Skagit Regional Health

RECEIVED
By CERTIFICATE OF NEED PROGRAM at 3:58 pm, Aug 02, 2021

July 30, 2021

Hold for 30 days as LOI
Ex: Sept 02, 2021

CN22-04

Eric Hernandez, Program Manager
Certificate of Need Program
111 Israel Road Southeast
Tumwater, WA 98501

Dear Mr. Hernandez:

Enclosed please find a copy of a certificate of need application proposing the establishment of a dedicated outpatient surgery center. The Skagit Regional Health Mount Vernon Surgery Center will be operated under the license of Skagit Valley Hospital. It is subject to prior certificate of need review only because it will be physically remote from, but within 250 yards of the Hospital.

No letter of intent was submitted for this project. I understand that this application will be accepted as the letter of intent and will be held for 30 days before being screened. The appropriate review and processing fee of $20,427 was sent separately to the Certificate of Need Program.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Brian Ivie,
President and Chief Executive Officer

P.O. Box 1376 • Mount Vernon, WA 98273-1376 phone (360) 424-4111 fax (360) 428-2475 web skagitregionalhealth.org

CN22-04

Certificate of Need Application
Ambulatory Surgical Facilities
Ambulatory Surgery Centers

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.

Name, Title, and Signature of Responsible Officer: Brian Ivie, President and Chief Executive Officer	Phone Number: 360-814-5797
Dated: July 30, 2021	Email Address: BIvie@skagitregionalhealth.org
Legal Name of Applicant: Skagit County Public Hospital District No. 1	Number of Operating Rooms requested – include procedure rooms: 8
Address of Applicant: 300 Hospital Parkway Mount Vernon, WA 98274	Estimated Capital Expenditure: $23,367,584

Identify the Planning Area for this project as defined in WAC 246-310-270(3):

East Skagit Secondary Health Services Planning Area

CERTIFICATE OF NEED APPLICATION
FOR
THE ESTABLISHMENT OF
A FIVE OPERATING ROOM/
THREE ENDOSCOPY PROCEDURE ROOM
DEDICATED OUTPATIENT SURGICAL CENTER
AT
SKAGIT VALLEY HOSPTIAL

July 2021

SECTION 1
APPLICANT DESCRIPTION

1. **Provide the legal name(s) and address(es) of the applicant(s)**

The legal name of the applicant is Skagit County Public Hospital District No. 1, dba Skagit Regional Health (SRH). SRH proposes to construct and operate a new five (5) operating room, three (3) endoscopy procedure room dedicated outpatient surgical suite physically remote from, but within 250 yards of Skagit Valley Hospital (SVH). The ORs, which will be operated under the license of SVH, will be known as the Skagit Regional Health Mount Vernon Surgery Center. Throughout this application, the surgical suite space will be referred to as the MVSC.

The mailing address of the MVSC is the same as the Hospital:

300 Hospital Parkway
Mount Vernon, WA 98274

2. **Identify the legal structure of the applicant (LLC, PLLC, etc.) and if known, provide the UBI number.**

SRH is a Public Hospital District. SRH's UBI number is: 297 003 456.

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

Jonathan Lyons
Regional Director of Business Strategy and Operational Efficiency
Skagit Regional Health
300 Hospital Parkway
Mount Vernon, WA 98274
Office: 360-814-5797
JLyons@skagitregionalhealth.org

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

Jody Carona, Principal,
Health Facilities Planning & Development
120 1st Avenue West, Suite 100, Seattle, WA 98119
206-441-0971
healthfac@healthfacilitiesplanning.com

5. **Provide an organizational chart that clearly identifies the business structure of the applicant(s) and the role of the facility in this application.**

The organizational chart is included in Exhibit 1.

SECTION 2
PROJECT DESCRIPTION

1. **Provide the name and address of the existing facility.**

The MVSC does not currently exist. The address of SVH is:

300 Hospital Parkway
Mount Vernon, WA 98273

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

The MVSC will be located on the first floor of a newly constructed Medical Office Building (MOB) contiguous to SVH. The Postal Service has not yet assigned an address. The parcel numbers and location are as follows:

Parcels Numbers:
Lot A: Parcel# 53009
Lot B: Parcel# 53011
Lot C: Parcel# 53012
Lot D: Parcel# 53018
Lot E: Parcel# 53019
Lot F: Parcel# 53020
Lot G: Parcel# 53021
Lot H: Parcel# 53022
Lot I: Parcel# 53023
Lot J: Parcel# 53024
Lot K: Parcel# 53025
Lot L: Parcel# 53026

South 13th Street
Mount Vernon WA 98274

3. **Provide a detailed description of the proposed project.**

SRH proposes to establish a five OR, three procedure room outpatient surgical program that will be operated as an outpatient department of SVH. The purpose of the project is two-fold. First, it will serve to decant the high occupancy currently occurring within SVH's current mixed use operating rooms, thereby improving access and avoiding a much larger, and more disruptive, capital expenditure to increase operating room capacity within the main hospital. Secondly, over time, it will support transition to a lower cost setting for select surgical cases by converting to a state licensed and free-standing Ambulatory Surgery Center (ASC). While the MVSC will currently be operated as an HOPD, the expectation is that over time, it will transition to a dedicated ASC and be operated and licensed separately from SRH. We have been advised by CN Program staff that, if and when the HOPD is converted to an ASC, no additional CN review will be required.

SVH is located in the East Skagit Secondary Health Services Planning Area. According to past CN decisions, this Planning Area generally includes all areas east of I-5 and runs from the Snohomish County line to the Whatcom County line.

The MVSC is expected to become operational January 2024.

4. **With the understanding that the review of a Certificate of Need application typically takes at least 6-9 months, provide an estimated timeline for project implementation, below:**

Event	Anticipated Month/Year
Design Complete	July 2022
Construction Commenced	August 2022
Construction Completed	October 2023
Facility Prepared for Survey	December 2023
Project Completion	December 2023, operational January 2024

5. **Identify the surgical specialties to be offered at this facility by checking the applicable boxes below. Also attach a list of typical procedures included within each category.**

X Ear, Nose, & Throat	☐ Maxillofacial	X Pain Management
X Gastroenterology	☐ Ophthalmology	X Plastic Surgery
X General Surgery	☐ Oral Surgery	X Podiatry
X Gynecology	X Orthopedics	X Urology

Other:

6. **If you checked gastroenterology, above, please clarify whether this includes the full spectrum of gastroenterological procedures, or if this represents a specific sub- specialty:**

X Endoscopy ☐ Bariatric Surgery ☐ Other:_____

7. **For existing facilities, provide a discussion of existing specialties and how these would or would not change as a result of the project.**

SVH will transition outpatient cases currently being performed within the walls of the Hospital to the new MVSC. In addition, as Medicare is expected to continue to migrate cases from inpatient to outpatient, the new MVSC has been designed, sized, equipped and staffed to manage more complex outpatient cases.

8. **Identify how many operating rooms will be at this facility at project completion. Note, for certificate of need and credentialing purposes, "operating rooms" and "procedure rooms" are one and the same.**

The MVSC will include five (5) general operating rooms and three (3) dedicated endoscopy procedure rooms. Under the definition above, this is a total of eight (8) rooms.

9. **Identify if any of the operating rooms at this facility would be exclusively dedicated to endoscopy, cystoscopy, or pain management services. WAC 246-310-270(9)**

Three of the eight rooms will be dedicated to endoscopy.

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

The MVSC has been designed for patients, age 12 months and over, who need outpatient surgery or GI procedures and are expected to be discharged home the same day. Patients who meet the American Society of Anesthesiologists' criteria of either ASA class I (a normal, healthy patient) or class II (a patient with mild systemic disease) are expected to be the primary patients served.

11. **If you submitted more than one letter of intent for this project, provide a copy of the applicable letter of intent that was submitted according to WAC 246-310-080.**

No letter of intent was submitted for this project. SRH understands that this application will be accepted as the letter of intent and will be held for 30 days before being screened.

12. **Provide single-line drawings (approximately to scale) of the facility, both before and after project completion.**

Single line drawings of the proposed facility are included in Exhibit 2.

13. **Confirm that the facility will be licensed and certified by Medicare and Medicaid, which is a requirement for CN approval. If this application proposes the expansion of an existing facility, provide the existing facility's identification numbers.**

The MVSC will be operated as a hospital outpatient department. The information for SRH is included below:

License #: HAC.FS.00000207
Medicare #: 50-0003
Medicaid #:1001267

14. **Identify whether this facility will seek accreditation. If yes, identify the accrediting body.**

The MVSC will be operated as a hospital outpatient department. It will be accredited under the hospital's accreditation with DNV Healthcare NIAHO® Hospital Accreditation Program. The current accreditation is valid through 5/13/2022.

15. **OPTIONAL – The Certificate of Need program highly recommends that applicants consult with the office of Construction Review Services (CRS) early in the planning process. CRS review is required prior to construction and licensure (WAC 246- 330-500, 246-330-505, and 246-330-510). Consultation with CRS can help an applicant reliably predict the scope of work required for licensure and certification. Knowing the required construction standards can help the applicant to more accurately estimate the capital expenditure associated with a project.**

    If your project includes construction, please indicate if you've consulted with CRS and provide your CRS project number.

SRH has had a technical assistance (TA) with Construction Review Services. The project number for the TA is 61018012.

SECTION 3
NEED

1. **List all surgical facilities operating in the planning area – to include hospitals, ASFs, and ASCs.**

Per WAC 246-310-270(3), SVH is located in the East Skagit Secondary Health Services Planning Area (East Skagit). Table 1 details the existing and exempt facilities in East Skagit. As the CN Program is aware, the exempt facilities are included in the utilization and use rate calculation but are excluded from the existing count of supply

Table 1
East Skagit Secondary Health Services Planning Area, Existing Providers

Hospitals	**License #**	**CN Status**	**# of Rooms**
Skagit Valley Hospital	HAC.FS.00000207	Hospital	6
PeaceHealth United General		Hospital	4
Total Hospital Supply			**10**
Ambulatory Surgical Facilities	**License #**		
Eye Associates Surgery (Cascadia Surgical)	ASF.FS.60298280	CN approved	2
Northwest Eye Surgeons	ASF.FS.60977760	CN approved	2
Skagit Northwest Orthopedics ASC - LaVenture	ASF.FS.60101074	CN approved	2
Total CN Approved ASC Supply			**6**
Skagit Northwest Orthopedics ASC - Continental	ASF.FS.60298280	Exempt	2
Total Exempt Supply			2

Source: Certificate of Need Program Files

2. **Identify which, if any, of the facilities listed above provide similar services to those proposed in this application.**

The project in this application provides increased access to multi-specialty, comprehensive surgical services including general surgery, gastroenterology, gynecology, pain management, podiatry, urology, orthopedics, ENT, and plastic surgery. PeaceHealth United General is a critical access hospital (CAH) and does not provide the same scope of surgical services.

Each of the ambulatory surgical facilities listed above are limited specialty ASCs.

There are no exactly similar providers in the Planning Area.

3. **Provide a detailed discussion outlining how the proposed project will not represent an unnecessary duplication of services.**

As noted earlier, this project is first and foremost about decanting the mixed-use operating rooms at SVH. WAC 246-310-270(9)(a) reads:

> (*i) Assume the annual capacity of one operating room located in a hospital and not dedicated to outpatient surgery is ninety-four thousand two hundred fifty minutes. This is derived from scheduling forty-four hours per week, fifty-one weeks per year (allowing for five weekday holidays), a fifteen percent loss for preparation and clean-up time, and fifteen percent time loss to allow schedule flexibility. The resulting seventy percent productive time is comparable to the previously operating hospital commission's last definition of "billing minutes" which is the time lapse from administration of anesthesia until surgery is completed.*

Under this standard, and with almost 572,000 minutes in 2019, the current six mixed use rooms at SVH operated at 108% capacity based on the 94,250-minute standard. Operating room volumes at SRH are now back to pre-COVID levels, and in Q2 2021, the ORs averaged in excess of 109%.

The high occupancy results in scheduling delays and bumped cases and can and does impact the patient and family experience. It also leads to provider inefficiencies, in that surgeons often have to cancel clinic time because of the backlog in the ORs. Further, the high occupancy in the ORs has constrained SRH from recruiting a number of surgical providers that data suggests the region needs to assure adequate access.

Further, no other provider in the Planning Area operates a multi-specialty dedicated outpatient facility. For these reasons, this project does not represent an unnecessary duplication.

4. **Complete the methodology outlined in WAC 246-310-270, unless your facility will be exclusively dedicated to endoscopy, cystoscopy, or pain management. If your facility will be exclusively dedicated to endoscopy, cystoscopy, or pain management, so state. If you would like a copy of the methodology template used by the department, please contact the Certificate of Need Program.**

The methodology is included in Exhibit 3. While the facility will not be dedicated to endoscopy, there are three rooms that will be dedicated to endoscopy. We understand that these three rooms are not part of the need calculation.

5. **If the methodology does not demonstrate numeric need for additional operating rooms, WAC 246-310-270(4) gives the department flexibility. WAC 246-310-270(4) states: "Outpatient operating rooms should ordinarily not be approved in planning areas where the total number of operating rooms available for both inpatient and outpatient surgery exceeds the area need."**

   These circumstances could include but are not limited to lack of CN approved operating rooms in a planning area, lack of providers performing widely utilized surgical types, or significant in-migration to the planning area. If there isn't sufficient numeric need for the approval of your project, please explain why the department should give consideration to this project under WAC 246-310-270(4). Provide all supporting data.

The methodology does not identify need for the five dedicated general outpatient operating rooms being requested by 2024. It does, however, show a need for additional inpatient and mixed-use rooms. It is important to note that this is a reflection of the fact that the majority of outpatient procedures in the planning area are currently being performed in mixed-use rooms (largely Skagit's existing program).

The three endoscopy rooms are not projected as part of the methodology.

SRH is confident that this project qualifies for consideration under extraordinary circumstances for the following reasons:

- Decanting these rooms and establishing a dedicated outpatient area at SVH will mitigate the need for more expensive and more disruptive expansion of the existing mixed-use OR surgery department. It will also reduce delays and patient bumping, while enhancing patient experience.

- It will free-up capacity in the mixed use ORs to allow SRH and SVH to recruit select needed surgical specialty providers. At this time, we are limited in our ability to recruit new surgical specialties because there is no time or location for these providers to practice within.

