,175**	2,565,659
Nonoperating revenues (expenses)		
Grants and contributions	**138,616**	154,697
Gain from investment in Everett Transitional Care Services	**110,467**	176,410
Gain (loss) on property disposal	**33,170**	(11,103)
Total nonoperating revenues, net	**282,253**	320,004
Net assets released from restriction related to capital acquisitions	**110,033**	171,575
Change in unrestricted net assets	**2,882,461**	3,057,238
Temporarily restricted net assets		
Grants and contributions	**83,894**	124,185
Net assets released from restriction	**(171,716)**	(175,763)
Change in temporarily restricted net assets	**(87,822)**	(51,578)
Change in net assets	**2,794,639**	3,005,660
Net assets, beginning of year	**29,495,844**	26,490,184
Net assets, end of year	**$ 32,290,483**	$ 29,495,844

See accompanying notes to consolidated financial statements.

Bethany of the Northwest
and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

		2017		2016
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from and on behalf of residents	**$**	**24,562,123**	$	23,938,048
Cash received from investments		**467,344**		343,102
Cash received from contributions		**222,510**		278,882
Cash received from other revenue		**85,095**		65,848
Cash paid to or on behalf of employees		**(16,672,042)**		(15,572,367)
Cash paid for other expenses		**(6,459,407)**		(6,624,064)
Net cash provided by operating activities		**2,205,623**		2,429,449
Cash flows from investing activities				
Acquisition of property and equipment		**(598,091)**		(299,532)
Disposal of property and equipment		**254,986**		-
Purchase of investments		**(9,464,140)**		(2,840,675)
Sales of investments		**5,926,258**		-
Member distributions received from Everett Transitional Care Services		**150,000**		-
Net cash used in investing activities		**(3,730,987)**		(3,140,207)
Net decrease in cash and cash equivalents		**(1,525,364)**		(710,758)
Cash and cash equivalents, beginning of year		**4,823,250**		5,534,008
Cash and cash equivalents, end of year	**$**	**3,297,886**	$	4,823,250

See accompanying notes to consolidated financial statements.

Bethany of the Northwest
and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Change in Unrestricted Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	**$ 2,794,639**	$ 3,005,660
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	**625,429**	607,089
Provision for bad debts	**219,240**	327,216
Loss (gain) on disposal of property and equipment	**(33,170)**	11,103
Gain on investments	**(1,258,983)**	(649,756)
Gain on investment in Everett Transitional Care Services	**(110,467)**	(176,410)
(Increase) decrease in assets:		
Resident receivables	**174,007**	(708,677)
Due from Everett Transitional Care Services	**18,165**	14,288
Other current assets	**(39,372)**	6,891
Increase (decrease) in liabilities:		
Accounts payable	**232,921**	(160,725)
Accrued compensation and related liabilities	**(416,786)**	152,770
Net cash provided by operating activities	**$ 2,205,623**	$ 2,429,449

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies:

a. Organization

Bethany of the Northwest (Bethany) provides living accommodations and support services for the elderly in Everett, Washington. Revenues for these services are primarily generated from Medicare, Medicaid, managed care providers, and directly from patients and tenants. Bethany is exempt under Section 501(c)(3) of the Internal Revenue Code from federal income taxes except for unrelated business income.

Bethany was formed to provide skilled nursing and assisted living services, as well as to own and operate the following facilities:

Bethany at Pacific (Pacific) - A 111-bed nursing and rehabilitative facility owned and operated by Bethany of the Northwest.

Bethany at Silver Crest (Silver Crest) - A 57-bed assisted living facility owned and operated by Bethany of the Northwest.

Bethany at Silver Lake (Silver Lake) - A 120-bed nursing and rehabilitative facility owned and operated by Bethany of the Northwest.

Bethany of the Northwest Foundation (the Foundation) was formed to assist in long-term fundraising projects to provide additional resources to Bethany of the Northwest. Bethany of the Northwest has substantial influence over the Foundation through common board membership and the requirement that many of the Foundation's actions must be approved by Bethany of the Northwest.

In November 2017, the Foundation ceased operations, at which time all of the Foundation’s assets were transferred to Bethany. Bethany funds the Foundation’s operations, for which a due from related party asset of $1,127,291 was recorded by Bethany and an offsetting due to related party liability of $1,127,291 was recorded by the Foundation at December 31, 2016. The transfer of the Foundation’s assets to Bethany also included the extinguishment of the outstanding respective due to and due from balance. As of and for the year ended December 31, 2017, a loss on debt forgiveness of $1,047,745 is included in Pacific’s statement of operations and changes in net assets, and an offsetting gain on debt forgiveness of $1,047,745 is included in the Foundation’s statement of operations and changes in net assets.

Bethany owns multiple rental properties (Rentals) in Everett, Washington, which are rented to unrelated third parties.

Principles of consolidation – The consolidated financial statements reflect the consolidated operations of Bethany and the Foundation. All significant intercompany transactions and balances have been eliminated.

b. Summary of Significant Accounting Policies

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

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

b. Summary of Significant Accounting Policies (continued)

Income tax status – Bethany and the Foundation are exempt from federal income tax. Accordingly, no provision for income tax is necessary. Bethany and the Foundation evaluate uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2017 and 2016, Bethany and the Foundation had no uncertain tax positions requiring accrual.

Basis of presentation – Bethany is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents – Cash and cash equivalents are short-term, highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

Resident trust accounts – Bethany maintains resident trust bank accounts for its residents as required by the Washington State Department of Social and Health Services. The balance of these accounts was $20,308 and $22,159 at December 31, 2017 and 2016, respectively. Interest is credited to individual resident accounts as earned. Resident trust accounts are included with cash and cash equivalents in the consolidated statements of financial position.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Bethany classified its investments as of December 31, 2017 and 2016, based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are defined as follows:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- **Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Bethany did not have any Level 3 investments in the years ended December 31, 2017 and 2016.

Inventories – Inventories are stated at replacement cost, which approximates the market price. Inventories consist of medical supplies and pharmaceuticals used in resident care.

Investments limited as to use – Investments limited as to use consist of investments and are assets set aside by Bethany’s Board of Trustees (Board) for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

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

b. Summary of Significant Accounting Policies (continued)

Property and equipment – It is Bethany's policy to capitalize buildings, improvements, and equipment over $1,000; lesser amounts are expensed. Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset. Depreciation expense includes the amortization of capital lease obligations. Depreciation is computed using the straight-line method over the following estimated useful service lives:

Land improvements	10 to 25 years
Leasehold improvements	5 to 30 years
Buildings and improvements	7 to 30 years
Equipment	3 to 40 years
Vehicles	5 to 10 years
Rental property	15 to 30 years

Gifts of long-lived assets such as land, buildings, or equipment are reported at fair value as of the date of the gift and as unrestricted contributions, but are excluded from the excess of revenues over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or assets that must be used to acquire long-lived assets are reported as restricted contributions.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily and permanently restricted net assets – Temporarily restricted net assets are those whose use by Bethany has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Bethany in perpetuity. Bethany had no permanently restricted net assets as of December 31, 2017 and 2016.

Investments and investment income **–** Investments in equity securities having a readily determinable fair value and all debt securities are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on investments, interest, and dividends) is included in the changes in unrestricted net assets as operating revenue.

Performance indicator – The consolidated statements of operations and changes in net assets include a performance indicator as required by U.S. generally accepted accounting principles. Changes in net assets which are excluded from operations, consistent with industry practice, include restricted grants and contributions and the releases of restrictions for capital items.

Nonoperating versus operating – For the purpose of the consolidated statements of operations and changes in net assets, Bethany considers unrestricted grants and contributions, net assets released from restriction, gains from investments in other entities, and gains or losses from property disposal to be nonoperating activities.

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

b. Summary of Significant Accounting Policies (continued)

Functional expense allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications – Certain items included in the accompanying 2016 financial statements have been reclassified to conform to the 2017 presentation, with no effect on the previously reported change in unrestricted net assets.

Subsequent events – Subsequent events have been reviewed through March 20, 2018, the date on which the consolidated financial statements were available to be issued.

2. Resident Accounts Receivable:

Resident accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of resident accounts receivable, Bethany analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to residents who have third-party coverage, Bethany analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay residents (which include both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), Bethany records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many residents 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 uncollectible accounts.

2. Resident Accounts Receivable (continued):

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

Resident accounts receivable reported as current assets by Bethany consisted of these amounts:

		2017		2016
Receivables from residents and their insurance carriers	**$**	**948,253**	$	1,199,503
Receivables from Medicare		**398,436**		474,262
Receivables from Medicaid		**994,053**		1,110,224
		2,340,742		2,783,989
Less allowance for uncollectible accounts		**200,000**		250,000
Resident accounts receivable, net	**$**	**2,140,742**	$	2,533,989

3. Investments Limited as to Use:

Bethany's investments limited as to use are stated at fair value and consisted of the following balances and maturities:

	2017				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 960,296**	$ 960,296	$ -	$ -	$ -
Fixed income:					
Government obligations	**3,875,854**	2,489,460	1,240,162	146,232	-
Mortgage backed securities	**184,982**	-	114,566	-	70,416
Municipal bonds	**131,425**	-	69,686	61,739	-
Corporate obligations	**3,798,775**	1,852,922	1,189,869	755,984	-
International mutual funds	**223,729**	223,729	-	-	-
Total fixed income	**8,214,765**	4,566,111	2,614,283	963,955	70,416
Equities:					
Consumer discretionary	**595,529**	595,529	-	-	-
Consumer staples	**179,898**	179,898	-	-	-
Financials	**919,755**	919,755	-	-	-
Healthcare	**641,435**	641,435	-	-	-
Industrials	**436,171**	436,171	-	-	-
Information technology	**1,049,988**	1,049,988	-	-	-
Materials	**116,931**	116,931	-	-	-
International equities	**910,730**	910,730	-	-	-
Domestic mutual funds	**2,044,392**	2,044,392	-	-	-
International mutual funds	**1,864,114**	1,864,114	-	-	-
Total equities	**8,758,943**	8,758,943	-	-	-
Other alternative investments	**1,060,156**	1,060,156	-	-	-
Real asset funds	**967,919**	880,484	-	-	87,435
Total investments limited as to use	**$ 19,962,079**	$ 16,225,990	$ 2,614,283	$ 963,955	$ 157,851

	2016				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 435,860**	$ 435,860	$ -	$ -	$ -
Fixed income:					
Government obligations	**1,219,948**	238,288	606,148	375,512	-
Mortgage backed securities	**186,524**	-	50,138	64,724	71,662
Municipal bonds	**134,768**	-	72,955	61,813	-
Corporate obligations	**2,983,335**	140,122	1,612,067	1,231,146	-
International mutual funds	**214,364**	214,364	-	-	-
Total fixed income	**4,738,939**	592,774	2,341,308	1,733,195	71,662
Equities:					
Consumer discretionary	**251,075**	251,075	-	-	-
Consumer staples	**74,527**	74,527	-	-	-
Financials	**429,202**	429,202	-	-	-
Healthcare	**313,673**	313,673	-	-	-
Industrials	**235,803**	235,803	-	-	-
Information technology	**458,029**	458,029	-	-	-
Materials	**111,807**	111,807	-	-	-
International equities	**372,623**	372,623	-	-	-
Domestic mutual funds	**1,155,100**	1,155,100	-	-	-
International mutual funds	**1,014,638**	1,014,638	-	-	-
Total equities	**4,416,477**	4,416,477	-	-	-
Other alternative investments	**559,268**	559,268	-	-	-
Real asset funds	**474,706**	373,182	-	-	101,524
Total investments limited as to use	**$ 10,625,250**	$ 6,377,561	$ 2,341,308	$ 1,733,195	$ 173,186

4. Investments:

Bethany's investments are stated at fair value and consisted of the following balances and maturities:

	2017				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 42,822**	$ 42,822	$ -	$ -	$ -
Fixed income:					
Government obligations	**39,981**	39,981	-	-	-
Corporate obligations	**205,916**	10,010	144,197	51,709	-
Domestic mutual funds	**124,903**	124,903	-	-	-
International mutual funds	**44,805**	44,805	-	-	-
Total fixed income	**415,605**	219,699	144,197	51,709	-
Equities:					
Consumer discretionary	**43,928**	43,928	-	-	-
Consumer staples	**11,127**	11,127	-	-	-
Financials	**63,549**	63,549	-	-	-
Healthcare	**39,721**	39,721	-	-	-
Industrials	**28,583**	28,583	-	-	-
Information technology	**76,950**	76,950	-	-	-
Materials	**8,352**	8,352	-	-	-
International equities	**57,510**	57,510	-	-	-
Domestic mutual funds	**106,751**	106,751	-	-	-
International mutual funds	**126,652**	126,652	-	-	-
Total equities	**563,123**	563,123	-	-	-
Other alternative investments	**61,191**	61,191	-	-	-
Real asset funds	**60,427**	49,605	-	-	10,822
Total investments	**$ 1,143,168**	$ 936,440	$ 144,197	$ 51,709	$ 10,822

	2016				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 391,248**	$ 391,248	$ -	$ -	$ -
Fixed income:					
Government obligations	**81,404**	81,404	-	-	-
Municipal bonds	**48,182**	-	-	48,182	-
Corporate obligations	**1,206,780**	90,938	755,980	359,862	-
Domestic mutual funds	**209,216**	209,216	-	-	-
International mutual funds	**59,989**	59,989	-	-	-
Total fixed income	**1,605,571**	441,547	755,980	408,044	-
Equities:					
Consumer discretionary	**172,676**	172,676	-	-	-
Consumer staples	**237,245**	237,245	-	-	-
Financials	**863,328**	863,328	-	-	-
Healthcare	**79,056**	79,056	-	-	-
Industrials	**321,618**	321,618	-	-	-
Information technology	**265,949**	265,949	-	-	-
Materials	**680,716**	680,716	-	-	-
International equities	**43,968**	43,968	-	-	-
Domestic mutual funds	**234,962**	234,962	-	-	-
International mutual funds	**279,500**	279,500	-	-	-
Total equities	**3,179,018**	3,179,018	-	-	-
Other alternative investments	**436,920**	436,920	-	-	-
Real asset funds	**70,375**	52,626	-	-	17,749
Total investments	**$ 5,683,132**	$ 4,501,359	$ 755,980	$ 408,044	$ 17,749

4. Investments (continued):

The following tables disclose, by level within the fair value hierarchy, Bethany's investment assets measured and reported on the consolidated statements of financial position, at fair value on a recurring basis:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market accounts	$ 1,003,118	$ -	$ -	$ 1,003,118
Fixed income:				
Government obligations	-	3,915,835	-	3,915,835
Mortgage backed securities	-	184,982	-	184,982
Municipal bonds	-	131,425	-	131,425
Corporate obligations	-	4,004,691	-	4,004,691
Domestic mutual funds	124,903	-	-	124,903
International mutual funds	268,534	-	-	268,534
Total fixed income	393,437	8,236,933	-	8,630,370
Equities:				
Consumer discretionary	639,457	-	-	639,457
Consumer staples	191,025	-	-	191,025
Financials	983,304	-	-	983,304
Healthcare	681,156	-	-	681,156
Industrials	464,754	-	-	464,754
Information technology	1,126,938	-	-	1,126,938
Materials	125,283	-	-	125,283
International equities	412,029	556,211	-	968,240
Domestic mutual funds	2,151,143	-	-	2,151,143
International mutual funds	1,990,766	-	-	1,990,766
Total equities	8,765,855	556,211	-	9,322,066
Other alternative investments	1,121,347	-	-	1,121,347
Real asset funds	1,028,346	-	-	1,028,346
	$ 12,312,103	**$ 8,793,144**	**$ -**	**$ 21,105,247**
Investments				$ 1,143,168
Investments limited as to use				19,962,079
Total investments				**$ 21,105,247**

4. Investments (continued):

	2016			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	$ 827,108	$ -	$ -	$ 827,108
Fixed income:				
Government obligations	-	1,301,352	-	1,301,352
Mortgage backed securities	-	186,524	-	186,524
Municipal bonds	-	182,950	-	182,950
Corporate obligations	-	4,190,115	-	4,190,115
Domestic mutual funds	209,216	-	-	209,216
International mutual funds	274,353	-	-	274,353
Total fixed income	483,569	5,860,941	-	6,344,510
Equities:				
Consumer discretionary	423,751	-	-	423,751
Consumer staples	311,772	-	-	311,772
Financials	1,292,530	-	-	1,292,530
Healthcare	392,729	-	-	392,729
Industrials	557,421	-	-	557,421
Information technology	723,978	-	-	723,978
Materials	792,523	-	-	792,523
International equities	142,742	273,849	-	416,591
Domestic mutual funds	1,390,062	-	-	1,390,062
International mutual funds	1,294,138	-	-	1,294,138
Total equities	7,321,646	273,849	-	7,595,495
Other alternative investments	996,188	-	-	996,188
Real asset funds	545,081	-	-	545,081
Total investments	**$ 10,173,592**	**$ 6,134,790**	**$ -**	**$ 16,308,382**
Investments				$ 5,683,132
Investments limited as to use				10,625,250
Total investments				**$ 16,308,382**

5. Investment Income:

Investment income and gains and losses on investments limited as to use, cash equivalents, and other investments consist of the following:

	2017	2016
Interest and dividends	**$ 467,344**	$ 343,102
Realized gains (losses) on sales of investments	**91,447**	(95,978)
Unrealized gains on investments	**1,167,536**	745,734
	$ 1,726,327	$ 992,858

5. Investment Income (continued):

The unrealized gains on Bethany's investments in equities and fixed income funds were primarily a result of recent market increases consistent with the cyclical nature of the financial markets. Bethany has a diversified portfolio.

6. Investment in Everett Transitional Care Services:

On December 28, 1994, Bethany entered into a joint venture with Providence General Medical Center to form Everett Transitional Care Services (ETCS), with Bethany having a 50 percent ownership interest. The investment is recorded using the equity method of accounting. Bethany's share of the results of operations of ETCS is included in the consolidated statements of operations and changes in net assets as gains from investment in ETCS and was $110,467 and $176,410 for the years ended December 31, 2017 and 2016, respectively. Bethany's balance in ETCS is included in the consolidated statements of financial position and was $1,208,738 and $1,248,271 at December 31, 2017 and 2016, respectively. Bethany is reimbursed by ETCS for services provided to the joint venture, which is recorded as a receivable from ETCS of $361,196 and $379,361 at December 31, 2017 and 2016, respectively.

ETCS maintained the following balances:

		2017		2016
Total assets	**$**	**2,890,830**	$	2,981,744
Liabilities	**$**	**481,576**	$	483,079
Equity		**2,409,254**		2,498,665
Total liabilities and equity	**$**	**2,890,830**	$	2,981,744
Net resident service revenue	**$**	**6,084,731**	$	6,087,668
Expenses		**(5,863,834)**		(5,734,593)
Change in net income	**$**	**220,897**	$	353,075

7. Property and Equipment:

Property and equipment consisted of the following:

	2017	2016
Land improvements	**$ 771,906**	$ 771,906
Leasehold improvements	**2,274,554**	2,275,773
Buildings and improvements	**4,771,955**	4,656,884
Equipment	**8,331,601**	9,973,407
Vehicles	**306,931**	255,672
Rental properties	**735,396**	735,396
	17,192,343	18,669,038
Less accumulated depreciation	**12,950,624**	14,178,165
	4,241,719	4,490,873
Land	**1,926,474**	1,926,474
Net property and equipment	**$ 6,168,193**	$ 6,417,347

8. Line of Credit:

Bethany has a revolving line of credit with Wells Fargo, maturing January 10, 2019, with available funds of $5,000,000. The borrowings under the line of credit bear interest at a variable rate. At December 31, 2017 and 2016, there was no outstanding balance on the line of credit. This line of credit is secured by Bethany's investments held by Wells Fargo and cannot be withdrawn at the option of the financial institution.

9. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Employee emergency funds	**$ -**	$ (339)
Resident council	**307**	336
Program activities	**12,284**	20,242
Acquisition of property and equipment	**18,400**	98,574
	$ 30,991	$ 118,813

10. Net Resident Service Revenue:

Bethany recognizes resident service revenue associated with services provided to residents who have third-party payor coverage on the basis of contractual rates for services rendered. For uninsured residents, Bethany 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 Bethany's uninsured residents will be unable or unwilling to pay for the services provided. Thus, Bethany records a significant provision for bad debts related to uninsured residents in the period the services are provided. Bethany's provisions for bad debts and writeoffs have not changed significantly from the prior year. Resident service revenue, net of contractual allowances and discounts (but before provision for bad debts), recognized in the period from these major payor sources is as follows:

	2017	**2016**
Resident service revenue (net of contractual allowances and discounts):		
Medicare	**$ 3,062,616**	$ 2,473,579
Medicaid	**13,599,278**	12,806,724
Other third-party payors	**4,891,739**	6,550,694
Self-pay	**2,834,483**	2,815,728
	24,388,116	24,646,725
Less provision for bad debts	**219,240**	327,216
Net resident service revenue	**$ 24,168,876**	$ 24,319,509

Bethany has agreements with third-party payors that provide for payments to Bethany at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net resident revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered.

A significant amount of revenue is derived from contracts with the Washington State Department of Social and Health Services to provide skilled nursing and assisted living/congregate care in the Medical Recipient program. The nursing homes are certified to provide Medicare (Title 18) services to residents. The primary geographic source of patients includes Snohomish County and surrounding communities in the northern Puget Sound region.

The nursing homes are subject to cost reimbursement audits and reviews under both the Medicaid and Medicare programs, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, typically upon notification from the contracting agency.

10. Net Resident Service Revenue (continued):

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

11. Retirement Plans:

Bethany sponsors a defined contribution retirement plan (the Plan) under Section 403(b) of the Internal Revenue Code. The Plan allows for employee contributions to a retirement account and provides for discretionary employer contributions. All employees are eligible to participate in the Plan. Employer contributions for the years ended December 31, 2017 and 2016, were approximately $68,000 and $37,000, respectively.

Prior to January 2018, Bethany maintained a nonqualified deferred compensation plan covered under section 457(f) of the Internal Revenue Code. The plan covered employees designated by the Board of Trustees with amounts accrued annually by Bethany. The amounts accrued under the 457(f) plan were legal assets (nontrust) of Bethany and subject to its creditors. At December 31, 2017 and 2016, Bethany had accrued $100,938 and $504,438, respectively, of participant benefits, which are included in accrued expenses in the consolidated statements of financial position. The 457(f) was terminated and all funds were distributed in January 2018.

12. Functional Expenses:

The costs of providing various program services and other activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received. Expenses are allocated functionally as follows:

		2017		**2016**
Program activities	**$**	**19,994,361**	$	19,370,329
General and administrative		**3,290,625**		3,187,923
Fundraising		**266,820**		258,492
	$	**23,551,806**	$	22,816,744

13. Commitments and Contingencies:

Noncancelable operating leases – Bethany leases its Pacific nursing home facilities and administrative offices from Providence General Medical Center (the Landlord). The lease, as extended, expires in July 2019. The lease provides for monthly rental payments of $20,435. Net lease expense for each of the years ended December 31, 2017 and 2016, was $239,532. Lease payments are reduced based on annual depreciation of the occupied portions of the Landlord's assets plus 2 percent of the prior year's net book value as allowed by the Washington State Department of Social and Health Services. If net income from operations at Pacific exceeds 1.5 percent of adjusted gross revenue, lease payments are increased by 50 percent of the excess. Bethany has not recorded the effect of these lease adjustments as they do not believe any amounts owed would have a material impact on the consolidated financial statements.

13. Commitments and Contingencies (continued):

The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining terms in excess of one year:

Years Ending December 31,	Amount
2018	$ 245,220
2019	122,610
	$ 367,830

Medical malpractice claims – Bethany has its professional liability insurance coverage with Columbia Casualty Company. The policy provides coverage on an occurrence basis. All claims filed are covered by the plan that is in place at the time of the incident. If there are unreported incidents which result in a malpractice claim for the current year, these claims will be covered by Bethany's policy that was in place at the time of the incident, not the policy in place at the time the claim is filed.

Columbia Casualty Company malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $3,000,000 per location. The policy has no deductible per claim or in the aggregate. Bethany also maintains excess liability coverage with limits of $10,000,000 per claim and $20,000,000 aggregate.

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

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

14. Risk Concentrations:

Resident accounts receivable – Bethany provides skilled nursing and assisted living services at its three locations in Everett, Washington. Resident accounts receivable from the government agencies administering the Medicaid program and other third-party payors represent the only concentrated group of credit risk for Bethany and management does not believe that there are significant credit risks associated with these organizations. Medicare and private pay resident receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to Bethany.

14. Risk Concentrations (continued):

Significant concentration of resident accounts receivable was as follows:

	2017	2016
Medicare	**17 %**	17 %
Medicaid	**42**	40
Other third-party payors	**30**	31
Residents	**11**	12
	100 %	100 %

Cash and cash equivalents – Bethany invests its excess cash in deposits with a local bank. At various times during the year and at year end, Bethany had deposits in excess of Federal Deposit Insurance Corporation coverage.

15. Subsequent Events:

The two rental properties owned by Bethany are currently unoccupied. Bethany is in the process of having them demolished.

SUPPLEMENTARY INFORMATION

Bethany of the Northwest
and Subsidiaries
Statement of Financial Position by Department
December 31, 2017 (With Comparative Totals for 2016)

ASSETS	**Pacific**	**Silver Crest**	**Silver Lake**	**Rentals**	**Eliminations**	**2017 Consolidated Total**	**2016 Consolidated Total**
Current assets							
Cash and cash equivalents	$ 2,252,165	$ 379,087	$ 666,634	$ -	$ -	$ 3,297,886	$ 4,823,250
Receivables:							
Resident accounts, less allowances							
for uncollectible accounts	1,085,691	34,974	1,020,077	-	-	2,140,742	2,533,989
Due from Everett Transitional Care Services	361,196	-	-	-	-	361,196	379,361
Due from related parties	1,821,019	-	7,959,936	64,757	(9,845,712)	-	-
Investments	1,143,168	-	-	-	-	1,143,168	5,683,132
Other current assets	83,785	62,512	173,604	888	-	320,789	281,417
Total current assets	6,747,024	476,573	9,820,251	65,645	(9,845,712)	7,263,781	13,701,149
Noncurrent assets							
Investments limited as to use	19,962,079	-	-	-	-	19,962,079	10,625,250
Investment in Everett Transitional Care Services	1,208,738	-	-	-	-	1,208,738	1,248,271
Property and equipment, net	1,619,395	1,710,160	2,308,113	530,525	-	6,168,193	6,417,347
Total noncurrent assets	22,790,212	1,710,160	2,308,113	530,525	-	27,339,010	18,290,868
Total assets	**$ 29,537,236**	**$ 2,186,733**	**$ 12,128,364**	**$ 596,170**	**$ (9,845,712)**	**$ 34,602,791**	**$ 31,992,017**
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable	$ 319,867	$ 18,109	$ 364,321	$ -	$ -	$ 702,297	$ 469,376
Accrued compensation and related liabilities	1,068,543	41,637	499,831	-	-	1,610,011	2,026,797
Due to related parties	7,530,340	2,315,372	-	-	(9,845,712)	-	-
Total current liabilities	8,918,750	2,375,118	864,152	-	(9,845,712)	2,312,308	2,496,173
Net assets							
Unrestricted net assets	20,592,448	(188,385)	11,259,259	596,170	-	32,259,492	29,377,031
Temporarily restricted net assets	26,038	-	4,953	-	-	30,991	118,813
Total net assets	20,618,486	(188,385)	11,264,212	596,170	-	32,290,483	29,495,844
Total liabilities and net assets	**$ 29,537,236**	**$ 2,186,733**	**$ 12,128,364**	**$ 596,170**	**$ (9,845,712)**	**$ 34,602,791**	**$ 31,992,017**

See accompanying independent auditors’ report.