- There are three CN approved ASCs in the Planning Area, however all three are limited specialty, including two that perform eye cases only and one that is primarily, if not exclusively, Orthopedics. By virtue of the limited specialties, they are not truly comparable.

- In addition, as a public hospital district, SRH is committed to access for all, regardless of payer, income, race, ethnicity, sexual orientation, etc. The existing ASCs do limit Medicaid and other underinsured populations; the MVSC will not.

6. **For existing facilities, provide the facility's historical utilization for the last three full calendar years.**

While SVH does not currently operate any dedicate outpatient Operating Rooms, historical utilization for the surgery department (inpatient and outpatient) is provided in Table 2.

Table 2
Historical Inpatient and Outpatient Procedures by Year,
2018-2020

	2018	2019	2020[1]
Rooms	6	6	6
Procedures	5,533	6,090	5,727
Occupancy	101%	108%	92%

Source: Applicant

7. **Provide projected surgical volumes at the proposed facility for the first three full years of operation, separated by surgical type. For existing facilities, also provide the intervening years between historical and projected. Include the basis for all assumptions used as the basis for these projections.**

The projected outpatient volumes by specialty are included in Table 3 below.

Table 3
Projected Outpatient and GI/Endoscopy Procedures by Year
2024-2026

Specialty	2024	2025	2026
Orthopedics/Spine	1,014	1,034	1,054
General Surgery	687	700	714
Gynecology	229	233	237
Podiatry	170	173	177
ENT	1,102	1,124	1,146
Urology	485	495	505
Plastic/Reconstructive Surgery	89	91	93
Pain Management	734	748	763
Vascular Surgery	53	54	54
Subtotal Outpatient	**4,563**	**4,652**	**4,743**
GI/Endoscopy	4,619	4,711	4,805
Total	**9,182**	**9,363**	**9,548**

Source: Applicant

[1] Volume reduction as a result of COVID-19 PHE limitations on elective cases.

8. **Identify any factors in the planning area that could restrict patient access to outpatient surgical services. WAC 246-310-210(1) and (2)**

If left unabated, the high occupancy of the ORs at SVH will restrict access. As documented above, SVH is already operating in excess of 100% of the WAC defined capacity volume, and increasingly bumping, delays and rescheduling are common at SVH.

Currently, SVH is the only provider in the County to offer a full range of multi-specialty surgical services. As noted earlier, the three existing CN-approved ASC providers are limited specialty, and the other hospital based, or mixed-use operating rooms in the Planning Area are located in a critical access hospital. According to their website, PeaceHealth United General has one general surgeon and two orthopedists to address community need[2].While this complement is robust for many rural communities, it does not cover the full array of surgery types currently offered by SVH or proposed to be offered at the MVSC. Without expansion, patients will be forced to delay surgery or leave the County for care.

9. **In a CN-approved facility, WAC 246-310-210(2) requires that "all residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services." Confirm your facility will meet this requirement.**

Admission to all SRH facilities and programs is based upon clinical need. Services are made available to all persons regardless of race, color, creed, sex, national origin, or disability. A copy of SVH's nondiscrimination policy is included as Exhibit 4.

For hospital charity care reporting purposes, the Department of Health (Department) divides Washington State into five regions. SVH is located in the Puget Sound region. According to 2017-2019 charity care data produced by the Department (the latest data currently available), the three-year charity care average for the Puget Sound region was 1.35% of gross revenue and 3.99% of adjusted revenue. During this same time period, the three-year percentage of charity care for SVH was .58% of total revenue and 2.00% of adjusted revenue. For the ASC pro formas, charity care was estimated to be consistent with the Puget Sound regional average.

10. **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 to patient access to care.**

The requested policies are included in Exhibit 4.

[2] https://www.peacehealth.org/united-general/services/surgery-and-orthopedics-center/Pages/Meet-Our-Team

SECTION 4
FINANCIAL FEASIBILITY

1. **Provide documentation that demonstrates that 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 "Need" in section A. Include the basis for all assumptions.**
   - **Pro Forma revenue and expense projections for at least the first three full calendar years of operation. Include the basis for all assumptions.**
   - **Pro Forma balance sheet for the current year and at least the first three full calendar years of operation. Include the basis for all assumptions.**
   - **For existing facilities, provide three years of historical revenue and expense statements, including the current year. Ensure these are in the same format as the pro forma projections. For incomplete years, identify whether the data is annualized.**

Again, this project is predominantly about decanting the high occupancy currently occurring within SVH's current mixed use operating rooms, thereby improving access and avoiding a much larger, and more disruptive, capital expenditure to increase operating room capacity within the main hospital. The utilization projections are included in Table 3.

The pro forma revenue and expense projections are included as Exhibit 5.

Three years of historical statements for Public Hospital District #1 - Skagit Regional Health are included as Appendix 1.

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

SVH will lease the completed ASC from a developer. A copy of a draft lease is included in Exhibit 6. With our screening response, SVH will provide the executed lease.

3. **Certificate of Need approved ASFs must provide charity care at levels comparable to those at the hospitals in the ASF planning area. You can access charity care statistics from the Hospital Charity Care and Financial Data (HCCFD) website. Identify the amount of charity care projected to be provided at this facility, captured as a percentage of gross revenue, as well as charity care information for the planning area hospitals. The table below is for your convenience but is not required. WAC 246-310-270(7)**

As discussed above, for hospital charity care reporting purposes, SRH is located in the Puget Sound Region. According to 2017-2019 charity care data produced by the Department (the latest data currently available), the three-year charity care average for the Puget Sound region was 1.34% of gross revenue and 4.02% of adjusted revenue. During this same time period, the three-year percentage of charity care for SRH was .58% of total revenue and 2.00% of adjusted revenue. As identified in Table 4, for the MVSC pro forma, charity care was estimated to be 1.35% to in-line with the most recent Puget Sound regional average.

Table 4
MVSC Projected Charity Care

Planning Area Hospital 3-year Average Charity Care as a Percentage of Total Revenue	1.34%
Projected Facility Charity Care as a Percentage of Total Revenue	1.35%

4. **Provide documentation of site control. This could include either a deed to the site or a lease agreement for the site. If a lease agreement is provided, the terms must be for at least five years following project completion. The costs identified in these documents should be consistent with the Pro Forma provided in response to question 1.**

The site is owned by Optimum Properties LLC the developer of the proposed MVSC. Included in Exhibit 7 is documentation from the Skagit County Assessor's office confirming this ownership.

5. **For new facilities, confirm that the zoning for your site is consistent with the project.**

The site is zoned Health Care Development.

6. **Complete the table below 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 below, please include the items with a definition of the line item. Include all assumptions used as the basis the capital expenditure estimate.**

A developer is constructing a medical office building (MOB) on land adjacent to, but within 250 yards of the SRH campus. The MOB includes a total of 59,949 square feet of which 21,250 is associated with the MVSC. The lease calls for the space to be provided to SRH such that only installation of equipment is needed to make it operational. The capital expenditure budget identified in Table 5 below reflects all costs borne by SRH.

Table 5
Estimated 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	$18,647,913
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	Included above
IT/IS	$1,841,158
Signage (interior and exterior)	$506,825
Security	$382,624
Project Management	$1,989,064
Total Estimated Capital Expenditure	**$23,367,584**

Source: Applicant

7. **Identify the entity or entities responsible for funding the capital expenditure identified above. If more than one entity is responsible, provide breakdown of percentages and amounts for all.**

SRH will fund the capital from existing reserves. A letter from the SRH CFO committing to the financing of this project is included in Exhibit 8.

8. **Please identify the amount of start-up costs expected for this project. Include any assumptions that went into determining the start-up costs. If no start-up costs are needed, explain why.**

Table 6 below identifies the breakdown of the pre-opening expenses.

Table 6
MVSC Pre-Opening Expenses

Component	Expense
Salaries, Wages, and Benefits	$528,596
Medical Director Fees	$18,600
Supplies	$163,075
Total Pre-Opening Expenses	**$710,271**

9. **Provide a non-binding contractor's estimate for the construction costs for the project.**

This question is not applicable. MVSC will lease the space and is only responsible for the installation of equipment to make it operational.

10. **Explain how the proposed project would or would not impact costs and charges to patients for health services. WAC 246-310-220**

The capital costs for the project are necessary if SRH is to support both current and projected need in East Skagit. The current mixed-use rooms are operating at capacity and additional capacity is necessary to ensure timely access. The capital costs will not be passed on to payers in the form of higher charges.

11. Provide documentation that the costs of the project, including any construction costs, will not result in an unreasonable impact on the costs and charges to patients for health services in the planning area. WAC 246-310-220

As noted above, the capital costs for the project are necessary if SRH is to support both current and projected need in East Skagit. The current mixed-use rooms are operating at capacity and additional capacity is necessary to ensure timely access. The capital costs will not be passed on to payers in the form of higher charges.

12. Provide the projected payer mix by gross revenue and by patients using the example table below. If "other" is a category, define what is included in "other."

As expected, and due to ASA patient selection criteria, the patients that will use the ASC will be slightly younger and healthier. As such, the payer mix will be less Medicare and Medicaid and more commercial pay. This is typical.

Table 7
Projected Payer by Revenue and Patient, Projected for the Outpatient Surgery Center

	Percentage by Revenue WAC 246-310-220(1)	Percentage by Patient WAC 246-310-210(2)
Medicare/Medicare Advantage	42.26%	40.92%
Medicaid	17.01%	23.41%
Commercial	33.86%	29.49%
Other (Tricare, VA,Workers Comp)	5.35%	4.94%
Self-Pay*	1.52%	1.24%
Total	**100.00%**	**100.00%**

Source: Applicant

13. If this project proposes CN approval of an existing facility, provide the historical payer mix by revenue and patients for the existing facility for the most recent year. The table format should be consistent with the table shown above.

The historical payer mix for SVH's mixed use rooms is included in Table 8. The payer mix in Table 7 was adjusted to reflect the payer mix for those cases that will be relocated to the MVSC.

Table 8
Current SVH Surgical Payer Mix by Revenue and Patient

	Percentage by Revenue WAC 246-310-220(1)	Percentage by Patient WAC 246-310-210(2)
Medicare/Medicare Advantage	49.26%	46.61%
Medicaid	20.01%	26.90%
Commercial	23.86%	20.30%
Other (Tricare, VA,Workers Comp)	5.35%	4.94%
Self-Pay*	1.52%	1.24%
Total	**100.00%**	**100.00%**

Source: Applicant

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

The requested information is included in Exhibit 9.

15. **Provide a letter of financial commitment or draft agreement for each source of financing (e.g., cash reserves, debt financing/loan, grant, philanthropy, etc.). WAC 246-310-220.**

The requested information is included in Exhibit 8.

16. **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. WAC 246-310-220**

This question is not applicable

17. **Provide the applicant's audited financial statements covering the most recent three years. WAC 246-310-220**

The requested information is included in Appendix 1.

SECTION 5
STRUCTURE AND PROCESS OF CARE

1. **Identify all licensed healthcare facilities owned, operated by, or managed by the applicant. This should include all facilities in Washington State as well as out-of- state facilities, and should identify the license/accreditation status of each facility.**

SVH does not operate any other licensed health care facilities, but SRH does. Table 9 provides the required information. Note that SRH does not own, operate or manage any out of state facilities.

Table 9
SRH Facilities

Facility	License Number	Accreditation Status
Public Hospital District #1 Skagit County, Skagit Regional Hospital	HAC.FS.00000207	DNV Healthcare NIAHO® Valid through 5/13/2022
Public Hospital District #1 Skagit County, Cascade Valley Hospital	HAC.FS.60655126	DNV Healthcare NIAHO® Valid through 5/13/2022
Skagit Regional Health, Behavioral Health Agency Mental Health Inpatient Service	BHA.FS.60874604-MHIN	
Skagit Regional Health, Behavioral Health Agency	BHA.FS.60874604	
Hospice of the Northwest (Joint Venture)	HIS.FS.00000437	Community Health Accreditation Partner (CHAP) Accreditation Valid through 11/18/2023
Public Hospital District #1 Skagit County, Arlington Ambulatory Surgery Center	ASF.FS.60651816	

2. **Provide a table that shows FTEs [full time equivalents] by classification (e.g., RN, LPN, Manager, Scheduler, etc.) for the proposed facility. If the facility is currently in operation, include at least the last 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 classifications should be defined.**

Table 10 includes the FTEs by classification for the proposed facility for the first three full years of operation.

Table 10
MVSC FTEs

Position	2024	2025	2026
Charge Nurse	4.3	4.3	4.3
Other Registered Nurse	19.4	19.7	20.0
Surgical Technician	7.6	7.7	7.9
Support Technician	2.2	2.2	2.2
CAN	2.4	2.4	2.4
Radiology Tech	1.3	1.3	1.3
Anesthesia Technologist	1.1	1.1	1.1
Sterile Processing	9.6	9.8	9.9
Front Desk Receptionists	6.0	6.0	6.0
Implant Coordinator	1.1	1.1	1.1
Purchasing Coordinator	1.1	1.1	1.1
Patient Transport	1.1	1.1	1.1
ASC Administrator	1.0	1.0	1.0
ASC Assistant Administrator	1.0	1.0	1.0
Business Office Staff	9.0	9.2	9.4
Total	**68.2**	**69.0**	**69.8**

Source: Applicant

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

The projected number and types of FTEs were based on current staff/procedure ratios and procedure types.

4. **Provide the name and professional license number of the current or proposed medical director. If not already disclosed under WAC 246-310-220(1) above, identify if the medical director is an employee or under contract.**

Dr. Allison Porter, license # MD60455857, will serve as the Medical Director for the MVSC.

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

The medical director will be an employee. The job description is included as Exhibit 10.

6. **Identify key staff by name, if known (e.g., nurse manager, clinical director, etc.)**

The MVSC will hire a new Surgery Center Administrator. The MVSC will also be supported by SRH's Regional Director of Surgical Services, Kelly Bradford, RN.

7. **Provide a list of physicians who would use this surgery center, including their names, license numbers, and specialties.**

The listing of the physicians who will use this surgery center, including the physicians' names, license numbers and specialties, is included as Exhibit 11.