Bethany of the Northwest
and Subsidiaries
Statement of Operations and Changes in Net Assets by Department
Year Ended December 31, 2017 (With Comparative Totals for 2016)

	Pacific	Silver Crest	Silver Lake	Rentals	Foundation	Eliminations	2017 Consolidated Total	2016 Consolidated Total
Unrestricted revenue								
Resident revenue (net of contractual allowances and discounts)	$ 11,517,756	$ 1,462,866	$ 11,407,494	$ -	$ -	$ -	$ 24,388,116	$ 24,646,725
Provision for bad debts	(183,999)	(1,615)	(33,626)	-	-	-	(219,240)	(327,216)
Net resident revenue less provision for bad debts	11,333,757	1,461,251	11,373,868	-	-	-	24,168,876	24,319,509
Investment income	1,692,935	-	932	-	32,460	-	1,726,327	992,858
Other revenue	21,518	3,256	294,110	31,549	-	(265,338)	85,095	65,848
Total unrestricted revenue	13,048,210	1,464,507	11,668,910	31,549	32,460	(265,338)	25,980,298	25,378,215
Net assets released from restriction	-	-	-	-	61,683	-	61,683	4,188
Operating expenses								
Salaries and wages	6,691,500	748,098	6,308,013	5,206	135,884	-	13,888,701	13,429,743
Payroll taxes	701,634	77,523	629,747	-	8,488	-	1,417,392	1,297,917
Employee benefits	463,833	45,308	434,881	-	5,141	-	949,163	997,477
Supplies	1,018,020	280,045	1,132,238	91	380	(265,338)	2,165,436	2,285,757
Purchased services	1,087,386	26,697	790,196	-	8,697	-	1,912,976	1,790,826
Depreciation	292,577	150,107	174,897	7,595	253	-	625,429	607,089
Insurance	69,328	16,897	62,713	1,798	-	-	150,736	143,288
Repairs and maintenance	25,420	5,139	72,871	43	-	-	103,473	65,012
Utilities	127,743	79,686	252,449	413	-	-	460,291	468,225
Rent expense	278,562	5,970	43,036	-	-	-	327,568	318,041
Minor equipment	183,788	17,647	177,413	-	-	-	378,848	256,789
Taxes	49,962	8,363	735,853	5,587	65	-	799,830	807,036
Donations	-	-	-	-	637,551	(592,694)	44,857	36,992
Other	96,733	16,125	119,788	3,216	91,244	-	327,106	312,552
Total operating expenses	11,086,486	1,477,605	10,934,095	23,949	887,703	(858,032)	23,551,806	22,816,744
Operating income (loss)	1,961,724	(13,098)	734,815	7,600	(793,560)	592,694	2,490,175	2,565,659
Nonoperating revenues (expenses)								
Grants and contributions	95,162	307,358	191,174	-	137,616	(592,694)	138,616	154,697
Gain on investment in Everett Transitional Care Services	110,467	-	-	-	-	-	110,467	176,410
Gain (loss) on property disposal	169,573	(63)	(135,783)	-	(557)	-	33,170	(11,103)
Total nonoperating revenues (expenses), net	375,202	307,295	55,391	-	137,059	(592,694)	282,253	320,004
Net assets released from restriction related to capital acquisitions	-	-	-	-	110,033	-	110,033	171,575
Excess of unrestricted revenues over expenses before gain (loss) on debt forgiveness	2,336,926	294,197	790,206	7,600	(546,468)	-	2,882,461	3,057,238
Gain (loss) on debt forgiveness	(1,047,745)	-	-	-	1,047,745	-	-	-
Change in unrestricted net assets	1,289,181	294,197	790,206	7,600	501,277	-	2,882,461	3,057,238
Change in temporarily restricted net assets								
Grants and contributions	100	-	100	-	83,694	-	83,894	124,185
Net assets released from restriction	-	-	-	-	(171,716)	-	(171,716)	(175,763)
Change in temporarily restricted net assets	100	-	100	-	(88,022)	-	(87,822)	(51,578)
Change in net assets before tranfer of net assets	1,289,281	294,197	790,306	7,600	413,255	-	2,794,639	3,005,660
Transfer of net assets	26,038	-	4,953	-	(30,991)	-	-	-
Change in net assets	1,315,319	294,197	795,259	7,600	382,264	-	2,794,639	3,005,660
Net assets, beginning of year	19,303,167	(482,582)	10,468,953	588,570	(382,264)	-	29,495,844	26,490,184
Net assets, end of year	**$ 20,618,486**	**$ (188,385)**	**$ 11,264,212**	**$ 596,170**	**$ -**	**$ -**	**$ 32,290,483**	**$ 29,495,844**

See accompanying independent auditors' report.

Bethany of the Northwest and Subsidiaries

Consolidated Financial Statements and
Independent Auditors' Report

December 31, 2018 and 2017

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Bethany of the Northwest and Subsidiaries
Table of Contents

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Bethany of the Northwest and Subsidiaries
Everett, Washington

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bethany of the Northwest and Subsidiaries (a nonprofit healthcare entity), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bethany of the Northwest and Subsidiaries as of December 31, 2018 and 2017, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, Bethany of the Northwest and Subsidiaries adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities* (Topic 958)*: Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The statement of financial position by department and statement of operations and changes in net assets by department on pages 27 and 28, respectively, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 24, 2019

Bethany of the Northwest and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

ASSETS		**2018**		**2017**
Current assets				
Cash and cash equivalents	**$**	**2,749,939**	$	3,297,886
Receivables:				
Resident accounts		**2,253,125**		2,140,742
Due from Everett Transitional Care Services		**396,014**		361,196
Investments		**1,097,771**		1,143,168
Other current assets		**238,590**		320,789
Total current assets		**6,735,439**		7,263,781
Noncurrent assets				
Investments limited as to use		**19,460,318**		19,962,079
Investment in Everett Transitional Care Services		**981,902**		1,208,738
Property and equipment, net		**6,688,682**		6,168,193
Total noncurrent assets		**27,130,902**		27,339,010
Total assets	**$**	**33,866,341**	$	34,602,791
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**697,586**	$	702,297
Accrued compensation and related liabilities		**1,669,693**		1,610,011
Total current liabilities		**2,367,279**		2,312,308
Net assets				
Net assets without donor restrictions		**31,451,530**		32,259,492
Net assets with donor restrictions		**47,532**		30,991
Total net assets		**31,499,062**		32,290,483
Total liabilities and net assets	**$**	**33,866,341**	$	34,602,791

See accompanying notes to consolidated financial statements.

Bethany of the Northwest and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2018 and 2017

	2018	2017
Revenue, gains, and other support without donor restrictions		
Resident revenue (net of contractual allowances and discounts)	**$ 26,295,404**	$ 24,390,716
Provision for bad debts	**(232,187)**	(219,240)
Net resident revenue, less provision for bad debts	**26,063,217**	24,171,476
Investment income (loss)	**(546,146)**	1,726,327
Other revenue	**84,595**	82,495
Total revenue, gains, and other support without donor restrictions	**25,601,666**	25,980,298
Net assets released from restriction	**5,790**	61,683
Operating expenses		
Salaries and wages	**14,860,313**	13,794,893
Payroll taxes	**1,514,263**	1,464,110
Employee benefits	**1,128,334**	974,821
Supplies	**2,433,209**	2,165,436
Purchased services	**2,650,785**	1,934,092
Depreciation	**689,907**	625,429
Insurance	**153,034**	150,736
Repairs and maintenance	**79,480**	103,473
Utilities	**473,342**	460,291
Rent expense	**360,072**	327,568
Minor equipment	**458,382**	386,851
Taxes and licenses	**843,953**	799,830
Donations	**-**	44,857
Other	**372,064**	319,419
Total operating expenses	**26,017,138**	23,551,806
Operating income (loss)	**(409,682)**	2,490,175
Nonoperating revenues (expenses)		
Grants and contributions	**6,652**	138,616
Gain (loss) from investment in Everett Transitional Care Services	**(226,836)**	110,467
Gain (loss) on property disposal	**(178,096)**	33,170
Total nonoperating revenues (expenses), net	**(398,280)**	282,253
Net assets released from restriction related to capital acquisitions	**-**	110,033
Change in net assets without donor restrictions	**(807,962)**	2,882,461
Change in net assets with donor restrictions		
Grants and contributions	**22,331**	83,894
Net assets released from restriction	**(5,790)**	(171,716)
Change in net assets with donor restrictions	**16,541**	(87,822)
Change in net assets	**(791,421)**	2,794,639
Net assets, beginning of year	**32,290,483**	29,495,844
Net assets, end of year	**$ 31,499,062**	$ 32,290,483

See accompanying notes to consolidated financial statements.

Bethany of the Northwest and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from and on behalf of residents	**$ 25,950,834**	$ 24,564,723
Cash received from investments	**454,514**	467,344
Cash received from contributions	**28,983**	222,510
Cash received from other revenue	**84,595**	82,495
Cash paid to or on behalf of employees	**(17,443,228)**	(16,650,610)
Cash paid for other expenses	**(7,781,651)**	(6,480,839)
Net cash provided by operating activities	**1,294,047**	2,205,623
Cash flows from investing activities		
Acquisition of property and equipment	**(1,388,492)**	(598,091)
Disposal of property and equipment	**-**	254,986
Purchase of investments	**(4,878,502)**	(9,464,140)
Sales of investments	**4,425,000**	5,926,258
Member distributions received from Everett Transitional Care Services	**-**	150,000
Net cash used in investing activities	**(1,841,994)**	(3,730,987)
Net decrease in cash and cash equivalents	**(547,947)**	(1,525,364)
Cash and cash equivalents, beginning of year	**3,297,886**	4,823,250
Cash and cash equivalents, end of year	**$ 2,749,939**	$ 3,297,886

See accompanying notes to consolidated financial statements.

Bethany of the Northwest and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	**$ (791,421)**	$ 2,794,639
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	**689,907**	625,429
Provision for bad debts	**232,187**	219,240
Loss (gain) on disposal of property and equipment	**178,096**	(33,170)
Loss (gain) on investments	**1,000,660**	(1,258,983)
Loss (gain) on investment in Everett Transitional Care Services	**226,836**	(110,467)
(Increase) decrease in assets:		
Resident receivables	**(344,570)**	174,007
Due from Everett Transitional Care Services	**(34,818)**	18,165
Other current assets	**82,199**	(39,372)
Increase (decrease) in liabilities:		
Accounts payable	**(4,711)**	232,921
Accrued compensation and related liabilities	**59,682**	(416,786)
Net cash provided by operating activities	**$ 1,294,047**	$ 2,205,623

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies:

a. Organization:

Bethany of the Northwest (Bethany) provides living accommodations and support services for the elderly in Everett, Washington. Revenues for these services are primarily generated from Medicare, Medicaid, managed care providers, and directly from patients and tenants. Bethany is exempt under Section 501(c)(3) of the Internal Revenue Code from federal income taxes except for unrelated business income.

Bethany was formed to provide skilled nursing and assisted living services, as well as to own and operate the following facilities:

Bethany at Pacific (Pacific) – A 111-bed nursing and rehabilitative facility owned and operated by Bethany of the Northwest.

Bethany at Silver Crest (Silver Crest) – A 57-bed assisted living facility owned and operated by Bethany of the Northwest.

Bethany at Silver Lake (Silver Lake) – A 120-bed nursing and rehabilitative facility owned and operated by Bethany of the Northwest.

Bethany of the Northwest Foundation (the Foundation) was formed to assist in long-term fundraising projects to provide additional resources to Bethany of the Northwest. Bethany of the Northwest has substantial influence over the Foundation through common board membership and the requirement that many of the Foundation's actions must be approved by Bethany of the Northwest.

In November 2017, the Foundation ceased operations, at which time all of the Foundation’s assets were transferred to Bethany. The transfer of the Foundation’s assets to Bethany also included the extinguishment of the outstanding respective due to and due from balance. As of and for the year ended December 31, 2017, a loss on debt forgiveness of $1,047,745 is included in Pacific’s statement of operations and changes in net assets, and an offsetting gain on debt forgiveness of $1,047,745 is included in the Foundation’s statement of operations and changes in net assets.

Bethany owns two rental properties (Rentals) in Everett, Washington, which were rented to unrelated third parties. The buildings were demolished in 2018, at which time the remaining land value was transferred from the Rentals’ statement of financial position to Pacific. The transfer of the Rentals’ assets to Pacific also included the extinguishment of the outstanding respective due to and due from balance, which consisted primarily of rent payments collected by Pacific on behalf of the Rentals. As of and for the year ended December 31, 2018, a gain on debt forgiveness of $411,143 is included in the Pacific’s statement of operations and changes in net assets, and an offsetting loss on debt forgiveness of $411,143 is included in the Rentals’ statement of operations and changes in net assets.

Principles of consolidation – The consolidated financial statements reflect the consolidated operations of Bethany and the Foundation. All significant intercompany transactions and balances have been eliminated.

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

b. Summary of Significant Accounting Policies:

Basis of presentation – Financial statements presentation follows the recommendations of the Financial Accounting Standards Board (FASB). Bethany is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

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

Income tax status – Bethany and the Foundation are exempt from federal income tax. Accordingly, no provision for income tax is necessary. Bethany and the Foundation evaluate uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2018 and 2017, Bethany and the Foundation had no uncertain tax positions requiring accrual.

Cash and cash equivalents – Cash and cash equivalents are short-term, highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

Resident trust accounts – Bethany maintains resident trust bank accounts for its residents as required by the Washington State Department of Social and Health Services. The balance of these accounts was $18,354 and $20,308 at December 31, 2018 and 2017, respectively. Interest is credited to individual resident accounts as earned. Resident trust accounts are included with cash and cash equivalents in the consolidated statements of financial position.

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Bethany classified its investments as of December 31, 2018 and 2017, based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are defined as follows:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Bethany did not have any Level 3 investments in the years ended December 31, 2018 and 2017.

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

b. Summary of Significant Accounting Policies (continued):

Investments limited as to use – Investments limited as to use consist of investments and are assets set aside by Bethany's Board of Trustees (Board) for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

Property and equipment – It is Bethany's policy to capitalize buildings, improvements, and equipment over $1,000; lesser amounts are expensed. Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset. Depreciation expense includes the amortization of capital lease obligations. Depreciation is computed using the straight-line method over the following estimated useful service lives:

Land improvements	10 to 25 years
Leasehold improvements	5 to 30 years
Buildings and improvements	7 to 30 years
Equipment	3 to 40 years
Vehicles	5 to 10 years

Gifts of long-lived assets such as land, buildings, or equipment are reported at fair value as of the date of the gift and as unrestricted contributions, but are excluded from the excess of revenues over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or assets that must be used to acquire long-lived assets are reported as restricted contributions.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Net assets with donor restrictions – Net assets with donor restrictions are those whose use by Bethany has been limited by donors to a specific period of time or purpose.

Investments and investment income **–** Investments in equity securities having a readily determinable fair value and all debt securities are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on investments, interest, and dividends) is included in the changes in unrestricted net assets as operating revenue.

Performance indicator – The consolidated statements of operations and changes in net assets include a performance indicator as required by U.S. generally accepted accounting principles. Changes in net assets which are excluded from operations, consistent with industry practice, include restricted grants and contributions and the releases of restrictions for capital items.

Nonoperating versus operating **–** For the purpose of the consolidated statements of operations and changes in net assets, Bethany considers unrestricted grants and contributions, net assets released from restriction, gains from investments in other entities, and gains or losses from property disposal to be nonoperating activities.

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

b. Summary of Significant Accounting Policies (continued):

Functional expense allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications – Certain items included in the accompanying 2017 financial statements have been reclassified to conform to the 2018 presentation, with no effect on the previously reported change in net assets.

Subsequent events – Subsequent events have been reviewed through April 24, 2019, the date on which the consolidated financial statements were available to be issued.