8. **For existing facilities, 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. WAC 246-310-230(1)**

SVH has a long history of being able to recruit and retain qualified healthcare personnel. SVH offers competitive wages and benefits. SVH additionally participates in a number of training programs serving as a training site for students from various health career paths. These training programs provide an ongoing pool of new health professionals and serve as a source for recruiting new personnel to SVH. A listing of the various programs is provided below:

Geographically, the Skagit Valley area is a very desirable place to live. The natural environment, outdoor opportunities as well as overall high-quality life contribute to SVH's ability to recruit and retain healthcare professionals.

10. For existing facilities, provide a listing of ancillary and support services already in place. WAC 246-310-230(2)

There is no existing MVSC, but the mixed-use operating rooms in the hospital utilize a number of ancillary and support services that are listed below. The MVSC is expected to utilize the same.

Laboratory
Waste Management (medical and pharmaceutical)
Medical Gas
Environmental Services
Medical Equipment Maintenance
Security Services
Fire & Safety Monitoring
Pathology
Materials Management/supplies
Billing
Scope Reprocessing and Instrument Decontamination
Information Technology
Radiology Information Technology
Courier Services
Linen Management Services
Pharmacy

11. For new facilities, provide a listing of ancillary and support services that will be established. WAC 246-310-230(2)

See the response to Q 10, above.

12. Identify whether any of the existing ancillary or support agreements are expected to change as a result of this project. WAC 246-310-230(2)

The MVSC will be a department of the hospital, there will be no ancillary or support agreements.

13. If the ASF is currently operating, provide a listing of healthcare facilities with which the ASF has working relationships. WAC 246-310-230(4)

The MVSC is not currently operational. This question is not applicable. That said, SVH enjoys a long history in the Planning Area and coordinates with all providers and payers.

14. **Identify whether any of the existing working relationships with healthcare facilities listed above would change as a result of this project. WAC 246-310-230(4)**

Current relationships are not expected to change as a result of this project.

15. **For a new facility, provide a listing of healthcare facilities with which the ASF would establish working relationships. WAC 246-310-230(4)**

The MVSC is not currently operational. This question is not applicable. That said, SVH enjoys a long history in the Planning Area and coordinates with all providers and payers.

16. **Provide a copy of the existing or proposed transfer agreement with a local hospital.**

MVSC will be an HOPD of SVH and operated under the SVH license. No transfer agreement is required.

17. Provide an explanation of 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.

Today, the SVH operating rooms are at capacity; and the high capacity is affecting timely access, patient experience of care and the ability to recruit additional providers to the area. In terms of ability to recruit, SRH regularly performs a physician demand analysis which shows which provider types the Service Area is short of. For a number of the needed surgical providers, SRH is limited in its ability to recruit at this time, because SVH does not have space to accommodate any significant number of additional surgeries. The MVSC will provide the "relief" valve for the mixed-use operating rooms, allowing SRH to grow to support Service Area demand. The growth will mean that patients do not have to wait unnecessarily or travel out-of-area, both of which can, and often do, fragment care.

18. Provide an explanation of 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(4).

SVH is the largest hospital provider in the Secondary Health Services Planning Area and maintains strong and positive working relationships with others including hospitals, physician groups, long-term care and post-acute providers, public health and home care and home health.

19. 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)

Neither SRH, nor any of it licensed health care facilities, has any history with respect to the federal and state requirements outlined in WAC 246-310-230. Likewise, no surgeon or other licensed health care provider that is credentialed to work in the surgical services department of SRH has any history.

SECTION 6
COST CONTAINMENT

1. **Identify all alternatives considered prior to submitting this project.**

Four options were considered: expand the surgical department's existing mixed use ORs in the hospital; create an entirely new surgical department with the hospital with approximately 15 operating rooms; establish an ASC; or construct and operate an HOPD.

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.**

The option of expanding mixed use operating rooms was far more expensive than the new ASC or new HOPD option. It was also most disruptive, and most staff intensive as it would be necessary to continue operation of the rooms as expansion was underway and to be hyper-diligent about infection control.

The option of building an entirely new surgical department at a different location within the hospital was the most expensive from a construction perspective (because of the square footage involved and the high cost per square foot of surgical space, currently in excess of $1,200 per square foot). It would also involve reconstructing a number of other departments to maintain key adjacencies. For this reason, the two in-hospital options were ruled out.

Frankly, the establishment of a freestanding ASC was initially the preferred options as it positions SRH well for value-based care and would likely be the preferred option of patients and payers. However, because so much of our volume is simply being relocated from the hospital to the new location, and because the reimbursement difference is so significant, financial analysis demonstrated that SRH needs a "glidepath" to adjust to the reimbursement differentials so as not to destabilize the current overall hospital operations. We did discuss this option in depth with CN Program staff during several TAs early in 2021, and they concurred that our approach to open as an HOPD and then convert to an ASC at a later point in time is reasonable and may be deemed the best available option.

3. **Identify any aspects of the facility's design that lead to operational efficiency. This could include but is not limited to LEED building, water filtration, or the methods for construction, etc. WAC 246-310-240(2) and (3).**

The landlord is proposing to construct the MOB to meet or exceed all applicable state and local codes and CMS conditions of coverage. We do not believe that the landlord intends to pursue LEED certification, but has designed the building to meet the requirements. In terms of the shell space for the MVSC as well as the TIs that SRH will undertake, numerous design meetings were held that focused on pre and post clinical and patient flow, clinical workflows, and support spaces and adjacencies. We are confident that these efforts have produced an efficient operation that will serve the community well.

Exhibit 1

Organizational Chart

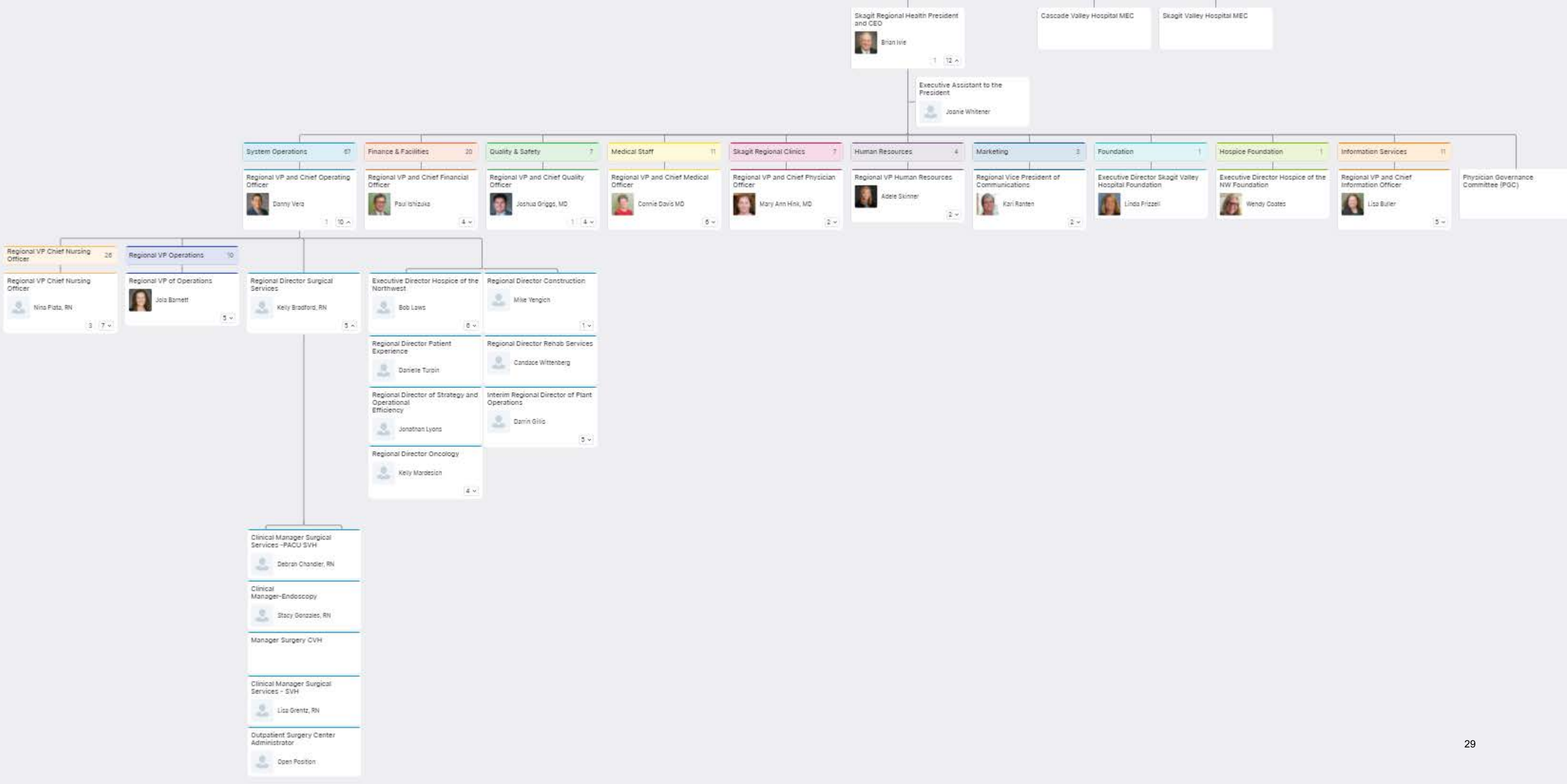
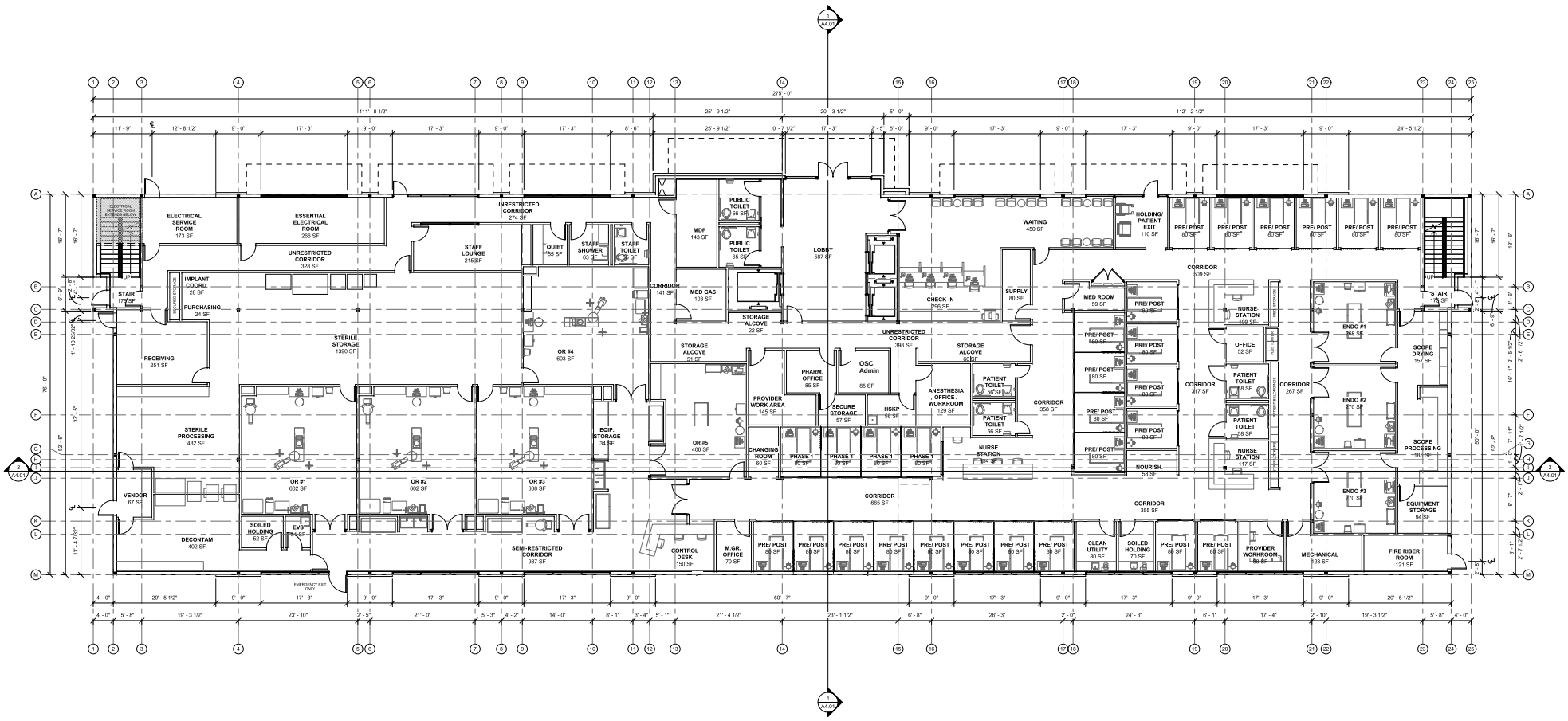

Skagit Regional Health President and CEO
Brian Ivie
Cascade Valley Hospital MEC
Skagit Valley Hospital MEC
Executive Assistant to the President
Joanie Whitener
System Operations 67
Regional VP and Chief Operating Officer
Danny Vera
Finance & Facilities 20
Regional VP and Chief Financial Officer
Paul Ishizuka
Quality & Safety 7
Regional VP and Chief Quality Officer
Joshua Griggs, MD
Medical Staff 11
Regional VP and Chief Medical Officer
Connie Davis MD
Skagit Regional Clinics 7
Regional VP and Chief Physician Officer
Mary Ann Hink, MD
Human Resources 4
Regional VP Human Resources
Adele Skinner
Marketing 3
Regional Vice President of Communications
Kari Ranten
Foundation 1
Executive Director Skagit Valley Hospital Foundation
Linda Prizzell
Hospice Foundation 1
Executive Director Hospice of the NW Foundation
Wendy Coates
Information Services 11
Regional VP and Chief Information Officer
Lisa Buller
Physician Governance Committee (PGC)
Regional VP Chief Nursing Officer 26
Regional VP Chief Nursing Officer
Nina Pata, RN
Regional VP Operations 10
Regional VP of Operations
Jola Barnett
Regional Director Surgical Services
Kelly Bradford, RN
Executive Director Hospice of the Northwest
Bob Laws
Regional Director Construction
Mike Yengich
Regional Director Patient Experience
Danielle Turpin
Regional Director Rehab Services
Candace Wittenberg
Regional Director of Strategy and Operational Efficiency
Jonathan Lyons
Interim Regional Director of Plant Operations
Darrin Gillis
Regional Director Oncology
Kelly Mardesich
Clinical Manager Surgical Services -PACU SVH
Debran Chandler, RN
Clinical Manager-Endoscopy
Stacy Gonzales, RN
Manager Surgery CVH
Clinical Manager Surgical Services - SVH
Lisa Grentz, RN
Outpatient Surgery Center Administrator
Open Position