Change in accounting principle **–** The FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit principles, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by Bethany, including required disclosures about the liquidity and availability of resources. The standard impacts the presentation of net assets and to enhance disclosures related to liquidity and availability. This standard is effective for Bethany's year ended December 31, 2018, and was applied on a retrospective basis.

Upcoming accounting pronouncements – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for Bethany's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. Bethany has not yet determined which application method it will use. Bethany does not expect that this standard will have a significant impact on Bethany's main revenue stream; however, management is still assessing the actual impact.

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

b. Summary of Significant Accounting Policies (continued):

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statements of operations and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The reporting of lease-related expenses in the statements of operations and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for Bethany's year ending December 31, 2020, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the financial statements as a result of the leases for rented office space and medical equipment being reported as liabilities on the statements of financial position. The effect of applying the new lease guidance on the financial statements will be to increase long-term assets and to increase short-term and long-term lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

2. Liquidity and Availability of Financial Assets:

Bethany's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2018	**2017**
Cash and cash equivalents	**$ 2,749,939**	$ 3,297,886
Resident accounts receivable	**2,253,125**	2,140,742
Due from Everett Transitional Care Services	**396,014**	361,196
Investments	**1,097,771**	1,143,168
Financial assets available to meet cash needs for general expenditures within one year	**$ 6,496,849**	$ 6,942,992

As a part of Bethany's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, Bethany invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, Bethany has a committed line of credit in the amount of $5,000,000 which it could draw upon. This line of credit expired on January 10, 2019, and was not renewed. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

3. Resident Accounts Receivable:

Resident accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of resident accounts receivable, Bethany analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to residents who have third-party coverage, Bethany analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay residents (which include both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), Bethany records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many residents 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 uncollectible accounts.

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

Resident accounts receivable reported as current assets by Bethany consisted of these amounts:

	2018	2017
Receivables from residents and their insurance carriers	**$ 882,054**	$ 948,253
Receivables from Medicare	**462,600**	398,436
Receivables from Medicaid	**1,163,471**	994,053
	2,508,125	2,340,742
Less allowance for uncollectible accounts	**255,000**	200,000
Resident accounts receivable, net	**$ 2,253,125**	$ 2,140,742

4. Investments Limited as to Use:

Bethany's investments limited as to use are stated at fair value and consisted of the following balances and maturities:

	2018				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 6,161,108**	$ 6,161,108	$ -	$ -	$ -
Fixed income:					
Government obligations	**3,324,089**	2,147,288	1,032,194	144,609	-
Mortgage backed securities	**126,393**	-	64,104	-	62,288
Municipal bonds	**60,637**	-	-	60,637	-
Corporate obligations	**3,083,328**	1,550,517	1,007,484	525,326	-
International mutual funds	**211,658**	211,658	-	-	-
Total fixed income	**6,806,105**	3,909,463	2,103,782	730,572	62,288
Equities:					
Consumer discretionary	**402,920**	402,920	-	-	-
Consumer staples	**162,597**	162,597	-	-	-
Energy	**40,117**	40,117	-	-	-
Financials	**445,024**	445,024	-	-	-
Healthcare	**502,188**	502,188	-	-	-
Industrials	**262,779**	262,779	-	-	-
Information technology	**733,385**	733,385	-	-	-
Materials	**82,053**	82,053	-	-	-
Telecommunication services	**52,228**	52,228	-	-	-
International equities	**480,254**	480,254	-	-	-
Domestic mutual funds	**1,149,050**	1,149,050	-	-	-
International mutual funds	**629,517**	629,517	-	-	-
Total equities	**4,942,112**	4,942,112	-	-	-
Other alternative investments	**949,283**	949,283	-	-	-
Real asset funds	**601,710**	530,635	-	-	71,075
Total investments limited as to use	**$ 19,460,318**	$ 16,492,601	$ 2,103,782	$ 730,572	$ 133,363

4. Investments Limited as to Use (continued):

	2017				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 960,296**	$ 960,296	$ -	$ -	$ -
Fixed income:					
Government obligations	**3,875,854**	2,489,460	1,240,162	146,232	-
Mortgage backed securities	**184,982**	-	114,566	-	70,416
Municipal bonds	**131,425**	-	69,686	61,739	-
Corporate obligations	**3,798,775**	1,852,922	1,189,869	755,984	-
International mutual funds	**223,729**	223,729	-	-	-
Total fixed income	**8,214,765**	4,566,111	2,614,283	963,955	70,416
Equities:					
Consumer discretionary	**595,529**	595,529	-	-	-
Consumer staples	**179,898**	179,898	-	-	-
Financials	**919,755**	919,755	-	-	-
Healthcare	**641,435**	641,435	-	-	-
Industrials	**436,171**	436,171	-	-	-
Information technology	**1,049,988**	1,049,988	-	-	-
Materials	**116,931**	116,931	-	-	-
International equities	**910,730**	910,730	-	-	-
Domestic mutual funds	**2,044,392**	2,044,392	-	-	-
International mutual funds	**1,864,114**	1,864,114	-	-	-
Total equities	**8,758,943**	8,758,943	-	-	-
Other alternative investments	**1,060,156**	1,060,156	-	-	-
Real asset funds	**967,919**	880,484	-	-	87,435
Total investments limited as to use	**$ 19,962,079**	$ 16,225,990	$ 2,614,283	$ 963,955	$ 157,851

5. Investments:

Bethany's investments are stated at fair value and consisted of the following balances and maturities:

	2018				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 322,513**	$ 322,513	$ -	$ -	$ -
Fixed income:					
Corporate obligations	**191,026**	19,965	146,002	25,059	-
Domestic mutual funds	**188,553**	188,553	-	-	-
International mutual funds	**39,911**	39,911	-	-	-
Total fixed income	**419,490**	248,429	146,002	25,059	-
Equities:					
Consumer discretionary	**23,272**	23,272	-	-	-
Consumer staples	**6,278**	6,278	-	-	-
Energy	**4,361**	4,361			
Financials	**35,085**	35,085	-	-	-
Healthcare	**32,816**	32,816	-	-	-
Industrials	**16,583**	16,583	-	-	-
Information technology	**53,776**	53,776	-	-	-
Materials	**6,568**	6,568	-	-	-
Telecommunication Services	**6,992**	6,992			
International equities	**23,155**	23,155	-	-	-
Domestic mutual funds	**41,596**	41,596	-	-	-
International mutual funds	**20,092**	20,092	-	-	-
Total equities	**270,574**	270,574	-	-	-
Other alternative investments	**51,902**	51,902	-	-	-
Real asset funds	**33,292**	29,285	-	-	4,007
Total investments	**$ 1,097,771**	$ 922,703	$ 146,002	$ 25,059	$ 4,007

Bethany of the Northwest and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Investments (continued):

	2017				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 42,822**	$ 42,822	$ -	$ -	$ -
Fixed income:					
Government obligations	**39,981**	39,981	-	-	-
Corporate obligations	**205,916**	10,010	144,197	51,709	-
Domestic mutual funds	**124,903**	124,903	-	-	-
International mutual funds	**44,805**	44,805	-	-	-
Total fixed income	**415,605**	219,699	144,197	51,709	-
Equities:					
Consumer discretionary	**43,928**	43,928	-	-	-
Consumer staples	**11,127**	11,127	-	-	-
Financials	**63,549**	63,549	-	-	-
Healthcare	**39,721**	39,721	-	-	-
Industrials	**28,583**	28,583	-	-	-
Information technology	**76,950**	76,950	-	-	-
Materials	**8,352**	8,352	-	-	-
International equities	**57,510**	57,510	-	-	-
Domestic mutual funds	**106,751**	106,751	-	-	-
International mutual funds	**126,652**	126,652	-	-	-
Total equities	**563,123**	563,123	-	-	-
Other alternative investments	**61,191**	61,191	-	-	-
Real asset funds	**60,427**	49,605	-	-	10,822
Total investments	**$ 1,143,168**	$ 936,440	$ 144,197	$ 51,709	$ 10,822

5. Investments (continued):

The following tables disclose, by level within the fair value hierarchy, Bethany's investment assets measured and reported on the consolidated statements of financial position, at fair value on a recurring basis:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market accounts	$ 6,483,621	$ -	$ -	$ 6,483,621
Fixed income:				
Government obligations	-	3,324,089	-	3,324,089
Mortgage backed securities	-	126,393	-	126,393
Municipal bonds	-	60,637	-	60,637
Corporate obligations	-	3,274,354	-	3,274,354
Domestic mutual funds	188,553	-	-	188,553
International mutual funds	251,569	-	-	251,569
Total fixed income	440,122	6,785,473	-	7,225,595
Equities:				
Consumer discretionary	426,192	-	-	426,192
Consumer staples	168,875	-	-	168,875
Energy	44,478	-	-	44,478
Financials	480,109	-	-	480,109
Healthcare	535,004	-	-	535,004
Industrials	279,362	-	-	279,362
Information technology	787,161	-	-	787,161
Materials	88,621	-	-	88,621
Telecommunication Services	59,220		-	59,220
International equities	241,572	261,837	-	503,409
Domestic mutual funds	1,190,646	-	-	1,190,646
International mutual funds	649,609	-	-	649,609
Total equities	4,950,849	261,837	-	5,212,686
Other alternative investments	1,001,185	-	-	1,001,185
Real asset funds	635,002	-	-	635,002
	$ 13,510,779	**$ 7,047,310**	**$ -**	**$ 20,558,089**
Investments				$ 1,097,771
Investments limited as to use				19,460,318
Total investments				**$ 20,558,089**

5. Investments (continued):

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market accounts	$ 1,003,118	$ -	$ -	$ 1,003,118
Fixed income:				
Government obligations	-	3,915,835	-	3,915,835
Mortgage backed securities	-	184,982	-	184,982
Municipal bonds	-	131,425	-	131,425
Corporate obligations	-	4,004,691	-	4,004,691
Domestic mutual funds	124,903	-	-	124,903
International mutual funds	268,534	-	-	268,534
Total fixed income	393,437	8,236,933	-	8,630,370
Equities:				
Consumer discretionary	639,457	-	-	639,457
Consumer staples	191,025	-	-	191,025
Financials	983,304	-	-	983,304
Healthcare	681,156	-	-	681,156
Industrials	464,754	-	-	464,754
Information technology	1,126,938	-	-	1,126,938
Materials	125,283	-	-	125,283
International equities	412,029	556,211	-	968,240
Domestic mutual funds	2,151,143	-	-	2,151,143
International mutual funds	1,990,766	-	-	1,990,766
Total equities	8,765,855	556,211	-	9,322,066
Other alternative investments	1,121,347	-	-	1,121,347
Real asset funds	1,028,346	-	-	1,028,346
Total investments	**$ 12,312,103**	**$ 8,793,144**	**$ -**	**$ 21,105,247**
Investments				$ 1,143,168
Investments limited as to use				19,962,079
Total investments				**$ 21,105,247**

6. Investment Income:

Investment income and gains and losses on investments limited as to use, cash equivalents, and other investments consist of the following:

		2018		2017
Interest and dividends	**$**	**454,514**	$	467,344
Realized and unrealized gains (loss) on investments		**(1,000,660)**		1,258,983
	$	**(546,146)**	$	1,726,327

The unrealized loss on Bethany's investments in equities and fixed income funds were primarily a result of recent market decreases consistent with the cyclical nature of the financial markets. Bethany has a diversified portfolio.

7. Investment in Everett Transitional Care Services:

On December 28, 1994, Bethany entered into a joint venture with Providence General Medical Center to form Everett Transitional Care Services (ETCS), with Bethany having a 50 percent ownership interest. The investment is recorded using the equity method of accounting. Bethany's share of the results of operations of ETCS is included in the consolidated statements of operations and changes in net assets as a loss or gain from investment in ETCS; $226,836 and $110,467 was recognized as a loss and gain on investment, respectively, for the years ended December 31, 2018 and 2017, respectively. Bethany's balance in ETCS is included in the consolidated statements of financial position and was $981,902 and $1,208,738 at December 31, 2018 and 2017, respectively. Bethany is reimbursed by ETCS for services provided to the joint venture, which is recorded as a receivable from ETCS of $396,014 and $361,196 at December 31, 2018 and 2017, respectively.

ETCS maintained the following balances:

		2018		2017
Total assets	**$**	**2,539,491**	$	2,890,830
Liabilities	**$**	**583,565**	$	481,576
Equity		**1,955,926**		2,409,254
Total liabilities and equity	**$**	**2,539,491**	$	2,890,830
Net resident service revenue	**$**	**5,770,346**	$	6,084,731
Expenses		**(6,223,674)**		(5,863,834)
Net income (loss)	**$**	**(453,328)**	$	220,897

Effective March 14, 2019, ETCS terminated operations.

8. Property and Equipment:

Property and equipment consisted of the following:

	2018	2017
Land improvements	**$ 771,906**	$ 771,906
Leasehold improvements	**2,283,545**	2,274,554
Buildings and improvements	**4,944,172**	4,771,955
Equipment	**8,577,204**	8,331,601
Vehicles	**387,949**	306,931
Rental properties	**-**	735,396
	16,964,776	17,192,343
Less accumulated depreciation	**(13,246,654)**	(12,950,624)
	3,718,122	4,241,719
Land	**2,278,474**	1,926,474
Construction in progress	**692,086**	-
Property and equipment, net	**$ 6,688,682**	$ 6,168,193

Construction is progress at December 31, 2018, consisted of cost incurred for the expansion of Bethany's Silver Lake campus. Bethany is expected to incur additional costs of approximately $4,423,000 to complete the expansion, which is expected to be completed in December 2019.

The remaining cost to complete is expected to be financed through $5,000,000 in tax-exempt bonds from the United Stated Department of Housing and Urban Development, which have not been formally obtained as of the report date.

9. Line of Credit:

Bethany had a revolving line of credit with Wells Fargo, which matured on January 10, 2019, with available funds of $5,000,000. The borrowings under the line of credit bear interest at a variable rate. At December 31, 2018 and 2017, there was no outstanding balance on the line of credit. This line of credit was secured by Bethany's investments held by Wells Fargo. This line of credit was not renewed upon its maturity.

10. Board-Designated Net Assets:

At December 31, 2018, Bethany's governing board has designated, from net assets without donor restrictions of $31,451,530, $19,460,318 for future capital expansion and improvements.

At December 31, 2017, Bethany's governing board has designated, from net assets without donor restrictions of $32,259,492, $19,962,079 for future capital expansion and improvements.

11. Net Assets with Donor Restrictions:

Net assets with donor restrictions are available for the following purposes:

	2018	2017
Resident council	**$ -**	$ 307
Program activities	**10,260**	12,284
Acquisition of property and equipment	**19,800**	18,400
Scholarship fund	**17,472**	-
	$ 47,532	$ 30,991

12. Net Resident Service Revenue:

Bethany recognizes resident service revenue associated with services provided to residents who have third-party payor coverage on the basis of contractual rates for services rendered. For uninsured residents, Bethany 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 Bethany’s uninsured residents will be unable or unwilling to pay for the services provided. Thus, Bethany records a provision for bad debts related to uninsured residents in the period the services are provided. Bethany’s provisions for bad debts and writeoffs have not changed significantly from the prior year. Resident service revenue, net of contractual allowances and discounts (but before provision for bad debts), recognized in the period from these major payor sources is as follows:

	2018	2017
Resident service revenue (net of contractual allowances and discounts):		
Medicare	**$ 4,070,889**	$ 3,062,616
Medicaid	**14,767,579**	13,599,278
Other third-party payors	**4,929,628**	4,895,524
Self-pay	**2,527,308**	2,833,298
	26,295,404	24,390,716
Less provision for bad debts	**232,187**	219,240
Net resident service revenue	**$ 26,063,217**	$ 24,171,476

Bethany has agreements with third-party payors that provide for payments to Bethany at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net resident revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered.

12. Net Resident Service Revenue (continued):

A significant amount of revenue is derived from contracts with the Washington State Department of Social and Health Services to provide skilled nursing and assisted living/congregate care in the Medical Recipient program. The nursing homes are certified to provide Medicare (Title 18) services to residents. The primary geographic source of patients includes Snohomish County and surrounding communities in the northern Puget Sound region.

The nursing homes are subject to cost reimbursement audits and reviews under both the Medicaid and Medicare programs, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, typically upon notification from the contracting agency.

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

13. Retirement Plans:

Bethany sponsors a defined contribution retirement plan (the Plan) under Section 403(b) of the Internal Revenue Code (IRC). The Plan allows for employee contributions to a retirement account and provides for discretionary employer contributions. All employees are eligible to participate in the Plan. Employer contributions for the years ended December 31, 2018 and 2017, were approximately $71,000 and $68,000, respectively.

Prior to January 2018, Bethany maintained a nonqualified deferred compensation plan covered under Section 457(f) of the IRC. The plan covered employees designated by the Board of Trustees with amounts accrued annually by Bethany. The amounts accrued under the 457(f) plan were legal assets (nontrust) of Bethany and subject to its creditors. At December 31, 2017, Bethany had accrued $100,938 of participant benefits, which are included in accrued expenses in the consolidated statements of financial position. The 457(f) was terminated and all funds were distributed in January 2018.

14. Functional Expenses:

The costs of providing various program services and other activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received. Expenses are allocated functionally as follows:

2018

		Supporting Services		
	Total Program Services Expense	**Management and General**	**Fundraising**	**Total Expenses**
Salaries and wages	**$ 13,061,259**	$ 1,799,054	$ -	**$ 14,860,313**
Payroll taxes	**1,341,087**	173,176	-	**1,514,263**
Employee benefits	**915,033**	213,301	-	**1,128,334**
Supplies	**2,369,463**	63,746	-	**2,433,209**
Purchased services	**2,331,437**	319,348	-	**2,650,785**
Depreciation	**585,731**	104,176	-	**689,907**
Insurance	**84,665**	68,369	-	**153,034**
Repairs and maintenance	**67,477**	12,003	-	**79,480**
Utilities	**401,867**	71,475	-	**473,342**
Rent expense	**242,693**	117,379	-	**360,072**
Minor equipment	**35,539**	422,843	-	**458,382**
Taxes	**744,983**	98,970	-	**843,953**
Other	**84,771**	287,293	-	**372,064**
Total expenses	**$ 22,266,005**	**$ 3,751,133**	**$ -**	**$ 26,017,138**

14. Functional Expenses (continued):

2017

		Supporting Services		
	Total Program Services Expense	**Management and General**	**Fundraising**	**Total Expenses**
Salaries and wages	**$ 12,154,431**	$ 1,517,120	$ 123,342	**$ 13,794,893**
Payroll taxes	**1,298,758**	155,722	9,630	**1,464,110**
Employee benefits	**772,806**	195,943	6,072	**974,821**
Supplies	**2,104,612**	59,167	1,657	**2,165,436**
Purchased services	**1,798,869**	108,979	26,244	**1,934,092**
Depreciation	**530,988**	87,374	7,067	**625,429**
Insurance	**84,668**	65,584	484	**150,736**
Repairs and maintenance	**87,914**	14,396	1,163	**103,473**
Utilities	**390,787**	64,303	5,201	**460,291**
Rent expense	**260,126**	64,735	2,707	**327,568**
Minor equipment	**27,265**	351,493	8,093	**386,851**
Taxes	**449,142**	350,560	128	**799,830**
Donations	-	-	44,857	**44,857**
Other	**33,995**	255,249	30,175	**319,419**
Total expenses	**$ 19,994,361**	**$ 3,290,625**	**$ 266,820**	**$ 23,551,806**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include maintenance and housekeeping, depreciation, liability insurance, building insurance, repairs and maintenance, utilities, building rent, and real estate taxes, which are allocated on a square-footage basis.

15. Commitments and Contingencies:

Noncancellable operating leases – The following is a summary of estimated future minimum building leases under noncancellable operating leases that expire in various years through April 2023:

Years Ending December 31,		Amount
2019	$	201,710
2020		73,924
2021		76,142
2022		78,426
2023		26,398
	$	**456,600**

Medical malpractice claims – Bethany has its professional liability insurance coverage with Columbia Casualty Company. The policy provides coverage on an occurrence basis. All claims filed are covered by the plan that is in place at the time of the incident. If there are unreported incidents which result in a malpractice claim for the current year, these claims will be covered by Bethany's policy that was in place at the time of the incident, not the policy in place at the time the claim is filed.

Columbia Casualty Company malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $3,000,000 per location. The policy has no deductible per claim or in the aggregate. Bethany also maintains excess liability coverage with limits of $10,000,000 per claim and $20,000,000 aggregate.

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

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

16. Risk Concentrations:

Resident accounts receivable – Bethany provides skilled nursing and assisted living services at its three locations in Everett, Washington. Resident accounts receivable from the government agencies administering the Medicaid program and other third-party payors represent the only concentrated group of credit risk for Bethany and management does not believe that there are significant credit risks associated with these organizations. Medicare and private pay resident receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to Bethany.

Significant concentration of resident accounts receivable was as follows:

	2018	**2017**
Medicare	**19 %**	17 %
Medicaid	**46**	42
Other third-party payors	**25**	30
Residents	**10**	11
	100 %	100 %

Cash and cash equivalents – Bethany invests its excess cash in deposits with a local bank. At various times during the year and at year end, Bethany had deposits in excess of Federal Deposit Insurance Corporation coverage.

SUPPLEMENTARY INFORMATION

Bethany of the Northwest and Subsidiaries
Statement of Financial Position by Department
December 31, 2018 (With Comparative Totals for 2017)

ASSETS	Pacific	Silver Crest	Silver Lake	Home Office	Rentals	Eliminations	2018 Consolidated Total	2017 Consolidated Total
Current assets								
Cash and cash equivalents	$ 2,091,466	$ 202,817	$ 455,656	$ -	$ -	$ -	$ 2,749,939	$ 3,297,886
Receivables:								
Resident accounts	1,039,183	82,539	1,131,403	-	-	-	2,253,125	2,140,742
Due from Everett Transitional Care Services	396,014	-	-	-	-	-	396,014	361,196
Due from related parties	1,821,019	-	8,258,453	-	-	(10,079,472)	-	-
Investments	1,097,771	-	-	-	-	-	1,097,771	1,143,168
Other current assets	91,660	11,184	121,494	14,252	-	-	238,590	320,789
Total current assets	6,537,113	296,540	9,967,006	14,252	-	(10,079,472)	6,735,439	7,263,781
Noncurrent assets								
Investments limited as to use	19,460,318	-	-	-	-	-	19,460,318	19,962,079
Investment in Everett Transitional Care Services	981,902	-	-	-	-	-	981,902	1,208,738
Property and equipment, net	2,456,839	1,789,200	2,402,524	40,119	-	-	6,688,682	6,168,193
Total noncurrent assets	22,899,059	1,789,200	2,402,524	40,119	-	-	27,130,902	27,339,010
Total assets	**$ 29,436,172**	**$ 2,085,740**	**$ 12,369,530**	**$ 54,371**	**$ -**	**$ (10,079,472)**	**$ 33,866,341**	**$ 34,602,791**
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	$ 329,651	$ 10,546	$ 357,389	$ -	$ -	$ -	$ 697,586	$ 702,297
Accrued compensation and related liabilities	1,184,762	63,154	421,777	-	-	-	1,669,693	1,610,011
Due to related parties	7,405,171	2,619,930	-	54,371	-	(10,079,472)	-	-
Total current liabilities	8,919,584	2,693,630	779,166	54,371	-	(10,079,472)	2,367,279	2,312,308
Net assets								
Net assets without donor restrictions	20,471,333	(607,890)	11,588,087	-	-	-	31,451,530	32,259,492
Net assets with donor restrictions	45,255	-	2,277	-	-	-	47,532	30,991
Total net assets	20,516,588	(607,890)	11,590,364	-	-	-	31,499,062	32,290,483
Total liabilities and net assets	**$ 29,436,172**	**$ 2,085,740**	**$ 12,369,530**	**$ 54,371**	**$ -**	**$ (10,079,472)**	**$ 33,866,341**	**$ 34,602,791**

See accompanying independent auditors' report.

Bethany of the Northwest and Subsidiaries
Statement of Operations and Changes in Net Assets by Department
Year Ended December 31, 2018 (With Comparative Totals for 2017)

	Pacific	Silver Crest	Silver Lake	Rentals	Eliminations	2018 Consolidated Total	2017 Consolidated Total
Revenue, gains, and other support without donor restrictions							
Resident revenue (net of contractual allowances and discounts)	$ 12,375,510	$ 1,465,784	$ 12,454,110	$ -	$ -	$ 26,295,404	$ 24,390,716
Provision for bad debts	(136,669)	-	(95,518)	-	-	(232,187)	(219,240)
Net resident revenue, less provision for bad debts	12,238,841	1,465,784	12,358,592	-	-	26,063,217	24,171,476
Investment income (loss)	(546,150)	-	4	-	-	(546,146)	1,726,327
Other revenue	19,945	756	312,573	-	(248,679)	84,595	82,495
Total revenue, gains, and other support without donor restrictions	11,712,636	1,466,540	12,671,169	-	(248,679)	25,601,666	25,980,298
Net assets released from restriction	1,848	-	3,942	-	-	5,790	61,683
Operating expenses							
Salaries and wages	6,809,373	1,037,764	7,013,176	-	-	14,860,313	13,794,893
Payroll taxes	679,516	121,822	712,925	-	-	1,514,263	1,464,110
Employee benefits	549,228	58,353	520,753	-	-	1,128,334	974,821
Supplies	1,152,678	274,847	1,254,363	-	(248,679)	2,433,209	2,165,436
Purchased services	1,566,818	37,237	1,046,730	-	-	2,650,785	1,934,092
Depreciation	312,913	176,931	196,925	3,138	-	689,907	625,429
Insurance	75,450	14,667	62,029	888	-	153,034	150,736
Repairs and maintenance	21,912	7,127	49,593	848	-	79,480	103,473
Utilities	127,625	82,259	262,360	1,098	-	473,342	460,291
Rent expense	304,033	10,738	45,301	-	-	360,072	327,568
Minor equipment	214,846	29,411	214,125	-	-	458,382	386,851
Taxes	45,785	8,218	786,539	3,411	-	843,953	799,830
Donations	-	-	-	-	-	-	44,857
Other	166,381	26,671	178,756	256	-	372,064	319,419
Total operating expenses	12,026,558	1,886,045	12,343,575	9,639	(248,679)	26,017,138	23,551,806
Operating income (loss)	(312,074)	(419,505)	331,536	(9,639)	-	(409,682)	2,490,175
Nonoperating revenues (expenses)							
Grants and contributions	6,652	-	-	-		6,652	138,616
Gain (loss) on investment in Everett Transitional Care Services	(226,836)	-	-	-	-	(226,836)	110,467
Gain (loss) on property disposal	-	-	(2,708)	(175,388)	-	(178,096)	33,170
Total nonoperating revenues (expenses), net	(220,184)	-	(2,708)	(175,388)	-	(398,280)	282,253
Net assets released from restriction related to capital acquisitions	-	-	-	-	-	-	110,033
Excess of revenues without donor restrictions over expenses before gain (loss) on debt forgiveness	(532,258)	(419,505)	328,828	(185,027)	-	(807,962)	2,882,461
Gain (loss) on debt forgiveness	411,143	-	-	(411,143)	-	-	-
Change in net assets without donor restrictions	(121,115)	(419,505)	328,828	(596,170)	-	(807,962)	2,882,461
Change in net assets with donor restrictions							
Grants and contributions	21,065	-	1,266	-	-	22,331	83,894
Net assets released from restriction	(1,848)	-	(3,942)	-	-	(5,790)	(171,716)
Change in net assets with donor restrictions	19,217	-	(2,676)	-	-	16,541	(87,822)
Change in net assets	(101,898)	(419,505)	326,152	(596,170)	-	(791,421)	2,794,639
Net assets, beginning of year	20,618,486	(188,385)	11,264,212	596,170	-	32,290,483	29,495,844
Net assets, end of year	**$ 20,516,588**	**$ (607,890)**	**$ 11,590,364**	**$ -**	**$ -**	**$ 31,499,062**	**$ 32,290,483**

See accompanying independent auditors' report.

Bethany of the Northwest

Financial Statements and
Independent Auditors' Report

December 31, 2019 and 2018

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Bethany of the Northwest
Table of Contents

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Bethany of the Northwest
Everett, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Bethany of the Northwest (a nonprofit healthcare entity)(Bethany), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethany of the Northwest as of December 31, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, Bethany of the Northwest adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 17. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of financial position by department and statement of operations and changes in net assets by department on pages 28 and 29 respectively, are presented for purposes of additional analysis and 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 20, 2020

Bethany of the Northwest
Statements of Financial Position
December 31, 2019 and 2018

ASSETS		**2019**		**2018**
Current assets				
Cash and cash equivalents	**$**	**3,043,150**	$	2,749,939
Receivables:				
Resident accounts		**2,569,826**		2,253,125
Due from Everett Transitional Care Services		**47,459**		396,014
Investments		**250,050**		1,097,771
Other current assets		**470,077**		238,590
Total current assets		**6,380,562**		6,735,439
Noncurrent assets				
Cash and cash equivalents restricted by bond for capital acquisitions		**2,620,968**		-
Investments limited as to use		**18,512,119**		19,460,318
Investment in Everett Transitional Care Services		**510,908**		981,902
Property and equipment, net		**11,320,435**		6,688,682
Total noncurrent assets		**32,964,430**		27,130,902
Total assets	**$**	**39,344,992**	$	33,866,341
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**158,791**	$	697,586
Accrued compensation and related liabilities		**1,215,015**		1,669,693
Current maturities of long-term debt		**31,505**		-
Total current liabilities		**1,405,311**		2,367,279
Noncurrent liabilities				
Construction accounts payable		**808,026**		-
Long-term debt, less current maturities		**4,768,495**		-
Total noncurrent liabilities		**5,576,521**		-
Net assets				
Net assets without donor restrictions		**32,304,038**		31,451,530
Net assets with donor restrictions		**59,122**		47,532
Total net assets		**32,363,160**		31,499,062
Total liabilities and net assets	**$**	**39,344,992**	$	33,866,341

See accompanying notes to financial statements.