Exhibit 2

Single Line Drawings



1 FIRST FLOOR PLAN
1/8" = 1'-0"

Mount Vernon Surgical Center: Floor-1

Net SF: 20,195
Gross SF: 20,619

50% SCHEMATIC DESIGN

SCALE:
1/8" = 1'-0"

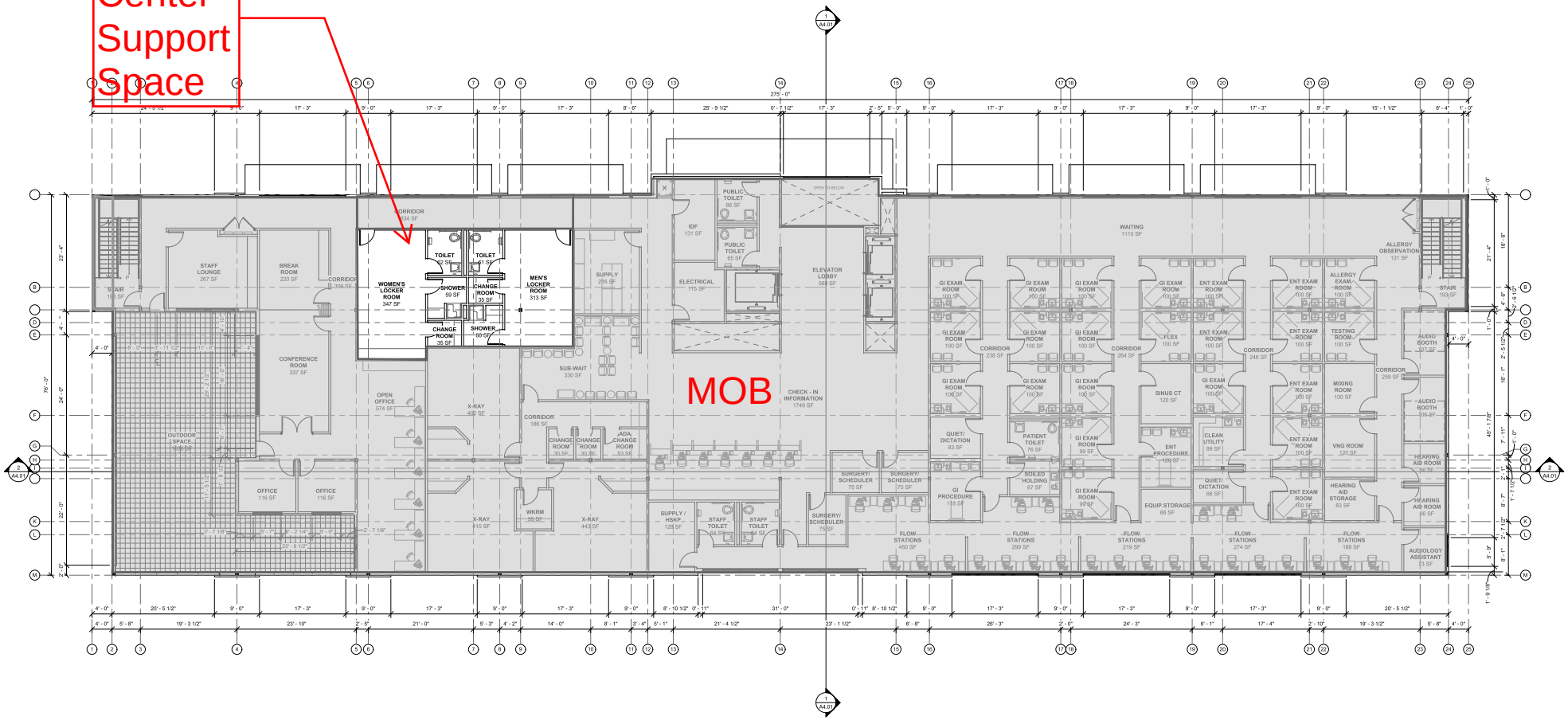
Skagit Regional Health Outpatient Surgery Center

FIRST FLOOR PLAN

PROJECT#: 2020.10.01
DRAWN: JM CHECK: JS
ISSUED: 03/19/2021

A2.01

Surgical Center Support Space



1 SECOND FLOOR PLAN
1/8" = 1'-0"

Mount Vernon Surgical Center: Floor-2

Net SF: 1,055
Overall Floor Gross SF: 18,925

50% SCHEMATIC DESIGN

SCALE:
1/8" = 1'-0"

Skagit Regional Health
Outpatient Surgery Center

SECOND FLOOR PL N

PROJECT# 2020.10.01
DRAWN JM CHECK JS
ISSUED 03/19/2021

A2.02

Exhibit 3

ASC Methodology

2022 Service Area Population WAC 246-310-270
Surgeries @ /1,000

a.i. 94,250 minutes/year/mixed-use OR
dedicated outpatient OR
a.ii. 68,850 minutes/year/mixed-use OR

a.iii.	6 dedicated outpatient OR's x 68,850 minutes	=	413,100	minutes dedicated OR capacity	9,416	Outpatient surgeries
	OR's x 94,850 minutes =					
a.iv.	10 mixed-use OR's		942,500	minutes mixed-use OR capacity	9,988	Mixed-use surgeries

b.i.	projected inpatient surgeries=	15,007 =	1,416,075	minutes inpatient surgeries
	projected ir outpatient surgeries=	6,988 =	306,586	minutes outpatient surgeries

b.ii.	Forecast # of outpatient -			
	6,988	9,416 =	-2,428	outpatient surgeries

b.iii.	average time of impatient surgeries	=	94.36	minutes
	average time of outpatient surgeries	=	43.87	minutes

b.iv.	inpatient surgeries average time	=	1,416,075	minutes
	remaining outpatient surgeries (b.ii.)* ave time	=	-106,514	minutes
			1,309,561	minutes

c.i. if b.iv. < a.iv., divide (a.iv.-b.iv.) by 94,250 to determine surplus of mixed-use OR's

	942,500			
	1,309,561			
-	-367,061	/	94,250	**-3.89**

c.ii. if b.iv. > a.iv., divide (inpatient part of b.iv.-a.iv.) by 94, 250 to determine shortage/surplus of inpatient OR's

	1,416,075	/		
	942,500			
	-473,575	/	94,250	**-5.02 (shortage)**

divide outpatient part of b.iv. By 68,850 to determine shortage of dedicated outpatient OR's

-106,514	/	68,850	=	**-1.55**

Exhibit 4

Policies

Mount Vernon Outpatient Surgery Center Admission Criteria Policy

Policy Number:	Pending	Policy Name:	Admission Criteria
Department:	Mount Vernon Outpatient Surgery Center		
Effective Date:	Pending approval	Last Revision Date:	
Approved By:		Approved Date:	

Purpose:

To establish the type of patients that are candidates for admission to the Mount Vernon Outpatient Surgery Center. Services will be offered using the CMS approved procedure list.

Policy:

All patients must meet the following admission directives in order to be admitted to the facility.

1. Patients having general anesthesia or who are having local anesthesia and are medicated with sedation must be accompanied from the facility by a responsible adult.

2. Minimum age for admission is 2 years of age. There is no maximum age. It will be dependent on medical history. For infants between 6 months of age to 2 years will be for ear tubes only and no IV will be placed.

3. If a minor child under the age of 18 is admitted to the facility the parent or legal guardian is required to remain in the facility at all times.

4. Patients with mental health issues that require a legal guardian signed consent (i.e.: dementia, etc.), the legal guardian must remain in the facility at all times.

5. The surgeon will obtain an informed consent. The consent must be signed by the patient, parent or legal guardian, prior to any procedure being performed on the patient in the facility. The consent should be signed, dated and witnessed within thirty (30) days prior to admission.

6. A history and physical examination will be present on the chart prior to surgery on all patients, no greater than 30 days old. The diagnosis, indications for surgery and the procedure to be performed will be documented by the surgeon prior to any treatment. Regardless of when the H&P was dictated the surgeon will review, sign and date the H&P on DOS.

7. A medical clearance may be requested from the patient's primary care physician at the request of the anesthesia provider or the operating surgeon. If the medical clearance has been ordered, it must be present on the chart prior to surgery. The operating surgeon or anesthesia provider may contact the primary care physician for a verbal report.

8. The physician or anesthesia provider will order tests as indicated on a case by case basis.

9. The patient must be in good health or have mild systemic disease that is under control and does not require special management. Patients' status shall be documented by the admitting physician.

10. The patient or a responsible adult acting on behalf of the patient must be able to strictly follow instructions related to the ingestion of fluids or solids with the specified time frame prior to the surgery.

11. The patient or responsible adult must be able to comply with discharge instructions for home care.

12. Patients having infections or communicable diseases, which may require isolation, will be referred to the hospital for care. If an infection or communicable disease is discovered once the patient is being cared for in the facility, the patient will be isolated in the enclosed recovery room, and will remain in that area until discharge. The operating room and the recovery area will be terminally cleaned immediately after the patient has left the room with a tuberculocidal, hospital-grade chemical germicide.

Scope:

Physicians, Preoperative RN's Receptionists, Surgery Schedulers

Skagit Regional Health Policy

Skagit Regional Health Financial Assistance/Sliding Fee Scale

Business Office - Hospital 59792 **Official** (Rev: 7)

Purpose

Skagit Regional Health (SRH) is committed to ensuring our patients get the Appropriate Hospital-based Medical Services they need regardless of ability to pay for that care. Providing health care to those who cannot afford to pay is part of our mission, and State law requires hospitals to provide free and discounted care to eligible patients. Patients may qualify for free or discounted care based on family size and income, even if they have health insurance.

Policy

Skagit Regional Health provides notice of its Financial Assistance program and will make a good faith effort to ensure information is made available to our patients regarding its availability. SRH (Inpatient and hospital based outpatient clinics/facilities) will post signs in Registration, Patient Financial Counseling and Emergency Departments of the availability of this program. Non Hospital Based Clinic locations (POS 11) are not required to post such notice. This policy is intended to ensure that Washington State residents who are at or near the federal poverty level receive appropriate Hospital Based Medical Services regardless of their ability to pay. Financial Assistance/Sliding Fee Scale will be granted to all persons regardless of race, color, sex, religion, age, sexual orientation, gender identity, gender expression or national origin. In order to protect the integrity of operations and fulfill this commitment, the following criteria for the provision of Financial Assistance/Sliding Fee Scale, consistent with the requirements of the Washington Administrative Code (WAC), Chapter 246-453, are established. These criteria will assist staff in making consistent and objective decisions regarding eligibility for Financial Assistance/Sliding Fee Scale while ensuring the maintenance of a sound financial position for the organization. All Financial Assistance/Sliding Fee Scale write offs will be approved by the Business Office Supervisor, Manager or Director.

Definitions

1. Charity Care and/or Financial Assistance: Means medically necessary hospital health care rendered to indigent person(s) when Third-Party Coverage, if any, has been exhausted, to the extent that the person are unable to pay for the care or to pay deductible or coinsurance amounts required by a third-party based on criteria in this policy.

2. Third-Party Coverage: Means an obligation on the part of an insurance company, health care services contractor, health maintenance organization, group health plan, government program (Medicare, Medicaid or medical assistance programs, workers compensation, veteran benefits), tribal health benefits, or health care sharing ministry as defined in 26 U.S.C. Sec. 5000A to pay for care of covered patients and services, and may include settlements, judgements, or awards actually received related to the negligent acts of others (for example: auto accidents or personal injuries) which have resulted in the medical condition for which the patient has received hospital health care services.

3. Appropriate Hospital-Based Medical Services: Means those hospital services which are reasonably calculated to diagnose, correct, cure, alleviate, or prevent the worsening of conditions that endanger life, or cause suffering or pain, or result in illness or infirmity, or threatens to cause or aggravate a handicap, or cause physical deformity or malfunction, and there is no other equally effective more conservative or substantially less costly course of treatment available or suitable for the person requesting the service. For purpose of this section, "course of treatment" may include mere observation or, where appropriate, no treatment at all. (WAC 246-453-010(7)) Appropriate Hospital-Based Medical Services do not include care provided in free-standing clinics/physician offices and billed as POS 11.

4. Emergency Medical Condition: Means a medical condition manifesting itself by acute symptoms of sufficient severity, including severe pain, such that the absence of immediate medical attention could reasonably be expected to result in:

   a. Placing the health of the individual (or, with respect to a pregnant woman, the health of the woman or her unborn child) in serious jeopardy.

   b. Serious impairment of bodily functions.

   c. Serious dysfunction of any bodily organ or part.

   d. With respect to a pregnant woman who is having contractions the term shall mean:

      i. That there is inadequate time to effect a safe transfer to another clinic before delivery or that transfer may pose a threat to the health or safety of the woman or the unborn child. (WAC 246-453-010(13).

5. Place of Service 11 (POS 11): Is a location billing code that indicates where services were provided. POS 11 indicates a location other than a hospital, urgent care, skilled nursing facility (SNF), military treatment facility, community health center, State or local public health clinic, or intermediate care facility (ICF), where the health professional routinely provides health examinations, diagnosis, and treatment of illness or injury on an ambulatory basis.

6. "Income" means total cash receipts before taxes derived from wages and salaries, welfare payments, social security payments, strike benefits, unemployment or disability benefits, child support, alimony, and net earnings from business and investment activities paid to the individual (WAC 246-453-010(17). This also includes pension or retirement income, interest, dividends, rents, royalties, income from estates and trusts.

7. "Family" means a group of two or more persons related by birth, marriage, or adoption who live together, all such related persons are considered as members of the one family WAC246-453-010 (18).

8. "Family Income" means the income, as described above, of all family members, as described above, residing in the same household. Income from non-family members or room-mates is not considered.

Communications to the Public

The Skagit Regional Health Financial Assistance/Sliding Fee Scale policy shall be made publicly available through the following elements:

1. A notice advising patients that Skagit Regional Health provides Financial Assistance and Charity Care will be posted in key public areas of the hospital, including Admissions and/or Registration, the Emergency Department, Urgent Care, Hospital-Based Clinics and financial service or billing areas where accessible to patients.