Bethany of the Northwest
Statements of Operations and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Revenue, gains, and other support without donor restrictions		
Resident care service revenue	**$ 27,748,766**	$ 26,063,217
Other revenue	**162,211**	84,595
Total revenue and other support without donor restrictions	**27,910,977**	26,147,812
Net assets released from restriction	**13,852**	5,790
Operating expenses		
Salaries and wages	**16,605,943**	14,860,313
Payroll taxes	**1,449,070**	1,512,961
Employee benefits	**1,239,296**	1,129,636
Supplies	**2,676,235**	2,433,209
Purchased services	**2,874,312**	3,006,173
Depreciation	**720,378**	689,907
Insurance	**168,927**	153,034
Repairs and maintenance	**74,095**	79,480
Utilities	**498,840**	473,342
Rent expense	**451,231**	360,072
Minor equipment	**177,766**	102,994
Taxes and licenses	**860,445**	843,953
Other	**442,371**	372,064
Total operating expenses	**28,238,909**	26,017,138
Operating income (loss)	**(314,080)**	136,464
Nonoperating revenues (expenses)		
Investment return, net	**1,627,166**	(546,146)
Grants and contributions	**29,480**	6,652
Loss on investment in Everett Transitional Care Services	**(470,994)**	(226,836)
Loss on property disposal	**(19,064)**	(178,096)
Total nonoperating expenses, net	**1,166,588**	(944,426)
Excess of revenues over expenses (expenses over revenues)	**852,508**	(807,962)
Change in net assets without donor restrictions	**852,508**	(807,962)
Change in net assets with donor restrictions		
Grants and contributions	**25,442**	22,331
Net assets released from restriction	**(13,852)**	(5,790)
Change in net assets with donor restrictions	**11,590**	16,541
Change in net assets	**864,098**	(791,421)
Net assets, beginning of year	**31,499,062**	32,290,483
Net assets, end of year	**$ 32,363,160**	$ 31,499,062

See accompanying notes to financial statements.

Bethany of the Northwest
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

		2019		2018
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from and on behalf of residents	**$**	**27,432,065**	$	25,950,834
Cash received from investments		**372,681**		390,402
Cash received from contributions		**54,922**		28,983
Cash received from other revenue		**162,211**		84,595
Cash paid to or on behalf of employees		**(19,748,987)**		(17,443,228)
Cash paid for other expenses		**(8,645,949)**		(7,781,651)
Net cash provided by (used in) operating activities		**(373,057)**		1,229,935
Cash flows from financing activities				
Proceeds from the issuance of long-term debt		**4,800,000**		-
Cash flows from investing activities				
Acquisition of property and equipment		**(4,563,169)**		(1,388,492)
Purchase of investments		**(621,253)**		(4,814,390)
Sale of investments		**3,671,658**		4,425,000
Net cash used in investing activities		**(1,512,764)**		(1,777,882)
Net increase (decrease) in cash and cash equivalents		**2,914,179**		(547,947)
Cash and cash equivalents, beginning of year		**2,749,939**		3,297,886
Cash and cash equivalents, end of year	**$**	**5,664,118**	$	2,749,939

See accompanying notes to financial statements.

Bethany of the Northwest
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

		2019		2018
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position				
Cash and cash equivalents	**$**	**3,043,150**	$	2,749,939
Cash and cash equivalents restricted by bond for capital acquisitions		**2,620,968**		-
Total cash and cash equivalents	**$**	**5,664,118**	$	2,749,939
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities				
Change in net assets	**$**	**864,098**	$	(791,421)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities				
Depreciation		**720,378**		689,907
Loss on property disposal		**19,064**		178,096
Unrealized gain (loss) on investments		**(1,254,485)**		936,548
Loss on investment in Everett Transitional Care Services		**470,994**		226,836
Increase (decrease) in assets:				
Resident receivables		**(316,701)**		(112,383)
Due from Everett Transitional Care Services		**348,555**		(34,818)
Other current assets		**(231,487)**		82,199
Increase (decrease) in liabilities:				
Accounts payable		**(538,795)**		(4,711)
Accrued compensation and related liabilities		**(454,678)**		59,682
Net cash provided by (used in) operating activities	**$**	**(373,057)**	$	1,229,935

See accompanying notes to financial statements.

Bethany of the Northwest
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies:

a. Organization:

Bethany of the Northwest (Bethany) provides living accommodations and support services for the elderly in Everett, Washington. Revenues for these services are primarily generated from Medicare, Medicaid, managed care providers, and directly from residents. Bethany is exempt under Section 501(c)(3) of the Internal Revenue Code from federal income taxes except for unrelated business income.

Bethany was formed to provide skilled nursing and assisted living services, as well as to own and operate the following facilities:

- Bethany at Pacific (Pacific) – A 111-bed nursing and rehabilitative facility owned and operated by Bethany of the Northwest.
- Bethany at Silver Crest (Silver Crest) – A 57-bed assisted living facility owned and operated by Bethany of the Northwest.
- Bethany at Silver Lake (Silver Lake) – A 120-bed nursing and rehabilitative facility owned and operated by Bethany of the Northwest.

Bethany owns rental properties (Rentals) in Everett, Washington, which are rented to unrelated third parties.

b. Summary of Significant Accounting Policies:

Basis of presentation – Financial statements presentation follows the recommendations of the Financial Accounting Standards Board (FASB). Bethany is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

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

Income tax status – Bethany is exempt from federal income tax. Accordingly, no provision for income tax is necessary. Bethany evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2019 and 2018, Bethany had no uncertain tax positions requiring accrual.

Cash and cash equivalents – Cash and cash equivalents are short-term, highly liquid investments with an original maturity of three months or less. Cash and cash equivalents within an investment portfolio are included with investments on the statements of financial position.

Resident trust accounts – Bethany maintains resident trust bank accounts for its residents as required by the Washington State Department of Social and Health Services. The balance of these accounts was $18,984 and $18,355 at December 31, 2019 and 2018, respectively. Interest is credited to individual resident accounts as earned. Resident trust accounts are included with cash and cash equivalents in the statements of financial position.

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

b. Summary of Significant Accounting Policies (continued):

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Bethany classified its investments as of December 31, 2019 and 2018, based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are defined as follows:

- **Level 1 –** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2 –** Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
- **Level 3 –** Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Bethany did not have any Level 3 investments in the years ended December 31, 2019 and 2018.

Assets limited as to use – Assets limited as to use consist of investments and are assets set aside by Bethany's Board of Trustees (Board) for future capital improvements and bond payments over which the Board retains control and may at its discretion subsequently use for other purposes.

Property and equipment – It is Bethany's policy to capitalize buildings, improvements, and equipment over $1,000; lesser amounts are expensed. Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset. Depreciation expense includes the amortization of capital lease obligations. Depreciation is computed using the straight-line method over the following estimated useful service lives:

Land improvements	10 to 25 years
Leasehold improvements	5 to 30 years
Buildings and improvements	7 to 30 years
Equipment	3 to 40 years
Vehicles	5 to 10 years
Rental properties	8 to 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported at fair value as of the date of the gift and as unrestricted contributions but are excluded from the excess of revenues over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or assets that must be used to acquire long-lived assets are reported as restricted contributions.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

1. **Organization and Summary of Significant Accounting Policies (continued):**

   b. **Summary of Significant Accounting Policies (continued):**

Net assets with donor restrictions – Net assets with donor restrictions are those whose use by Bethany has been limited by donors to a specific period of time or purpose.

***Investments and investment return* –** Investments are classified as other than trading securities. Investments in equity securities having a readily determinable fair value and all debt securities are measured at fair value in the statements of financial position. Investment return (including realized gains and losses on investments, unrealized gains and losses on equity securities, interest, dividends, and expenses) is included in the change in net assets without donor restrictions as nonoperating revenue.

Performance indicator – The statements of operations and changes in net assets include a performance indicator as required by U.S. generally accepted accounting principles. Changes in net assets which are excluded from the performance indicator, consistent with industry practice, include restricted grants and contributions, unrealized gains and losses on other than trading debt securities, and the releases of restrictions for capital items.

Nonoperating versus operating – For the purpose of the statements of operations and changes in net assets, Bethany considers unrestricted grants and contributions, net assets released from restriction, gains or losses from investments in other entities, gains or losses from property disposal, and net investment return to be nonoperating activities.

Functional expense allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications – Certain items included in the accompanying 2018 financial statements have been reclassified to conform to the 2019 presentation, with no effect on the previously reported change in net assets.

Subsequent events – Subsequent events have been reviewed through May 20, 2020, the date on which the financial statements were available to be issued.

***Change in accounting principle* –** The FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

Bethany implemented ASU No. 2014-09 in 2019, using the full retrospective method. The standards did not have any significant impact on revenue or contribution recognition in the current or prior years.

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

b. Summary of Significant Accounting Policies (continued):

Upcoming accounting pronouncement – In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statements of operations and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The reporting of lease-related expenses in the statements of operations and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for Bethany's year ending December 31, 2021, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the financial statements as a result of the leases for rented office space and medical equipment being reported as liabilities on the statements of financial position. The effect of applying the new lease guidance on the financial statements will be to increase long-term assets and to increase short-term and long-term lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

2. Liquidity and Availability of Financial Assets:

Bethany's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	2019	2018
Cash and cash equivalents	**$ 3,043,150**	$ 2,749,939
Receivables:		
Resident accounts	**2,569,826**	2,253,125
Due from Everett Transitional Care Services	**47,459**	396,014
Investments	**250,050**	1,097,771
	5,910,485	6,496,849
Less net assets with donor restrictions	**(59,122)**	(47,532)
Financial assets available to meet cash needs for general expenditures within one year	**$ 5,851,363**	$ 6,449,317

As a part of Bethany's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, Bethany invests cash in excess of daily requirements in short-term investments. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

3. Resident Accounts Receivable:

Resident accounts receivable reported as current assets by Bethany consisted of these amounts:

	2019	2018
Receivables from residents and their insurance carriers	**$ 857,324**	$ 627,054
Receivables from Medicare	**751,283**	462,600
Receivables from Medicaid	**961,219**	1,163,471
Resident accounts receivable	**$ 2,569,826**	**$ 2,253,125**

4. Investments Limited as to Use:

Bethany's investments limited as to use are stated at fair value and consisted of the following balances and maturities:

	2019				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 7,722,363**	$ 7,722,363	$ -	$ -	$ -
Fixed income:					
Government obligations	**3,778,104**	705,880	2,540,026	532,198	-
Mortgage backed securities	**65,644**	-	65,008	-	636
Municipal bonds	**63,228**	-	63,228	-	-
Corporate obligations	**2,638,024**	190,681	2,056,511	390,832	-
International mutual funds	**226,018**	226,018	-	-	-
Total fixed income	**6,771,018**	1,122,579	4,724,773	923,030	636
Equities:					
Consumer discretionary	**247,593**	247,593	-	-	-
Consumer staples	**109,562**	109,562	-	-	-
Energy	**20,521**	20,521	-	-	-
Financials	**230,252**	230,252	-	-	-
Healthcare	**246,351**	246,351	-	-	-
Industrials	**166,040**	166,040	-	-	-
Information technology	**517,547**	517,547	-	-	-
Materials	**39,398**	39,398	-	-	-
Telecommunication services	**37,321**	37,321	-	-	-
International equities	**322,918**	322,918	-	-	-
Domestic mutual funds	**527,640**	527,640	-	-	-
International mutual funds	**331,708**	331,708	-	-	-
Total equities	**2,796,851**	2,796,851	-	-	-
Other alternative investments	**614,258**	614,258	-	-	-
Real asset funds	**607,629**	607,629	-	-	-
Total investments limited as to use	**$ 18,512,119**	$ 12,863,680	$ 4,724,773	$ 923,030	$ 636

4. Investments Limited as to Use (continued):

	2018				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 6,161,108**	$ 6,161,108	$ -	$ -	$ -
Fixed income:					
Government obligations	**3,324,089**	2,147,288	1,032,194	144,609	-
Mortgage backed securities	**126,393**	-	64,104	-	62,288
Municipal bonds	**60,637**	-	-	60,637	-
Corporate obligations	**3,083,328**	1,550,517	1,007,484	525,326	-
International mutual funds	**211,658**	211,658	-	-	-
Total fixed income	**6,806,105**	3,909,463	2,103,782	730,572	62,288
Equities:					
Consumer discretionary	**402,920**	402,920	-	-	-
Consumer staples	**162,597**	162,597	-	-	-
Energy	**40,117**	40,117	-	-	-
Financials	**445,024**	445,024	-	-	-
Healthcare	**502,188**	502,188	-	-	-
Industrials	**262,779**	262,779	-	-	-
Information technology	**733,385**	733,385	-	-	-
Materials	**82,053**	82,053	-	-	-
Telecommunication services	**52,228**	52,228	-	-	-
International equities	**480,254**	480,254	-	-	-
Domestic mutual funds	**1,149,050**	1,149,050	-	-	-
International mutual funds	**629,517**	629,517	-	-	-
Total equities	**4,942,112**	4,942,112	-	-	-
Other alternative investments	**949,283**	949,283	-	-	-
Real asset funds	**601,710**	530,635	-	-	71,075
Total investments limited as to use	**$ 19,460,318**	$ 16,492,601	$ 2,103,782	$ 730,572	$ 133,363

5. Investments:

Bethany's investments are stated at fair value and consisted of the following balances and maturities:

	2019				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Certificates of deposit	**$ 250,050**	$ 250,050	$ -	$ -	$ -

5. Investments (continued):

	2018				
		Investment Maturities (in Years)			
	Fair Value	**Less than One**	**One to Five**	**Five to Ten**	**Over Ten**
Cash and money market accounts	**$ 322,513**	$ 322,513	$ -	$ -	$ -
Fixed income:					
Corporate obligations	**191,026**	19,965	146,002	25,059	-
Domestic mutual funds	**188,553**	188,553	-	-	-
International mutual funds	**39,911**	39,911	-	-	-
Total fixed income	**419,490**	248,429	146,002	25,059	-
Equities:					
Consumer discretionary	**23,272**	23,272	-	-	-
Consumer staples	**6,278**	6,278	-	-	-
Energy	**4,361**	4,361			
Financials	**35,085**	35,085	-	-	-
Healthcare	**32,816**	32,816	-	-	-
Industrials	**16,583**	16,583	-	-	-
Information technology	**53,776**	53,776	-	-	-
Materials	**6,568**	6,568	-	-	-
Telecommunication Services	**6,992**	6,992			
International equities	**23,155**	23,155	-	-	-
Domestic mutual funds	**41,596**	41,596	-	-	-
International mutual funds	**20,092**	20,092	-	-	-
Total equities	**270,574**	270,574	-	-	-
Other alternative investments	**51,902**	51,902	-	-	-
Real asset funds	**33,292**	29,285	-	-	4,007
Total investments	**$ 1,097,771**	$ 922,703	$ 146,002	$ 25,059	$ 4,007

Bethany of the Northwest
Notes to Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

5. Investments (continued):

The following tables disclose, by level within the fair value hierarchy, Bethany's investment assets measured and reported on the statements of financial position, at fair value on a recurring basis:

	2019			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	$ 7,722,363	$ -	$ -	$ 7,722,363
Certificates of deposit	$ -	$ 250,050	$ -	$ 250,050
Fixed income:				
Government obligations	-	3,778,104	-	3,778,104
Mortgage backed securities	-	65,644	-	65,644
Municipal bonds	-	63,228	-	63,228
Corporate obligations	-	2,638,024	-	2,638,024
International mutual funds	226,018	-	-	226,018
Total fixed income	226,018	6,545,000	-	6,771,018
Equities:				
Consumer discretionary	247,593	-	-	247,593
Consumer staples	109,562	-	-	109,562
Energy	20,521	-	-	20,521
Financials	230,252	-	-	230,252
Healthcare	246,351	-	-	246,351
Industrials	166,040	-	-	166,040
Information technology	517,547	-	-	517,547
Materials	39,398	-	-	39,398
Telecommunication Services	37,321	-	-	37,321
International equities	98,177	224,741	-	322,918
Domestic mutual funds	527,640	-	-	527,640
International mutual funds	331,708	-	-	331,708
Total equities	2,572,110	224,741	-	2,796,851
Other alternative investments	614,258	-	-	614,258
Real asset funds	607,629	-	-	607,629
	$ 11,742,378	**$ 7,019,791**	**$ -**	**$ 18,762,169**
Investments				$ 250,050
Investments limited as to use				18,512,119
Total investments				**$ 18,762,169**

5. Investments (continued):

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market accounts	$ 6,483,621	$ -	$ -	$ 6,483,621
Fixed income:				
Government obligations	-	3,324,089	-	3,324,089
Mortgage backed securities	-	126,393	-	126,393
Municipal bonds	-	60,637	-	60,637
Corporate obligations	-	3,274,354	-	3,274,354
Domestic mutual funds	188,553	-	-	188,553
International mutual funds	251,569	-	-	251,569
Total fixed income	440,122	6,785,473	-	7,225,595
Equities:				
Consumer discretionary	426,192	-	-	426,192
Consumer staples	168,875	-	-	168,875
Energy	44,478	-	-	44,478
Financials	480,109	-	-	480,109
Healthcare	535,004	-	-	535,004
Industrials	279,362	-	-	279,362
Information technology	787,161	-	-	787,161
Materials	88,621	-	-	88,621
Telecommunication	59,220	-	-	59,220
International equities	241,572	261,837	-	503,409
Domestic mutual funds	1,190,646	-	-	1,190,646
International mutual funds	649,609	-	-	649,609
Total equities	4,950,849	261,837	-	5,212,686
Other alternative investments	1,001,185	-	-	1,001,185
Real asset funds	635,002	-	-	635,002
Total investments	**$ 13,510,779**	**$ 7,047,310**	**$ -**	**$ 20,558,089**
Investments				$ 1,097,771
Investments limited as to use				19,460,318
Total investments				**$ 20,558,089**

6. Investment Return:

Investment income and gains and losses on investments limited as to use, cash equivalents, and other investments consist of the following:

		2019		2018
Interest and dividends	**$**	**448,319**	$	454,514
Realized loss		**(75,638)**		(64,112)
Unrealized gain (loss) on equity securities		**1,254,485**		(936,548)
Investment return, net	**$**	**1,627,166**	$	(546,146)

The unrealized gain on Bethany's investments in equities and fixed income funds for the year ended December 31, 2019, were primarily a result of recent market increases consistent with the cyclical nature of the financial markets. Bethany has a diversified portfolio.

Bethany has material investments in equity securities and has a material decline in the fair value of their investments in equity securities subsequent to the statement of financial position date.

7. Investment in Everett Transitional Care Services:

On December 28, 1994, Bethany entered into a joint venture with Providence Regional Medical Center – Everett to form Everett Transitional Care Services (ETCS), with Bethany having a 50 percent ownership interest. The investment is recorded using the equity method of accounting. Bethany's share of the results of operations of ETCS is included in the statements of operations and changes in net assets as a loss or gain from investment in ETCS; $470,994 and $226,836 was recognized as losses on investment, respectively, for the years ended December 31, 2019 and 2018, respectively. Bethany's balance in ETCS is included in the statements of financial position and was $510,908 and $981,902 at December 31, 2019 and 2018, respectively. Bethany is reimbursed by ETCS for services provided to the joint venture, which is recorded as a receivable from ETCS of $47,459 and $396,014 at December 31, 2019 and 2018, respectively.

7. Investment in Everett Transitional Care Services (continued):

ETCS maintained the following balances:

	2019	2018
Total assets	**$ 1,061,054**	$ 2,539,491
Liabilities	**$ 47,459**	$ 583,565
Equity	**1,013,595**	1,955,926
Total liabilities and equity	**$ 1,061,054**	$ 2,539,491
Resident service revenue	**$ 777,481**	$ 5,770,346
Expenses	**(1,719,468)**	(6,223,674)
Net loss	**$ (941,987)**	$ (453,328)

Effective March 14, 2019, ETCS terminated operations with plans to reopen in 2020. ETCS continued to incur expenses during 2019 in preparation for its reopening. In March 2020, Bethany and Providence Regional Medical Center – Everett entered into an updated joint venture agreement. Bethany still maintains a 50 percent ownership interest; however, any losses suffered by ETCS are subsidized in full by Providence Regional Medical Center – Everett.

8. Property and Equipment:

Property and equipment consisted of the following:

	2019	2018
Land improvements	**$ 771,906**	$ 771,906
Leasehold improvements	**2,303,481**	2,283,545
Buildings and improvements	**5,072,510**	4,944,172
Equipment	**8,554,274**	8,577,204
Vehicles	**387,949**	387,949
Rental properties, including land of $445,900	**2,095,198**	-
	19,185,318	16,964,776
Less accumulated depreciation	**(13,703,787)**	(13,246,654)
	5,481,531	3,718,122
Land	**2,616,974**	2,278,474
Construction in progress	**3,221,930**	692,086
Property and equipment, net	**$ 11,320,435**	$ 6,688,682

8. Property and Equipment (continued):

Construction in progress at December 31, 2019, consisted of cost incurred for the expansion of Bethany's Silver Lake campus, which is expected to be completed in July 2020. Bethany is expected to incur additional costs of approximately $3,300,000 to complete the expansion, which will be financed through bond proceeds, as well as Board-designated funds.

9. Long-term Debt:

Long-term debt consisted of the following:

	2019	2018
Loan agreement with Wells Fargo Bank, National Association, secured by Washington State Housing Finance Commission Nonprofit Housing Revenue Bond, Series 2019; dated August 29, 2019; payable monthly beginning October 2020 in fixed payments of approximately $24,000 including interest at 3.24 percent through September 2029, at which time the payment amount will be adjusted to reflect current market interest rates through August 2049; secured by a deed of trust on the Silver Lake building.	$ 4,800,000	$ -
Less current maturities	(31,505)	-
Long-term debt	$ 4,768,495	$ -

Future maturities of long-term debt through 2049 are:

Years ending December 31,	Principal Payments
2020	$ 31,505
2021	127,070
2022	131,308
2023	135,588
2024	139,911
Thereafter	4,234,618
	$ 4,800,000

Bethany is required to maintain the following financial covenants:

- A debt service coverage ratio of at least 1.25 to 1.00.
- Days cash on hand of at least 120 days.

10. Board-Designated Net Assets:

At December 31, 2019, Bethany's governing board has designated, from net assets without donor restrictions of $32,304,038, $9,180,840 reserve to ensure compliance with long-term debt covenants, and $9,331,279 for future capital expansion and improvements.

At December 31, 2018, Bethany's governing board has designated, from net assets without donor restrictions of $31,451,530, $19,460,318 for future capital expansion and improvements.

11. Net Assets with Donor Restrictions:

Net assets with donor restrictions are available for the following purposes:

		2019		**2018**
Program activities	**$**	**8,990**	$	10,260
Acquisition of property and equipment		**21,530**		19,800
Scholarship fund		**28,602**		17,472
	$	**59,122**	$	47,532

12. Resident Care Service Revenue:

Resident care service revenue is reported at the amount that reflects the consideration to which Bethany expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Bethany bills the residents and third-party payors several days after the services are performed or the resident is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Bethany. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Bethany believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents receiving care services. Bethany measures the performance obligation from admission into its care, or the commencement of a service, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge or completion of services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to residents and customers in a retail setting (for example, pharmaceuticals) and Bethany does not believe it is required to provide additional goods or services related to that sale.

12. Resident Care Service Revenue (continued):

Bethany determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured residents in accordance with the Bethany's policy, and implicit price concessions provided to uninsured residents. Bethany determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Bethany determines its estimate of implicit price concessions based on its historical collection experience with this class of residents.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare and Medicaid*** – Services provided to Medicare and Medicaid beneficiaries are reimbursed on a prospective payment methodology. The nursing homes are subject to cost reimbursement audits and reviews under both the Medicaid and Medicare programs, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, typically upon notification from the contracting agency.

  A significant amount of revenue is derived from contracts with the Washington State Department of Social and Health Services to provide skilled nursing and assisted living/congregate care in the Medical Recipient program. The nursing homes are certified to provide Medicare (Title 18) services to residents. The primary geographic source of residents includes Snohomish County and surrounding communities in the northern Puget Sound region.

- ***Other*** – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Bethany's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Bethany. In addition, the contracts Bethany has with commercial payors also provide for retroactive audit and review of claims.

12. Resident Care Service Revenue (continued):

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Bethany's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount.

Bethany also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Bethany estimates the transaction price for residents with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident care service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

Bethany has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and timing of when revenue is recognized.

The composition of resident care service revenue by primary payor is as follows:

	2019	2018
Medicare	**$ 5,896,763**	$ 4,130,719
Medicaid	**13,937,761**	14,767,579
Other third-party payors	**5,616,343**	4,869,798
Residents	**2,297,899**	2,295,121
	$ 27,748,766	$ 26,063,217

Revenue from residents' deductibles and coinsurance are included in the preceding categories based on the primary payor.

All resident care service revenue is recognized as healthcare services are transferred over time.

13. Retirement Plan:

Bethany sponsors a defined contribution retirement plan (the Plan) under Section 403(b) of the Internal Revenue Code (IRC). The Plan allows for employee contributions to a retirement account and provides for discretionary employer contributions. All employees are eligible to participate in the Plan. Effective October 2019, all new employees are automatically enrolled in the Plan with a 2 percent contribution. Employer contributions for both the years ended December 31, 2019 and 2018, were $125,000.

14. Functional Expenses:

The costs of providing various program services and other activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received. Expenses are allocated functionally as follows:

2019

	Total Program Services Expense	Management and General	Total Expenses
Salaries and wages	$ 14,195,385	$ 2,410,558	$ 16,605,943
Payroll taxes	1,255,517	193,553	1,449,070
Employee benefits	943,601	295,695	1,239,296
Supplies	2,589,536	86,699	2,676,235
Purchased services	2,319,080	555,232	2,874,312
Depreciation	611,601	108,777	720,378
Insurance	84,495	84,432	168,927
Repairs and maintenance	62,908	11,187	74,095
Utilities	423,517	75,323	498,840
Rent expense	262,426	188,805	451,231
Minor equipment	33,476	144,290	177,766
Taxes	749,785	110,660	860,445
Other	86,932	355,439	442,371
Total expenses	$ 23,618,259	$ 4,620,650	$ 28,238,909

14. Functional Expenses (continued):

2018

	Total Program Services Expense	Management and General	Total Expenses
Salaries and wages	**$ 13,061,259**	$ 1,799,054	**$ 14,860,313**
Payroll taxes	**1,339,785**	173,176	**1,512,961**
Employee benefits	**916,335**	213,301	**1,129,636**
Supplies	**2,369,463**	63,746	**2,433,209**
Purchased services	**2,331,437**	674,736	**3,006,173**
Depreciation	**585,731**	104,176	**689,907**
Insurance	**84,665**	68,369	**153,034**
Repairs and maintenance	**67,477**	12,003	**79,480**
Utilities	**401,867**	71,475	**473,342**
Rent expense	**242,693**	117,379	**360,072**
Minor equipment	**35,539**	67,455	**102,994**
Taxes	**744,983**	98,970	**843,953**
Other	**84,771**	287,293	**372,064**
Total expenses	**$ 22,266,005**	**$ 3,751,133**	**$ 26,017,138**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include maintenance and housekeeping, depreciation, building insurance, repairs and maintenance, utilities, building rent, and real estate taxes, which are allocated on a square-footage basis. Liability insurance is allocated based on percentage of premiums by category.

15. Commitments and Contingencies:

Noncancellable operating leases – The following is a summary of estimated future minimum building leases under noncancellable operating leases that expire in various years through April 2023:

Years Ending December 31,	Amount
2020	$ 92,119
2021	94,883
2022	97,729
2023	32,944
	$ 317,675

15. Commitments and Contingencies (continued):

Medical malpractice claims – Bethany has its professional liability insurance coverage with Columbia Casualty Company. The policy provides coverage on an occurrence basis. All claims filed are covered by the plan that is in place at the time of the incident. If there are unreported incidents which result in a malpractice claim for the current year, these claims will be covered by Bethany's policy that was in place at the time of the incident, not the policy in place at the time the claim is filed.