2. By telephone: 360-814-7575

   a. Skagit Regional Clinics

   b. Skagit Valley Hospital

   c. Cascade Valley Hospital

3. Written information about the Financial Assistance/Sliding Fee Scale policy shall be made available to any person who requests the information in person, online via MyChart, via mail or email, free of charge.

4. In person at any Skagit Regional Health Location

   a. On our website at:
   https://www.skagitregionalhealth.org/for-patients/finance-and-billing-information
   (which includes application and Sliding Fee Scale).

   b. SRH shall train front-line staff to answer Financial Assistance/Sliding Fee Scale inquiries effectively or will direct such inquiries to the Financial Counselors or Patient Financial Services Customer Service Department (360) 814-7575.

Covered Services

1. Appropriate Hospital-Based Medical services
2. Professional fees incurred as part of an Appropriate Hospital-Based medical service
3. Services for Emergency Medical Conditions
4. Eligibility for Financial Assistance requires, except in instances of services for Emergency Medical Conditions presented at an SRH hospital or Urgent Care location, an individual to be a resident of Washington State in the service area of Skagit Regional Health (Skagit, Island, North Snohomish and Whatcom Counties). Exceptions to the residence and scope of the services requirements may be made in extraordinary circumstances and with the approval of the Chief Financial Officer or designee.

Eligibility Criteria

All services as defined in section 1, 2 and 3 above, which are not covered by a third party payment source or unpaid patient balances shall be considered for Financial Assistance/Sliding Fee Scale write off. The guidelines used as criteria will include but not be limited to the following:

1. Person eligible for Financial Assistance/Sliding Fee Scale will be comprised of those deemed to have undue financial hardships, considering income, resources, and obligations as determined by SRH, that make them unable to pay for all or a portion of their medical care. Such consideration will include a review of annual gross income as calculated for the relevant time period to the date of service, family size, and net worth including short and long term debts and liabilities, and other pertinent factors peculiar to each financial assistance request. If income, at time of application is verified to be lower than at time of service, the lesser of the two shall be used for the determination. However, consideration of assets is not permissible for applicants whose family income falls below 100% of the federal poverty guidelines.
2. An eligible applicant found to have an adjusted family income equal to or less than 100% of the then current federal poverty level will be granted financial assistance equal to the full amount of hospital charges for appropriate-hospital based medical services. The following sliding fee schedule shall be used to determine the patient responsibility amount for patients with income levels 100% up to 500% of the current federal poverty level. A copy of the sliding fee scale is available in the Business Office and on the SRH website:
   https://www.skagitregionalhealth.org/for-patients/finance-and-billing-information. The responsible party's financial obligation which remains after the application of the sliding fee schedule may be payable in monthly installments over a reasonable period of time, without interest or late fees, as negotiated between SRH and the responsible party.
3. Applicants residing in a nursing home, long term care facility, or custodial care facility with disposable income of less than $150.00 per month may qualify for Financial Assistance/Sliding Fee Scale even if their income exceeds the guideline limit but is used for their principal care.
4. Balances due from deceased patients who leave no estate and/or have no living spouse/legal guardian will be considered eligible for financial assistance.

5. Prima Facia Write Offs: SRH may choose to grant Financial Assistance/Sliding Fee Scale based solely on the initial determination. In such cases, SRH will not complete full verification or documentation of any request.

6. Exceptions to this policy may be considered on a case by case basis due to extra-ordinary circumstances. Exceptions must be of a more generous nature than the standard allowances and for the financial benefit of both the patient and the organization. Balances due from transient (homeless) patients who have no address and identified as a hardship will be considered eligible for financial assistance only upon PFS Manager and/or Director's approval.

Eligibility Determination

In order to qualify for financial assistance, the patient and/or guarantor must fully cooperate with SRH in exploring and apply for all resources that do not require the patient to pay premiums. SRH will make an initial determination of eligibility based on verbal or written application for Financial Assistance/Sliding Fee Scale. Pending final eligibility determination, SRH will not initiate collection efforts or requests for deposits, provided the responsible party is cooperative with the SRH efforts to reach a determination of sponsorship status, including return of applications and documentation within fourteen (14) days of receipt, or such time that is medically and reasonably feasible, for patients to secure and present same.

1. SRH shall use an application process for determining initial interest in and qualification for Financial Assistance/Sliding Fee Scale. Should patients not choose to apply for Financial Assistance/Sliding Fee Scale, they shall not be considered for Financial Assistance/Sliding Fee Scale unless other circumstances or intent become known to SRH.

2. Applicants may be required to apply for Medical Assistance through the State.

3. Accounts that have been assigned to a collection agency and which have judgments granted through the court system will not be considered eligible for financial assistance.

Timing of Income Determinations

Annual Family Income of the Applicant will be determined as of the time the Appropriate Hospital-Based Medical Services were provided, or at the time of application for Charity Care or Financial Assistance if the application is made within two years of the time of the Appropriate Hospital-Based were provided, the Applicant has been making good faith efforts towards payment for the services, and the Applicant demonstrates eligibility for Charity Care and/or Financial Assistance.

Final Determination

SRH will exercise the following options in making the final determination for Financial Assistance/Sliding Fee Scale:

1. Financial Assistance/Sliding Fee Scale forms shall be furnished to patients when Financial Assistance/Sliding Fee Scale is requested, when indicated, or when financial screening indicates potential need. All applications whether initiated by the patient or SRH should be accompanied by documentation to verify income amounts indicated on the application form. One or more of the following types of documentation may be acceptable for purposes of verifying income:
    a. W2 withholding statements for all employment during the relevant time period.
    b. Pay stubs from all employment during the relevant time period specific to the date of service.

c. An income tax return from the most recently filed calendar year for the relevant time period.

d. Forms approving or denying eligibility for Medicaid and/or state funded medical assistance.

e. Forms approving or denying unemployment compensation.

f. Written statements from employers or welfare agencies.

g. In the event that the responsible party is not able to provide any of the documentation described above, SRH shall rely upon written and signed statements from the responsible party for making a final determination of eligibility for classification as an indigent person.

2. Patients will be asked to provide verification or eligibility for Medicaid or Medical Assistance. During the initial request period, SRH may pursue other sources of funding, including Medicaid.

   a. Income shall be annualized from the date of application based upon documentation provided and upon verbal information provided by the patient for the year(s) service occurred. The process will be determined by SRH and will take into consideration temporary increases and/or decreases of income.

   b. Financial Assistance, if granted, is valid for 180 days from the date of determination.

3. Applicants will be notified within fourteen calendar days of the final decision approving or denying their charity care application. In the case of approvals, parties will be notified of the amount that will be covered in accordance with WAC 246-453-020(7).

4. In the event that a responsible party pays a portion or all of the charges related to appropriate hospital-based medical care services, as is subsequently found to have met the charity care criteria at the time that services were provided, any payments in excess of the amount determined to be appropriate in accordance with WAC 246453-040 shall be refunded to the patient within thirty days of achieving the charity care designation.

Denial

1. When an application for Financial Assistance/Sliding Fee Scale has been denied, the responsible party shall receive a written notice of the denial which includes:

   a. The reason or reasons for the denial.

   b. The date of the decision.

   c. Instructions for appeal or reconsideration.

2. When the applicant does not provide requested information, and there is not enough information available for SRH to determine eligibility, the denial notice shall include:

   a. A description of the information that was requested and not provided, including the date the information was requested.

   b. A statement that eligibility cannot be established based on information available to SRH.

   c. Eligibility will be determined if, within fourteen (14) days from the date of the denial notice, the applicant provides all specified information previously requested but not provided.

3. The patient and/or guarantor may appeal the determination of non-eligibility for Financial Assistance/Sliding Fee Scale by providing additional verification of income or family size to SRH within thirty (30) days of receipt of notification. The Business Office Director and/or Financial Assistance Board will review all appeals. The Financial Assistance Board will consist of the Chief Financial Officer, the Medical Director, and the Business Office Director. It this determination affirms the previous denial, written notification will be sent to the patient and/or guarantor and a copy of the denial notification and the application materials will be sent to the Washington State Department of Health as required by WAC 246-453-020.

4. During the period of appeal for financial assistance, collection efforts will cease in accordance with WAC 246-453-020(9)(b).

5. If a patient has been found eligible for Financial Assistance/Sliding Fee Scale and continues receiving services for an extended period of time without completing a new application, SRH shall re-evaluate the patient's eligibility for Financial Assistance/Sliding Fee Scale for a specific date or short term approval period and/or every 180 days to confirm that the patient remains eligible. SRH may require the responsible party to submit a new financial assistance application and documentation.

Documentation and Records

Confidentiality: All information relating to the application will be kept confidential. Copies of documents that support the application will be kept with the application form. Documents pertaining to Financial Assistance/Sliding Fee Scale shall be retained for six (6) years.

Staff Training Requirements

Skagit Regional Health has established a standardized training program on its Financial Assistance and Charity Care policy and the use of interpreter services to assist person with limited English proficiency and non-English-speaking persons in understanding information about its Financial Assistance and Charity Care policy. Skagit Regional Health will provide regular training to front-line staff who work registration, admissions, billing and any other appropriate staff to answer Financial Assistance and Charity Care questions effectively, obtain any necessary interpreter services, and direct inquiries to the appropriate department in a timely manner.

References

RCW 70.170 Health Data and Charity Care

WAC 246-453 Hospital Charity Care

References

Reference Type	Title	Notes
Documents referenced by this document		
Referenced Documents	www.skagitvalleyhospital.org	
Referenced Documents		
Referenced Documents	https://www.skagitregionalhealth.org/for-patients/finance-and-billing-information	
Documents which reference this document		

Referenced Documents	Prompt Pay Discounts	Skagit Regional Health Financial Assistance/Sliding Fee Scale

Signed/Approved By	(07/16/2020) SRH Policy Procedure Committee		
Current Effective Date	07/16/2020	**Next Review Date**	07/16/2022
Original Effective Date	08/07/2012	**Document Owner**	Lovell, Gina

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https://www.lucidoc.com/cgi/doc-gw.pl?ref=svh_p:59792.

Skagit Regional Health Policy/Procedure

Patient Rights and Responsibilities

Patient Care Services System Wide | PCS PP-01 | **Official** (Rev: 10)

Purpose

To provide all Skagit Regional Health patients, families, visitors and staff with a clear description of patient rights as well as patient responsibilities.

Policy

Skagit Regional Health (SRH) seeks to protect the rights, interests and well-being of our patients in conformity with biomedical ethics as well as state and federal laws and regulations. SRH ensures that all patients are informed of their protected rights as well as their responsibilities as patients. Patients are offered, upon registration or admission, a written statement of Patient Rights and Responsibilities. This information is also included in the "Patient Guide Handbooks" for inpatients . Notices of patient rights and responsibilities are posted in conspicuous locations throughout the hospital and clinics. Participation by patients in clinical training programs or in the gathering of data for research purposes is voluntary. The patient has a right to notice concerning the SRH Advance Directives - Acute and Ambulatory Care policy and procedure. This policy and procedure expresses the fundamental rights of all patients but is not all-inclusive.

Support Data

In health care settings, protection of the basic human right to independence of expression, participation in decision-making and respect for personal dignity are of great importance. These rights may become vital deciding factors in a patient's survival and recovery. Thus, it becomes a prime responsibility for the healthcare provider to assure that these rights are protected and preserved for all patients.

Health care providers and other persons in the health care setting including staff, other patients and visitors, also have the right to expect responsible, respectful behavior on the part of patients, their relatives and friends.

Patient Rights

1. **Access to Care:** Patients shall be accorded impartial access to treatment or accommodations that are available or medically indicated, regardless of age, race, color, culture, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, source of payment for care, or any other basis prohibited by federal, state or local law.
2. **Respect and Dignity** (See DNV PR.1, SR.7):
    a. The patient has the right to considerate, respectful care at all times and under all circumstances, with recognition of his or her personal dignity, values and cultural beliefs.
3. **Advance directives** (See PR.2):
    a. All patients have the right to formulate and trust that their wishes, as expressed orally or in writing, such as in an advance directive, living will, or durable power of attorney for health care decisions, are fully respected and honored;
    b. They have the right to receive information regarding the SRH advance directive policy and procedure (See Advance Directives in Acute and Ambulatory Care; 42 CFR 489.100, 102, 104).
4. **Visitation and Designation of Representatives:** SRH is responsible to ensure that all patient visitors enjoy full and equal visitation privileges consistent with the patient's preferences.
    a. Patients have the right to
    (See Visiting Rights and Hours for Inpatients and Ambulatory Care Setting; DNV PR.1, SR.4, SR.12 (a) - (e)):
        i. Have and designate visitors; and

ii. Designate a personal representative.

b. The patient's representative has the right to:
   i. Be promptly notified of the patient's admission to the hospital;
   ii. Make informed decisions about the patient's health care if the patient becomes incompetent to make those decisions;
   iii. This includes the right to be informed about the patient's health status;
   iv. Be involved in the patient's care planning and treatment; and
   v. Be able to request or refuse treatment (42 CFR 482.13(b)(2)).

5. **Participate in their Plan of Care:** Patients have the right to participate in the development and implementation of their plan of care (See DNV PR.1, SR2).
6. **Privacy and Confidentiality:** The patient has the right, within the law, to personal and informational privacy, as manifested by the right to (See PR.1, SR.5, SR.8):
   a. Refuse to talk with or see anyone not officially connected with Skagit Regional Health (SRH), including visitors, or persons connected with SRH but who are not directly involved in the patient's care.
   b. Wear appropriate personal clothing and religious or other symbolic items, as long as they do not interfere with diagnostic procedures or treatment.
   c. Be interviewed and examined in surroundings designed to assure reasonable audiovisual privacy.
      i. This includes the patient's right to have a person of the same gender present during certain parts of a physical examination, treatment, or procedure performed by a health professional of the opposite sex; and
      ii. The right not to remain disrobed any longer than is required for accomplishing the medical purpose for which the patient was asked to disrobe.
   d. Expect that any discussion or consultation involving his/her care will be conducted discreetly, and that individuals not directly involved in his/her care will not be present without his/her permission.
   e. Have his/her medical record read only by individuals:
      i. Directly involved in his/her treatment or the monitoring of its quality; and
      ii. By other individuals only with his/her written authorization or the authorization of his/her legal representative.
   f. Expect all communications and other records pertaining to his/her care, including the source of payment for treatment, be treated as confidential.
   g. Request a transfer to another room if another patient or visitor in his/her room are unreasonably disturbing.
   h. Be placed in an identification status that protects their privacy or safety.
7. **Personal Safety** (See DNV pr.1 SR.5, SR.6, SR.7):
   a. The patient has the right to expect that his/her personal privacy and safety will be protected; and
   b. To be free from abuse or harassment.
8. **Pain Management** (See DNV PR.1, SR.11):
   a. The patient has the right to:
      i. Be informed and knowledgeable about any medications, treatments or anesthesia that will be administered;
      ii. Good pain control;
      iii. Have his/her pain assessed on an individual basis; and
      iv. Receive timely pain medications.
9. **Identity:** The patient has the right to know:
   a. The identity and professional status of individuals providing care to him/her; and
   b. Which physician or other practitioner is primarily responsible for his/her care.
   c. This includes the patient's right to know:
      i. Of the existence of any professional relationship among individuals who are treating him/her;
      ii. The relationship of SRH to any other health care or educational institutions involved in his/her care.
10. **Information about Condition:**

a. The patient has the right to obtain from the practitioner responsible for coordinating his/her care, complete and current information concerning his/her diagnosis (to the degree known), treatment, and any known prognosis;
b. This information should be communicated in terms the patient can reasonably be expected to understand;
c. When it is not medically advisable to give such information to the patient, the information should be made available to a legally authorized individual; and
d. Patients, their families, their designated representatives or their surrogate decision makers have the right to be informed of unanticipated outcomes of care or treatment.

11. **Language and Communication** (DNV PR.3, SR.1):
    a. SRH will inform the patient and/or legal representative of their rights in a language or format that they understand. This may include the use of:
        i. Large print materials; and/or
        ii. Specialized programs for blind or deaf patients provided by the Case Management or Social Services department;
        iii. All patient education and materials will be based on the principles of health literacy;
    b. When the patient does not speak or understand English, he/she shall have access to a competent interpreter or communication devices;
    c. SRH will provide alternative communication aids for those who are deaf, blind, or otherwise impaired.
12. **Informed Consent for Care** (See DNV PR.1, SR.2 and PR.4; Informed Consent - Adults; Informed Consent - Minors):
    a. The patient has the right to informed participation in decisions involving his/her health care.
    b. To the degree possible, this should be based on a clear, concise explanation of:
        i. His/her condition and all proposed technical procedures;
        ii. The possibilities of any risk of mortality or serious side effects;
        iii. Any anticipated problems related to recuperation; and
        iv. The probability of success of the treatment.
    c. The patient may not be subjected to any procedure without his/her voluntary, competent and understanding consent, or that of his/her designated or legally authorized representative.
    d. The patient can rescind or refuse to give consent at any time either orally, in writing or by any reasonable means of communication.
    e. Where medically significant alternatives for care or treatment exist, the patient shall be so informed.
    f. The patient has the right to know who is responsible and participating in performing the procedure or treatment including students, interns or residents.
13. **Participation in Human Subjects Research**:
    a. The patient shall be informed and consent or refuse to participate in any human subjects research or other research/educational projects affecting his/her care or treatment; and
    b. The patient has the right to refuse to participate in any such activity.
14. **Consultation:** The patient, at his/her own request and expense, has the right to obtain a second opinion or to consult with a specialist.
15. **Patient Grievances** (See, DNV PR.5; Patient Grievance and Complaint Resolution):
    a. The patient has the right to:
        i. Have reasonable expectations that care and services will be timely, reasonable and provided in a consistent manner;
        ii. Express dissatisfaction or complaints in any manner, formal or informal, orally or in writing, by email or the internet;
        iii. Access protective and advocacy services;
        iv. Information concerning to whom and how to make a complaint or grievance; and
        v. Be provided with information, including a phone number and address, to contact the Washington State Department of Health to directly report a complaint or grievance.
    b. The facility will:
        i. Post notices in conspicuous places throughout the organization regarding the patient's right to make a complaint including the Washington State Department of Health toll-free number; and
        ii. Investigate and respond to the patient's complaint or grievance in a timely manner.

16. **Restraints and Seclusion** (See DNV PR.6; Restraints & Seclusion Usage; RCW 70.56.010; WAC 246-322-180):
    a. All patients have the right to be free from physical or mental abuse, and corporal punishment.
    b. All patients have the right to be free from restraint or seclusion, of any form, that is:
        i. Not medically necessary; or
        ii. Imposed by staff as a means of coercion, discipline, convenience, or retaliation.
    c. SRH will promptly report any death related to the use of restraints or seclusion directly to CMS Regional Office and the Washington State Department of Health; (See 42 CFR 482.13(g) CMS Conditions of Participation, State Operations Manual; RCW 70.56)
        i. Staff will document the time and date of the report in the patient's medical record.
17. **Refusal of Treatment:** If the patient or his/her authorized representative refuses treatment or care in accordance with ethical and professional standards, the provider may terminate his/her relationship with the patient after reasonable notice.
18. **Transfer and Continuity of Care** (See Emergency Patients Screening and Transfer, EMTALA)
    a. A patient may not be transferred to another facility unless he/she has received:
        i. A complete emergency medical screening examination;
        ii. An explanation of the need for the transfer and the alternatives to such a transfer; and
        iii. Approval of the transfer by the accepting facility and provider.
    b. The patient has the right to be informed by the responsible practitioner or his/her delegate of any continuing health care requirements following discharge.
19. **SRH Charges:**
    a. Regardless of the source of payment for his/her care, the patient has the right to request and receive an itemized and detailed explanation of his/her total bill for services rendered;
    b. The patient has the right to receive in advance a Beneficiary Notice of non-coverage and right to appeal premature discharge;
    c. The patient has the right to timely notice prior to termination of his eligibility for reimbursement by any third-party payer for the cost of his care;
    d. The patient is responsible for assuring that the financial obligations of his/her health care are fulfilled as promptly as possible.
20. **SRH Policies and Procedures:**
    a. The patient will be informed of policies and procedures applicable to his/her conduct as a patient;
    b. Patients are entitled to information about SRH's mechanism for the initiation, review and resolution of patient complaints and grievances.

Patient Responsibilities

The patient is responsible for following SRH policies and procedures affecting patient care and conduct:

1. **Provision of Information:** Patients are responsible to provide, to the best of their knowledge:
    a. Accurate and complete information about:
        i. Present complaints;
        ii. Past illnesses;
        iii. Hospitalizations;
        iv. Medications; and
        v. Other matters relating to his/her health.
    b. He/she is responsible to report unexpected changes in his/her condition to the responsible practitioner.
    c. The patient is responsible for making it known whether he/she clearly comprehends a contemplated course of action and what is expected of him/her.
2. **Compliance with Instructions:**
    a. Patients are responsible for following the treatment plan recommended by the practitioner primarily responsible for his/her care;
    b. This includes following the instructions of nurses and other providers as they carry out the coordinated plan of care and implement the responsible practitioner's orders, and as they uphold the applicable policies and procedures;

   c. The patient is responsible for keeping appointments and, when he/she is unable to do so for any reason, for notifying the responsible practitioner at least 24 hours in advance of the appointment.
3. **Refusal of Treatment:** The patient is responsible for the consequences resulting if he/she refuses treatment or does not follow the practitioner's instructions.
4. **Respect and Consideration:**
   a. The patient is responsible for:
      i. Being considerate of the rights of other patients and SRH personnel;
      ii. Assisting in the control of noise and the number of visitors; and
      iii. Being respectful of SRH property and the property of other persons.
5. **Right to Organ Donation:**
   a. If the patient is competent and over age 18, written consent to be an organ donor will be honored.
   b. The deceased person's wishes and rights shall be considered, but final consent is obtained from next of kin.
   c. If the patient is known to be opposed to the gift, the patient's wishes will control.
6. **Patient and Family Participation in Care Decisions:**
   a. The patient has a responsibility to be informed about and participate in decisions regarding his/her care;
   b. The family is included whenever possible, at the patient's discretion.
7. **Advance Directives:** The patient has the responsibility to provide a copy of their written advance directive.
8. **Resolving Conflicts:**
   a. The patient has a right to participate in ethical questions that arise in his/her care.
   b. This Includes issues of conflict resolution, including talking directly with the care providers regarding withholding resuscitation and forgoing/withdrawing life sustaining treatment.
   c. The patient has the responsibility to express any dissatisfaction with care or services rendered so that improvements or explanations can be made.

References

1. Patient Rights and Organizational Ethics WAC 246-320-141.
2. Hospital licensing and regulation RCW 70.41.
3. Organ Donation RCW 68.64.
4. Informed Consent RCW 7.70.065.
5. Right to be informed of unanticipated outcomes: RCW 70.41.380.
6. Accreditation standards, DNV Patient Rights, PR.1 - PR.8.
7. 42 CFR 482.13 (right of a patient's representative to make informed decisions concerning the patient's care).
8. 42 CFR 489.102(a) (patient's right to formulate an advance directive and the hospital's obligation to honor the patient's wishes).

References

Reference Type	Title	Notes
Documents referenced by this document		
Referenced Documents	42 CFR 482.13(b)(2)	
Referenced Documents	42 CFR 489.100	
Referenced Documents	Advance Directives in Acute and Am bulatory Care	
Referenced Documents	Advance Directives in?Acute and A mbulatory Care	
Referenced Documents	Emergency Patients Screening and Transfer, EMTALA	
Referenced Documents	Hospital licensing and regulation RC W 70.41.	

Referenced Documents	Informed Consent RCW 7.70.065.
Referenced Documents	Informed Consent - Adults
Referenced Documents	Informed Consent - Minors
Referenced Documents	Organ Donation RCW 68.64.
Referenced Documents	Patient Grievance and Complaint Re solution
Referenced Documents	Patient Rights and Organizational Et hics WAC 246-320-141
Referenced Documents	RCW 70.56.010
Referenced Documents	Restraints & Seclusion Usage;
Referenced Documents	Restraints & Seclusion Usage;
Referenced Documents	Right to be informed of unanticipated outcomes: RCW 70.41.380.
Referenced Documents	Visiting Rights and Hours for Inpatie nts and Ambulatory Care Setting
Referenced Documents	WAC 246-322-180
Referenced Documents	patient complaints and grievances
Signed/Approved By	(02/21/2019) SRH Policy Procedure Committee
Current Effective Date	02/21/2019
Original Effective Date	10/01/1998

Next Review Date	09/01/2020
Document Owner	Norton, Lisa

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Patient Nondiscrimination

Disclaimer

Approvals

- Committee Approval: SRH Policy Procedure Committee approved on 2/16/2018
- Committee Approval: SRH Policy Procedure Committee approved on 1/16/2020

Revision Insight

Document ID:	74052
Revision Number:	2
Owner:	Lisa Norton, Director
Revision Official Date:	12/4/2015

Revision Note:
Modifications to add Culture to non-discrimination and correct wording of express to expression on patient visitation rights.
[Added at review/expire: Reviewed. No changes necessary. Includes language added in 2015.]
[Reviewed and Updated on 1/22/2018 by Lisa Norton: Next Review Date set to 12/03/2019.]
[Reviewed on 12/19/2019 by Lisa Norton: Next Review Date is 12/18/2021.]

Purpose

To ensure that all patients and visitors of Skagit Regional Health are treated with equality, in a welcoming, nondiscriminatory manner, consistent with Skagit Regional Health's Values and Service Standards.

Policy

Skagit Regional Health is dedicated to providing services to patients and welcoming visitors in a manner that respects, protects, and promotes patient rights.

1. Staff will treat all patients and visitors receiving services from or participating in other programs of Skagit Regional Health and its affiliated clinics with equality in a welcoming manner that is free from discrimination based on age, race, color, culture, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state or local law.
2. Staff will inform patients of the availability of and make reasonable accommodations for patients consistent with federal and state requirements. For example, language interpretation services will be made available for non-English speaking patients and sign language interpretation will be made available for hearing impaired patients.
3. Staff will afford visitation rights to patients free from discrimination based on age, race, color, culture, creed, ethnicity, religion, national origin, marital status, sex, sexual orientation, gender identity or expression, disability, veteran or military status, or any other basis prohibited by federal, state, or local law and will ensure that visitors receive equal visitation privileges consistent with patient preferences.
4. Any person who believes that he, she, or another person has been subjected to discrimination which is not permitted by this Policy, may file a complaint using Skagit Regional Health's complaint and grievance procedure.
5. Staff are prohibited from retaliating against any person who opposes, complains about, or reports discrimination, files a complaint, or cooperates in an investigation of discrimination or other proceeding under federal, state, or local anti-discrimination law.

References

Reference Type		Title	Notes
Document ID	74052	**Document Status**	Official
Department	Compliance	**Department Manager**	Norton, Lisa
Document Owner	Norton, Lisa	**Next Review Date**	12/18/2021
Signed/Approved By	(01/16/2020) SRH Policy Procedure Committee		
Original Effective Date	03/13/2014		
Revised	[03/13/2014 Rev. 0], [03/20/2014 Rev. 1], [12/04/2015 Rev. 2]		
Reviewed	[01/22/2018 Rev. 2], [12/19/2019 Rev. 2]		
Keywords	patient, nondiscrimination, discrimination, patient, non-discrimination, visitation, patient rights		

Mount Vernon Outpatient Surgery Center
Transfer Policy

Policy Number:	pending	Policy Name:	Transfer of Patients to the Hospital
Department:	Mount Vernon Outpatient Surgery Center		
Effective Date:	Pending approval	Last Revision Date:	
Approved By:		Approved Date:	

Purpose:
To define the procedure in which patients will be transferred to the hospital should the need arise.

Policy:
The surgeon or anesthesiologist may order a patient to be transferred to the hospital for emergency medical care beyond the capabilities of the ASC or for patient comfort or personal safety.

Scope:
Physicians on Staff, Nursing Staff

Procedure:

1. Patient needing transfer to the hospital may fall into two categories:
    a. A patient requiring emergency medical care will be transported to Skagit Valley Hospital by an ambulance staffed with advanced life support (ACLS) personnel. The charge nurse or designee will call **911** to arrange for transport. The ER will be notified of the transfer.
    b. A patient requiring hospitalization for pain control or reasons of personal safety may be transported to Skagit Valley Hospital or if patient/physician request, or to another local Hospital by an ambulance staffed with basic life support (BLS) personnel. The charge nurse will arrange for transport as ordered and contact the receiving hospital to arrange for the transfer.