Columbia Casualty Company malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $3,000,000 per location. The policy has no deductible per claim or in the aggregate. Bethany also maintains excess liability coverage with limits of $10,000,000 per claim and $10,000,000 aggregate.

16. Risk Concentrations:

Resident accounts receivable – Bethany provides skilled nursing and assisted living services at its three locations in Everett, Washington. Resident accounts receivable from the government agencies administering the Medicaid program and other third-party payors represent the only concentrated group of credit risk for Bethany and management does not believe that there are significant credit risks associated with these organizations. Medicare and private pay resident receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to Bethany.

Significant concentration of resident accounts receivable was as follows:

	2019	**2018**
Medicare	**28 %**	19 %
Medicaid	**35**	46
Other third-party payors	**31**	25
Residents	**6**	10
	100 %	100 %

In addition, for the year ended December 31, 2019, approximately 63% and 87% of Bethany at Silver Lake's admissions and Bethany at Pacific's admissions, respectively, were patients from Providence Regional Medical Center – Everett.

For the year ended December 31, 2018, approximately 59% and 79% of Bethany at Silver Lake's admissions and Bethany at Pacific's admissions, respectively, were patients from Providence Regional Medical Center – Everett.

Cash and cash equivalents – Bethany invests its excess cash in deposits with a local bank. At various times during the year and at year end, Bethany had deposits in excess of Federal Deposit Insurance Corporation coverage.

17. COVID-19:

The novel coronavirus COVID-19 pandemic has created significant operating challenges for the nursing home industry throughout the United states. Elderly people have been particularly negatively impacted by COVID-19, especially those elderly residents of nursing homes.

The first major outbreak of COVID-19 in a nursing home was reported in nearby Kirkland, Washington in late February 2020. Bethany shared a common laboratory vendor with this Kirkland facility. The close proximity of the Kirkland COVID-19 outbreak required an immediate and aggressive response by Bethany. In addition to the response by Bethany, nursing homes in the state of Washington were mandated to close access to their facilities to all visitors and resident families, in an attempt to control the infection rate within nursing homes to safeguard residents.

Bethany implemented strong infection control measures in all its facilities. Among other procedures, all staff are now checked for COVID-19 symptoms at the beginning of each shift. Residents are regularly monitored for COVID-19 symptoms throughout the day, and cared for in their rooms. Common dining for residents has been eliminated and meals are now served in resident rooms. Surfaces within each facility are cleaned and disinfected multiple times daily.

Despite the implementation of enhanced infection control measures, Bethany identified several COVID-19 positive residents in one of its facilities. Each infected resident was a short-term admission that had recently been admitted from a local hospital. Those residents were returned to the hospital. The source of the infection transmission was not able to be traced.

In coordination with the Washington Department of Health and the Snohomish Health District, substantially all staff and residents in the affected facility were tested for COVID-19. One additional resident and several staff were identified as COVID-19 positive by this testing. Bethany has complied with all federal, state, and county reporting requirements with respect to COVID-19.

Bethany has not furloughed any staff since the inception of the COVID-19 pandemic. While the resident census has dropped, staff have been reassigned to perform the infection control procedures and support in-room services to mitigate the spread of COVID-19. These efforts have been largely successful in mitigating the spread of COVID-19 in the Bethany facilities.

COVID-19 raises significant economic uncertainties which may negatively impact Bethany's financial position. Beginning in March 2020, Bethany experienced an approximate 50% decline in skilled nursing admissions and revenues due to the state of Washington temporarily suspending all elective surgeries and other elective procedures, which generate a large portion of Bethany's skilled nursing services. In addition, Bethany has experienced a decline in the number of community admissions into its facilities. Management estimates the average April revenue reduction to be approximately $450,000 to $500,000, when compared with the prior 6-month average monthly revenue. A gradual resumption of elective surgeries and procedures is expected to resume in mid-May 2020.

17. COVID-19 (continued):

In order to help pay for the staff being retained for resident care, Bethany entered into a loan agreement for $3,546,736 in April 2020 as part of the Small Business Administration Paycheck Protection Program, as part of the government response to the pandemic. The loan bears interest at 1 percent and matures in April 2022. The loan has the potential to be forgiven in full or in part based on the amount of certain payroll and other costs incurred in the eight-week period following the date of first disbursement of the loan funds.

In April 2020, Bethany received approximately $492,000 of funding from the CARES Act Provider Relief Fund. Additional distributions from the CARES Act Provider Relief Fund are expected, based on announcements by the United States Department of Health and Human Services.

Medicare sequestration has been suspended from May 1, 2020, through December 31, 2020, which will increase Medicare reimbursement by 2 percent during that period.

State and federal governments are considering additional emergency funding to help the healthcare industry overcome these negative effects. Given the broad need for emergency funding, there are no assurances Bethany will qualify or receive any additional funding.

In addition to accepting funding from the CARES Act Provider Relief Fund, Bethany has unrestricted reserves to cover operating expenses until revenues recover. As of December 31, 2019, Bethany had unrestricted reserves representing 289 days of operating expenses. 120 days of these operating expense reserves, or $9,180,840, is required to be maintained in cash under the Wells Fargo Bank loan covenants and not available for operating purposes. Since December 31, 2020, the value of Bethany's investments has decreased approximately $400,000.

Prior to the outbreak of the COVID-19 pandemic, Bethany committed to several major capital programs designed to permit Bethany to better serve its residents and the community. Bethany is currently expanding its Silver Lake facility. The expansion was financed with a loan from Wells Fargo Bank. In addition to the bank borrowing, Bethany will pay construction costs of approximately $2,500,000 from its cash reserves. Beginning in August 2020, monthly loan repayments of $25,000 will begin. The Silver Crest facility kitchen is being expanded at a cost of approximately $660,000, and necessary 2020 capital expenditures of $1,100,000 are being made using unrestricted reserves.

In 2019, Bethany acquired a building to house a future home health, laboratory, and pharmacy. The required regulatory approvals for these activities are currently in progress. The implementation of home health is designed to improve the continuity of care for Bethany skilled nursing residents after discharge, potentially accelerating discharge and reducing the overall community cost of care. The investment in laboratory and pharmacy facilities is designed to stabilize the future cost of those services and improve patient care. The total cost associated with these expanded activities is estimated to be between $2,600,000 to $2,700,000.

17. COVID-19 (continued):

Staff retention is a key element of effectively serving residents during the COVID-19 pandemic. Several staff have elected to terminate employment as a result of their personal health concerns associated with working in a nursing home. In order to avoid paying employment agency fees for temporary staff, Bethany paid employee staff retention compensation on April 17, 2020. This payment, which totaled approximately $120,000, has allowed Bethany to avoid potentially paying costly employment agency fees. Bethany will pay a second staff retention compensation on May 15, 2020, and, if the need exists and funds are available, a third bonus will be paid in mid-June 2020 to help retain staff. It is estimated the second and third bonuses will cost $130,000 and $150,000, respectively.

Bethany has approximately 169 days of cash expenses on hand ($76,500 per day) after complying with the Wells Fargo Bank loan covenants. The aforementioned capital and operating costs, aggregating $7,160,000, will reduce Bethany's cash on hand to 75 days of operating expenses. Bethany is considered an essential healthcare service. Management considers 75 days of operating expenses held in cash and investments to be necessary in light of the uncertain nursing home operating environment as a result of the COVID-19 pandemic, and the potential uncertainty surrounding the value of its investment due to market uncertainty.

There is concern there may be additional waves of COVID-19 in the future. There is limited COVID-19 testing available, and contact tracing of the virus is currently being organized. Until testing and contact tracing is widely available, and a COVID-19 vaccine is successfully developed, there is no assurance future occurrences of the COVID-19 pandemic, similar to that experienced in March and April of 2020, will not recur. Accordingly, the ultimate effect of the COVID-19 pandemic on Bethany's financial position is unknown at this time.

SUPPLEMENTARY INFORMATION

Bethany of the Northwest
Statement of Financial Position by Department
December 31, 2019 (With Comparative Totals for 2018)

ASSETS	**Pacific**	**Silver Crest**	**Silver Lake**	**Home Office**	**Rentals**	**Eliminations**	**2019 Consolidated Total**	**2018 Consolidated Total**
Current assets								
Cash and cash equivalents	$ 2,868,569	$ 102,174	$ 72,407	$ -	$ -	$ -	$ 3,043,150	$ 2,749,939
Receivables:								
Resident accounts	1,346,915	47,557	1,156,494	-	18,860	-	2,569,826	2,253,125
Due from Everett Transitional Care Services	47,459	-	-	-	-	-	47,459	396,014
Due from related parties	1,821,019	-	7,282,168	-	-	(9,103,187)	-	-
Investments	250,050	-	-	-	-	-	250,050	1,097,771
Other current assets	194,576	21,634	204,367	46,289	3,211	-	470,077	238,590
Total current assets	6,528,588	171,365	8,715,436	46,289	22,071	(9,103,187)	6,380,562	6,735,439
Noncurrent assets								
Cash and cash equivalents restricted by bond for capital acquisitions	-	-	2,620,968	-	-	-	2,620,968	-
Investments limited as to use	18,512,119	-	-	-	-	-	18,512,119	19,460,318
Investment in Everett Transitional Care Services	510,908	-	-	-	-	-	510,908	981,902
Property and equipment, net	1,200,784	1,631,220	6,400,795	44,523	2,043,113	-	11,320,435	6,688,682
Total noncurrent assets	20,223,811	1,631,220	9,021,763	44,523	2,043,113	-	32,964,430	27,130,902
Total assets	**$ 26,752,399**	**$ 1,802,585**	**$ 17,737,199**	**$ 90,812**	**$ 2,065,184**	**$ (9,103,187)**	**$ 39,344,992**	**$ 33,866,341**
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	$ 121,904	$ 1,747	$ 35,140	$ -	$ -	$ -	$ 158,791	$ 697,586
Accrued compensation and related liabilities	690,814	65,358	458,843	-	-	-	1,215,015	1,669,693
Due to related parties	4,160,077	2,766,145	-	90,812	2,086,153	(9,103,187)	-	-
Current maturities of long-term debt	-	-	31,505	-	-	-	31,505	-
Total current liabilities	4,972,795	2,833,250	525,488	90,812	2,086,153	(9,103,187)	1,405,311	2,367,279
Noncurrent liabilities								
Construction accounts payable	-	-	808,026	-	-	-	808,026	-
Long-term debt, less current maturities	-	-	4,768,495	-	-	-	4,768,495	-
Total noncurrent liabilities	-	-	5,576,521	-	-	-	5,576,521	-
Net assets								
Net assets without donor restrictions	21,722,889	(1,030,665)	11,632,783	-	(20,969)	-	32,304,038	31,451,530
Net assets with donor restrictions	56,715	-	2,407	-	-	-	59,122	47,532
Total net assets	21,779,604	(1,030,665)	11,635,190	-	(20,969)	-	32,363,160	31,499,062
Total liabilities and net assets	**$ 26,752,399**	**$ 1,802,585**	**$ 17,737,199**	**$ 90,812**	**$ 2,065,184**	**$ (9,103,187)**	**$ 39,344,992**	**$ 33,866,341**

See accompanying independent auditors' report.

Bethany of the Northwest
Statement of Operations and Changes in Net Assets by Department
Year Ended December 31, 2019 (With Comparative Totals for 2018)

	Pacific	Silver Crest	Silver Lake	Rentals	Eliminations	2019 Consolidated Total	2018 Consolidated Total
Revenue, gains, and other support without donor restrictions							
Resident care service revenue	$ 13,120,181	$ 1,672,066	$ 12,956,519	$ -	$ -	$ 27,748,766	$ 26,063,217
Other revenue	18,605	13,983	326,773	80,706	(277,856)	162,211	84,595
Total revenue, gains, and other support without donor restrictions	13,138,786	1,686,049	13,283,292	80,706	(277,856)	27,910,977	26,147,812
Net assets released from restriction	12,897	-	955	-	-	13,852	5,790
Operating expenses							
Salaries and wages	7,735,712	1,207,675	7,662,556	-	-	16,605,943	14,860,313
Payroll taxes	741,357	100,193	607,520	-	-	1,449,070	1,512,961
Employee benefits	562,068	89,310	587,918	-	-	1,239,296	1,129,636
Supplies	1,300,086	304,270	1,349,735	-	(277,856)	2,676,235	2,433,209
Purchased services	1,552,644	62,922	1,245,519	13,227	-	2,874,312	3,006,173
Depreciation	285,346	166,925	216,022	52,085	-	720,378	689,907
Insurance	83,384	12,575	70,185	2,783	-	168,927	153,034
Repairs and maintenance	12,215	5,807	54,113	1,960	-	74,095	79,480
Utilities	121,276	87,109	282,698	7,757	-	498,840	473,342
Rent expense	357,930	16,892	76,409	-	-	451,231	360,072
Minor equipment	83,766	10,390	79,639	3,971	-	177,766	102,994
Taxes	43,064	9,273	796,300	11,808	-	860,445	843,953
Other	197,540	35,088	201,659	8,084	-	442,371	372,064
Total operating expenses	13,076,388	2,108,429	13,230,273	101,675	(277,856)	28,238,909	26,017,138
Operating income (loss)	75,295	(422,380)	53,974	(20,969)	-	(314,080)	136,464
Nonoperating revenues (expenses)							
Investment return, net	1,627,154	-	12	-	-	1,627,166	(546,146)
Grants and contributions	23,980	-	5,500	-	-	29,480	6,652
Loss on investment in Everett Transitional Care Services	(470,994)	-	-	-	-	(470,994)	(226,836)
Loss on property disposal	(3,879)	(395)	(14,790)	-	-	(19,064)	(178,096)
Total nonoperating expenses, net	1,176,261	(395)	(9,278)	-	-	1,166,588	(944,426)
Excess of revenues over expenses (expenses over revenues)	1,251,556	(422,775)	44,696	(20,969)	-	852,508	(807,962)
Change in net assets without donor restrictions	1,251,556	(422,775)	44,696	(20,969)	-	852,508	(807,962)
Change in net assets with donor restrictions							
Grants and contributions	24,357	-	1,085	-	-	25,442	22,331
Net assets released from restriction	(12,897)	-	(955)	-	-	(13,852)	(5,790)
Change in net assets with donor restrictions	11,460	-	130	-	-	11,590	16,541
Change in net assets	1,263,016	(422,775)	44,826	(20,969)	-	864,098	(791,421)
Net assets, beginning of year	20,516,588	(607,890)	11,590,364	-	-	31,499,062	32,290,483
Net assets, end of year	**$ 21,779,604**	**$ (1,030,665)**	**$ 11,635,190**	**$ (20,969)**	**$ -**	**$ 32,363,160**	**$ 31,499,062**

See accompanying independent auditors' report.