2. The physician will contact the ER physician or hospitalist in receiving hospital, as appropriate, and complete required paperwork, as needed, that will accompany the patient to the hospital.

3. The nurse will complete the patient's EMR prior to transfer and if applicable, call report to the nurse at the hospital assigned to admit the patient.

4. An Incident Report will be generated.

5. RN staff will make a post-op call to the patient to follow up post hospital discharge.

6. Front desk staff will request the discharge summary from the admitting hospital or the physician's office. A copy of this will be scanned into the patient EMR.

8. All Surgeons practicing at the facility will have admitting privileges at Skagit Valley Hospital. Physician orders will need to be entered into EPIC system by physician as the hospital is unable to process written orders.

Exhibit 5

Financial Pro Formas

Skagit Regional Health
Skagit Valley MVSC Statement of Operations
Financial ProForma

	2024	2025	2026
Patient Revenue			
I/P Revenue	--	--	--
O/P Revenue	154,434,912	157,524,302	160,616,504
Clinic Revenue	--	--	--
Total Patient Revenue	154,434,912	157,524,302	160,616,504
Deductions From Revenue	(113,169,026)	(115,432,913)	(117,698,861)
Charity Care	(2,090,393)	(2,132,210)	(2,174,066)
Bad Debt	(903,590)	(921,666)	(939,758)
Percent of Total Revenue	73.28%	73.28%	73.28%
Net Patient Revenue	41,265,886	42,091,389	42,917,643
Other Operating Revenue	--	--	--
Total Operating Revenue	41,265,886	42,091,389	42,917,643
Operating Expenses			
Salaries	5,360,119	5,539,576	5,724,068
Registry	518,246.23	526,161	534,037
Employee Benefits	1,290,504	1,333,710	1,378,128
Professional Fees	1,265,827	1,285,159	1,304,397
Supplies	6,804,895	6,908,821	7,012,239
Purchased Services	4,464,429	4,532,611	4,600,460
Taxes, Interest, Depreciation, & Rentals and Leases	8,473,816	8,574,651	8,238,465
Baseline	4,464,429	4,532,611	4,600,460
Depreciation - Equipment & FFE	1,896,691	1,896,691	1,680,056
Depreciation - IT	187,265	187,265	
Depreciation - Other	292,775	292,775	259,335
Lease Expense	1,632,655	1,665,308	1,698,614
Other Operating Expenses	2,105,201	2,137,353	2,169,347
Allocation To PHD 3	--	--	--
OH Allocation To OSC	7,040,806	7,169,845	7,198,465
Total Operating Expenses	**37,323,843**	**38,007,887**	**38,159,606**
Net Operating Income	**3,942,044**	**4,083,502**	**4,758,036**

Skagit Regional Health
Skagit Valley Hospital & Skagit Regional Clinics Statement of
Operations Financial Proforma Without MVSC

	2024	2025	2026
Patient Revenue			
I/P Revenue	467,103,182	476,718,355	486,531,453
O/P Revenue	731,137,542	749,143,978	767,593,878
Clinic Revenue	210,991,259	215,760,998	220,638,562
Total Patient Revenue	**1,409,231,983**	**1,441,623,331**	**1,474,763,893**
Deductions From Revenue	(1,039,356,297)	(1,063,246,013)	(1,087,688,299)
Charity Care	(19,198,392)	(19,639,669)	(20,091,153)
Bad Debt	(8,298,665)	(8,489,411)	(8,684,569)
Percent of Total Revenue	*73.8%*	*73.8%*	*73.8%*
Net Patient Revenue Other	**369,875,686**	**378,377,318**	**387,075,594**
Operating Revenue	28,458,454	29,027,623	29,608,176
Total Operating Revenue	**398,334,140**	**407,404,942**	**416,683,770**
Operating Expenses			
Salaries	182,211,820	185,257,113	188,372,090
Registry	5,191,909	5,295,747	5,401,662
Employee Benefits	43,869,367	44,602,552	45,352,515
Professional Fees	12,681,344	12,934,971	13,193,670
Supplies	68,172,989	69,536,449	70,927,178
Purchased Services	44,725,671	45,620,184	46,532,588
Taxes, Interest, Depreciation, & Rentals/	34,668,344	35,361,711	36,068,945
Leases	34,668,344	35,361,711	36,068,945
Baseline	21,090,388	21,512,196	21,942,440
Other Operating Expenses	(16,349,815)	(16,649,646)	(16,955,872)
Allocation To PHD 3			
OH Allocation To OSC	**396,262,017**	**403,471,277**	**410,835,216**
Total Operating Expenses			
Net Operating Income	**2,072,123**	**3,933,665**	**5,848,553**
Non-Operating Revenue/Expense	6,839,725	6,976,519	7,116,050
Net Income	**8,911,848**	**10,910,184**	**12,964,603**

Skagit Regional Health
Skagit Valley Hospital & Skagit Regional Clinics Statement of
Operations Financial Proforma With MVSC

	2024	2025	2026
Patient Revenue			
I/P Revenue	477,917,258	488,797,977	499,889,277
O/P Revenue	773,002,615	793,820,145	815,126,537
Clinic Revenue	215,755,456	220,879,099	226,111,909
Total Patient Revenue	**1,466,675,330**	**1,503,497,221**	**1,541,127,723**
Deductions From Revenue	(1,081,722,710)	(1,108,880,101)	(1,136,633,870)
Charity Care	(19,980,960)	(20,482,596)	(20,995,247)
Bad Debt	(8,636,937)	(8,853,773)	(9,075,371)
Percent of Total Revenue	*73.8%*	*73.8%*	*73.8%*
Net Patient Revenue	**384,952,620**	**394,617,120**	**404,493,853**
Other Operating Revenue	28,458,454	29,027,623	29,608,176
Total Operating Revenue	**413,411,074**	**423,644,743**	**434,102,028**
Operating Expenses			
Salaries	189,146,914	192,727,104	196,384,148
Registry	5,191,909	5,295,747	5,401,662
Employee Benefits	45,539,062	46,401,029	47,281,501
Professional Fees	12,681,344	12,934,971	13,193,670
Supplies	70,737,935	72,299,226	73,890,439
Purchased Services	44,725,671	45,620,184	46,532,588
Taxes, Interest, Depreciation, & Rentals/Leases	38,677,731	39,403,751	39,706,950
Baseline	34,668,344	35,361,711	36,068,945
Depreciation - Equipment & FFE	1,896,691	1,896,691	1,680,056
Depreciation - IT	187,265	187,265	
Depreciation - Other	292,775	292,775	259,335
Lease Expense	1,632,655	1,665,308	1,698,614
Other Operating Expenses	21,090,388	21,512,196	21,942,440
Allocation To PHD 3	(16,349,815)	(16,649,646)	(16,955,872)
OH Allocation To OSC			
Total Operating Expenses	**411,441,139**	**419,544,562**	**427,377,525**
Net Operating Income	**1,969,935**	**4,100,181**	**6,724,503**
Non-Operating Revenue/Expense	6,839,725	6,976,519	7,116,050
Net Income	**8,809,660**	**11,076,700**	**13,840,553**

Exhibit 6

Draft Lease

BUILD TO SUIT LEASE

This Lease is made as of _____, 2021, by and between **SVH PARTNERS LLC**, a Washington limited liability company ("**Landlord**"), and the **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW ("**Tenant**").

For and in consideration of the mutual promises, covenants and conditions set forth in this Lease, the parties agree as follows:

BASIC LEASE INFORMATION

Land:	That certain real property located in Mount Vernon, Skagit County, Washington, legally described in Exhibit A attached.
Improvements:	The three (3) story medical office building to be constructed on the Land which will contain approximately 60,000 rentable square feet of space, as shown on the Site Plan attached hereto as Exhibit C.
Premises:	The Land and the Improvements.
Term:	300 full calendar months, as the same may be extended pursuant to Section 2.2 of this Lease.
Target Delivery Date:	July 1, 2023, as the same may be adjusted pursuant to the Work Letter.
Base Rent:	The Base Rent during the first Lease Year shall be $_____ per annum and $_____ per month (the "**Initial Base Rent**"). The Initial Base Rent shall be subject to adjustment as provided in the Work Letter attached to this Lease as Exhibit B (the "**Work Letter**") and subject to a credit in the amount of $200,000 for costs paid by Tenant under the Reimbursement Agreement (as defined below), which shall be credited to the Base Rent first coming due until repaid in full.
Lease Year:	For purposes of this Lease, the term "**Lease Year**" means each consecutive twelve (12) month period during the Term commencing on the Commencement Date, provided (1) if the Commencement Date is not the first day of a calendar month, then the first Lease Year shall include the partial calendar month during which the Commencement Date occurs and shall end on the last day of the calendar month that is the 12th full consecutive calendar month following the Commencement Date, and (2) any portion of the last Lease Year shall end on the "Expiration Date" (as defined in Section 2.1 below).
Permitted Uses:	A medical office building, including general and administrative offices, medical clinics, endoscopy, and an ambulatory surgery and other uses incidental thereto.
Landlord's Address for Notice:	SVH Partners LLC c/o Meriwether Partners LLC 232 Seventh Avenue North, Suite 100 Seattle, WA 98109 Attention: Joel Aslanian Telephone: (206) 816-1573 Email: jaslanian@mericap.com

With a copy to:	Optimum Properties, LLC P.O. Box 836 Mount Vernon, WA 98273 Attention: Craig Cammock Email: craig@skagitlaw.com
Landlord's Address for Payment of Rent:	SVH Partners LLC c/o Meriwether Partners LLC 232 Seventh Avenue North, Suite 100 Seattle, WA 98109 Attention: Joel Aslanian
Tenant's Address for Notice:	_____ _____ _____ Attention: _____ Telephone: _____ Email: _____

EXHIBITS:

A - Premises
B - Work Letter
C - Site Plan
D - Commencement Date Memorandum
E - Tenant Estoppel Certificate
F – Option to Purchase
G – Form of Memorandum of Lease

1. PREMISES.

1.1 Premises. Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord.

1.2 Access by Landlord. Landlord and its agents shall have the right to enter the Premises at any time upon reasonable prior notice to Tenant (except in case of an emergency when such notice shall not be required) to inspect the Premises and/or the performance by Tenant of the terms and conditions of this Lease, to show the Premises to prospective purchasers or lenders, and during the last twelve (12) months of the Term, to show the Premises to prospective tenants. Tenant shall provide Landlord with a key or other method of accessing the Premises. Landlord acknowledges Tenant is subject to the requirements of the Health Insurance Portability and Accountability Act ("**HIPAA**"), and the privacy rights of Tenant's patients and service providers, and other legal and contractual requirements to maintain in confidence the personal, health and financial information of Tenant's patients and service providers ("**Protected Information**"). In all circumstances of Landlord's entry into the Premises, Landlord shall use its commercially reasonable efforts to cooperate with Tenant in complying with all applicable Laws relating to the Protected Information and HIPAA. Notwithstanding the rights granted to Landlord pursuant to this Lease, Tenant will have the right to designate certain areas of the Premises as "restricted" solely for the purposes involving patient privacy and Protected Information ("**Restricted Areas**"), and Landlord and its agents and representatives may only access, maintain or repair such Restricted Areas in an emergency, or to confirm Tenant's compliance with applicable laws and regulations, or if work is routine, or in response to specific requests by Tenant, in accordance with a schedule reasonably designated by Tenant. Except in the case of an emergency, Landlord and any persons brought into the Premises by Landlord shall comply with any commercially reasonable procedures that Tenant may have in place for visitors to the Premises, including without limitation, the right for a representative of Tenant to escort such persons at all times while on the Premises; provided, Tenant makes such representative available when reasonably requested by Landlord.

2. TERM.

2.1 Commencement Date. The Term shall commence (the "**Commencement Date**") on the date (the "**Delivery Date**") on which possession of the Premises is delivered to Tenant with the "Improvements" (as defined in the Work Letter) "Substantially Complete" (as defined in the Work Letter). Following the Commencement Date, Tenant shall execute and deliver to Landlord a Commencement Date Memorandum in the form attached hereto as Exhibit D acknowledging (i) the Commencement Date, (ii) Tenant's acceptance of the Premises, and (iii) the last date of the Term (the "**Expiration Date**"). If the Premises are not Substantially Complete on the Target Delivery Date as extended by "Force Majeure Delays" and "Tenant Delays" (both as defined in the Work Letter), this Lease shall remain in effect and, except as provided in the Work Letter, Landlord shall not be subject to any liability, and the Commencement Date shall be delayed until the date the Premises are Substantially Complete.

2.2 Extension Options.

2.2.1 Options to Extend. So long as Tenant is not then in default under this Lease, on the terms and conditions stated in this Section 2.2, Tenant shall have the option to extend the Term for up to two (2) additional periods of one hundred twenty (120) months each (each, an "**Additional Term**"). To exercise its option to extend this Lease for an Additional Term, Tenant must deliver to Landlord a written notice (an "**Option Notice**") exercising its renewal option at least twelve (12) months (but not more than fifteen (15) months) prior to the date the then current Term will expire. The renewal option granted to Tenant pursuant to this paragraph is personal to Tenant and may not be exercised by or for the benefit of any assignee or sublessee of Tenant, other than a "Permitted Assignee" (as defined in Section 15 below). All of the terms and conditions

of this Lease shall apply during each applicable Additional Term except (a) the annual Base Rent for each Additional Term, if applicable, shall be calculated as provided in Section 2.2.2; (b) unless otherwise agreed by Landlord in writing, there shall be no further renewal options after the commencement of the second Additional Term, if applicable; and (c) there shall be no Landlord-provided tenant improvements, cash allowances, lease assumptions or other Landlord concessions during any applicable Additional Term. If at the time Tenant delivers the Option Notice to Landlord, or at any time between such date and the commencement date of any applicable Additional Term, Tenant defaults under this Lease and fails to cure its default within the applicable notice and cure period, if any, Landlord may declare the Option Notice null and void by written notice to Tenant.

2.2.2 Base Rent During Additional Terms. The monthly Base Rent payable in the first Lease Year of each applicable Additional Term shall be an amount equal to the greater of (a) Base Rent payable by Tenant during the month preceding the date the applicable Additional Term commences, and (b) an amount equal to the Initial Base Rent multiplied by a fraction, the numerator of which is the "CPI Index" (defined in Section 3.2 below) most recently published prior to the date the applicable Additional Term commences, and the denominator of which is the CPI Index most recently published prior to the Commencement Date. Landlord will provide Tenant with written notice of the monthly Base Rent payable during the first Lease Year of any applicable Additional Term. The Base Rent payable during each applicable Additional Term will be subject to annual adjustments pursuant to Section 3.2 below.

3. RENT.

3.1 Rent. Commencing on the Commencement Date, Tenant shall pay to Landlord, at Landlord's Address for Payment of Rent designated in the Basic Lease Information, or at such other address as Landlord may from time to time designate in writing to Tenant for the payment of Rent, the Base Rent specified in the Basic Lease Information, subject to adjustment as provided in the Work Letter and Section 3.2 below, without notice, demand, offset or deduction, in advance, on the first day of each calendar month. If the Term commences (or ends) on a date other than the first (or last) day of a month, Base Rent shall be prorated on a per diem basis with respect to the portion of the first month and/or last month within the Term. All sums other than Base Rent, which Tenant is obligated to pay under this Lease shall be deemed to be additional rent due hereunder, whether or not such sums are designated "**Additional Rent**". The term "**Rent**" means the Base Rent and all additional amounts payable by Tenant hereunder. Payments of Rent payments shall be made by automated clearing house funds transfer (or such other method of payment as may be reasonably specified by Landlord). Tenant will receive a credit against Rent in the amount of $200,000 for fees paid by Tenant to the "Architect" (as defined in the Work Letter), such credit to be applied to the Base Rent first coming due after the Commencement Date.

3.2 CPI Adjustments. On the first anniversary of the Commencement Date, and on every anniversary of the Commencement Date thereafter (each an "**Adjustment Date**"), the Base Rent shall be increased in order to reflect the cumulative increase, if any, occurring in the cost of living as indicated by the Consumer Price Index for All Urban Consumers: All Items – Seattle-Tacoma-Bellevue (1982-1984=100) (the "**CPI Index**"). Any such adjustment to Base Rent will be accomplished by multiplying the then current annual Base Rent by a fraction, the numerator of which is the CPI Index most recently published prior to the applicable Adjustment Date, and the denominator of which is the CPI Index most recently published prior to the Commencement Date. Prior to the applicable Adjustment Date, Landlord will provide Tenant with an invoice or other written notice of any such adjustment to the Base Rent. By way of illustration only, if the Commencement Date is June 1, 2023, the first Adjustment Date will be June 1, 2024, and the fraction for determining the increase in Base Rent will have a numerator equal to the CPI Index most recently published prior to June 1, 2024, and a denominator equal to the CPI Index most recently published prior to June 1, 2023. Any adjustment of Base Rent shall become effective on the applicable Adjustment Date. In no event shall the Base Rent on any Adjustment Date be less than the Base Rent for

the month immediately preceding the Adjustment Date. If the CPI Index is discontinued, the adjustment will be determined based on a similar index of consumer prices reasonably selected by Landlord.

3.3 Late Charge and Interest. The late payment of any Rent will cause Landlord to incur additional costs, including administration and collection costs and processing and accounting expenses and increased debt service ("**Delinquency Costs**"). If Landlord has not received any installment of Rent within five (5) days after written notice that such amount is past due, Tenant shall pay a late charge of five percent (5%) of the delinquent amount, which is agreed to represent a reasonable estimate of the Delinquency Costs incurred by Landlord. Landlord and Tenant recognize that the damage which Landlord shall suffer as a result of Tenant's failure to pay such amounts is difficult to ascertain and said late charge is the best estimate of the damage which Landlord shall suffer in the event of late payment. In addition, any such sum that is not paid when due shall bear interest at the rate of the lesser of: (i) twelve percent (12%) per annum; or (ii) the maximum legal rate; (the "**Default Rate**") until such sum is paid in full.

4. UTILITIES. Landlord shall provide connections for utilities in accordance with the "Final Plans" (as defined in the Work Letter). Tenant shall make all arrangements for and pay all charges for water, sewer, telephone, gas, electricity and other utilities supplied or used on the Premises including, without limitation, paying any deposits and "hook up charges"; provided, however, Landlord shall be responsible for the payment of the initial "hook up charges", if any, necessary to connect the utilities to the Premises and included in the "Final Budget" (as defined in the Work Letter). Landlord shall not be liable to Tenant for interruption in or curtailment of any utility service not caused by the gross negligence or willful misconduct of Landlord, its agents, employees or contractors, nor shall any such interruption or curtailment constitute constructive eviction or grounds for rental abatement except as provided below in this Section 4. Landlord shall provide reasonable assistance to Tenant upon request to cause the provider of any interrupted or curtailed utility to restore service as soon as reasonably practicable. In the event of any interruption or curtailment of any utility service for the Premises caused by the gross negligence or willful misconduct of Landlord, its agents, employees or contractors that materially impacts Tenant's use of the Premises for the Permitted Uses and continues for more than forty-eight (48) hours, Rent shall be abated from the expiration of such 48-hour period until such utilities and/or services are fully restored.

5. TAXES.

5.1 Real Property Taxes.

(a) Prior to the Commencement Date, Landlord shall take all steps necessary to cause the Premises to be one or more separate legal lots and tax parcels, which shall be comprised solely of the Premises. Commencing on the Commencement Date, Tenant shall be responsible for the payment of all Real Property Taxes applicable to the Premises (subject to any exemptions applicable to Tenant). At Landlord's option, Tenant shall either (i) pay to Landlord the amount of such Real Property Taxes within ten (10) Business Days after Landlord provides Tenant with written notice of the amount of the Real Property Taxes due from Tenant, or (ii) pay directly to the applicable taxing authority the amount of such Real Property Taxes applicable to the Premises prior to the date such Real Property Taxes are due. If so directed by Tenant, Landlord shall elect to pay such Real Property Taxes in installments over the longest period of time allowed by applicable law, provided that Landlord shall not thereby incur any interest or penalty, or lose the benefit of any available discount, and only those installments (or partial installments) attributable to the Term shall be considered in determining Tenant's tax liability for such assessment. Landlord acknowledges that Tenant is a non-profit public hospital and, at its sole cost and expense, may seek to obtain an exemption from Real Property Taxes on the Premises. If Tenant obtains an exemption from Real Property Taxes, then Tenant shall provide evidence of such exemption to Landlord and Tenant shall be entitled to receive the full benefit of the exemption. Landlord will cooperate with Tenant, as requested by Tenant, in seeking such exemption from Real Property Taxes. If Tenant obtains an exemption

from Real Property Taxes, Tenant shall be liable for any Real Property Taxes, interest and penalties that are subject to later imposition or other recapture, if such Real Property Taxes relate to the dates this Lease is, or was, in effect. Notwithstanding the foregoing, in the event the Premises are not subdivided into a separate tax parcel(s) prior to the Commencement Date, then until such subdivision occurs (which Landlord shall continue to diligently pursue), Tenant shall pay to Landlord its pay its pro rata share of the Real Property Taxes applicable to the tax parcels containing the Premises (based upon the proportion of the gross acreage contained within the Premises relative to the gross acreage contained within the entire tax parcel(s)) prior to the date when due, provided that Landlord has provided Tenant with a copy of the applicable tax bill for the tax parcel which contains the Premises; provided, however, that Tenant's tax obligations shall not exceed the amount the Tenant would have otherwise been obligated to pay had the separate tax parcel been created before the Commencement Date of Possession, accounting for the tax exemptions Tenant would have been entitled to enjoy. Tenant's obligation under this Section 5.1(a) shall survive termination of this Lease.

(b) The term "**Real Property Taxes**" means the sum of the following to the extent imposed upon and specifically attributable to the Premises: all real property taxes, possessory-interest taxes, business or license taxes or fees, service payments in lieu of such taxes or fees, annual or periodic license or use fees, excise taxes, transit and traffic charges, housing fund assessments, open space charges, childcare fees, school, sewer and parking fees or any other assessments, levies, fees, exactions or charges, general and special, ordinary and extraordinary, unforeseen as well as foreseen (including fees "in-lieu" of any such tax or assessment) which are assessed, levied, charged, conferred or imposed by any public authority upon the Premises (or any real property comprising any portion thereof) or its operations, together with all taxes, assessments or other fees imposed by any public authority upon or measured by any Rent or other charges payable hereunder, including any gross receipts tax or excise tax levied by any governmental authority with respect to receipt of rental income (provided that, to the extent the existing Business and Occupation Tax of the State of Washington applies to the income of Landlord other than the rentals payable by Tenant to Landlord, "Real Property Taxes" shall not include such Business and Occupation Tax), or with respect to or by reason of the development, possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof, or documentary transfer taxes upon any document (other than this Lease) to which Tenant is a party creating or transferring an interest in the Premises, together with any tax imposed in substitution, partially or totally, of any tax previously included within the aforesaid definition or any additional tax the nature of which was previously included within the aforesaid definition, together with the reasonable costs and expenses (including attorneys and expert witness fees and costs) of challenging any of the foregoing or seeking the reduction in or abatement, redemption or return of any of the foregoing (a "**Reduction Proceeding**"), but only to the extent of any such reduction, abatement, redemption or return.

(c) Real Property Taxes shall not include any federal, state or local income taxes paid by Landlord, estate, inheritance, death, succession, franchise, transfer, gift, excise, partnership, corporate or capital stock taxes of Landlord, or similar taxes attributable to periods before the Commencement Date. If, by virtue of any Reduction Proceeding there shall be a reduction of the assessed valuation of the Land and/or Improvements for any tax period which affects the Real Property Taxes, or part thereof, for which Additional Rent has been paid by Tenant, such Additional Rent payment shall be recomputed on the basis of any such reduction and Landlord will credit against the next accruing installments of Base Rent due under this Lease, after receipt by Landlord of a tax refund or credit, any sums paid by Tenant in excess of the recomputed amounts. If Landlord fails to bring a Reduction Proceeding, Tenant may request Landlord to do so, and if Landlord fails to so bring a Reduction Proceeding, Tenant shall have the right to bring a Reduction Proceeding with respect to the Land and/or Improvements by appropriate proceedings conducted in good faith, at Tenant's sole cost and expense, whereupon Landlord shall reasonably cooperate with Tenant, execute any and all documents required in connection therewith and, if required by any governmental authority having jurisdiction, join with Tenant in the prosecution

thereof. Tenant shall not, however, enter into any settlement agreements as to Real Property Taxes without Landlord's prior consent and shall continue to pay the Real Property Taxes due hereunder notwithstanding the ongoing Reduction Proceeding. Tenant shall indemnify and save Landlord free and harmless from and against any and all claims arising from Tenant's undertaking of the Reduction Proceeding.

5.2 Tenant's Failure to Pay. If Tenant timely fails to pay any Real Property Taxes payable by Tenant prior to the date such Real Property Taxes are due, Landlord may pay such Real Property Taxes and associated late payment penalties or fees, and Tenant will reimburse Landlord within fifteen (15) days after written notice from Landlord to Tenant, for the amounts paid by Landlord plus interest at the Default Rate from the date paid by Landlord until the date reimbursed by Tenant.

5.3 Partial Years. Real Property Taxes for partial tax fiscal years, if any, falling within the Term, shall be prorated. Tenant's obligations for Real Property Taxes for the last full or partial year of the Term shall survive the expiration or earlier termination of this Lease for a period of two (2) years.

5.4 Personal Property Taxes. Prior to delinquency, Tenant shall pay all taxes and assessments levied upon trade fixtures, alterations, additions, improvements, inventories and other personal property located and/or installed on the Premises by Tenant; and within fifteen (15) days following written request by Landlord, Tenant shall provide Landlord copies of receipts for payment of all such taxes and assessments. To the extent any such taxes are not separately assessed or billed to Tenant, Tenant shall pay the reasonably allocated amount thereof as invoiced by Landlord.

6. PROPERTY MANAGEMENT. Tenant shall be responsible for managing the Premises; provided, however, if Tenant requests in writing that Landlord provide property management services with respect to the Premises in addition to the other services provided by Landlord pursuant to this Lease, Landlord shall provide such services through an affiliate of Landlord or by engaging a third party property manager, and Tenant shall reimburse Landlord for the costs of such property management services to the extent such property management fees do not exceed the property management fees typically charged in the market where the Premises is located for third party property management services.

7. INSURANCE.

7.1 Landlord.

7.1.1 Builder's Risk Insurance. During the construction of the Improvements, Landlord shall procure directly, or cause the "Contractor" (as defined in the Work Letter) to obtain, a completed value "All Risk" Builder's Risk policy in an amount equal to one hundred percent (100%) of the Project Cost (as defined in the Work Letter), less the cost of the Land and less the cost of non-structural excavation work. Coverage shall include, but not be limited to flood, earthquake, windstorm, terrorism, collapse, water damage, transit coverage, off-site storage, expediting expenses, testing and start up, debris removal, soft costs including delay in completion, permission for partial occupancy, and ordinance or law coverage which shall include (a) coverage for loss of value to the undamaged portion of the Improvements, (b) demolition of the undamaged portion of the Improvements, and (c) increased cost of construction coverage including increased cost of materials. The policy shall be written on a per occurrence basis. The cost of the insurance to be maintained pursuant to this Section 7.1.1 shall be included in Project Costs.

7.1.2 Property Insurance. After the completion of construction of the Improvements, Landlord shall maintain insurance insuring the Improvements against fire and extended coverage (including, if Landlord elects, "all risk" coverage, earthquake/volcanic action, flood and/or surface water, flood, windstorm, terrorism, collapse, water damage, transit coverage, off-site storage, expediting expenses, testing and start up, debris removal, soft costs, and ordinance or law coverage insurance) for the

full replacement cost of the Building, with deductibles and the form and endorsements of such coverage as reasonably selected by Landlord, together with rental abatement insurance against loss of Rent in an amount equal to the amount of Rent for a period of at least twelve (12) months commencing on the date of loss.

7.1.3 Other Insurance. Landlord may also carry such other insurance as Landlord may reasonably deem prudent or advisable based on coverages maintained by a reasonably prudent landlord of similar properties in the region in which the Premises is located, including, without limitation, liability insurance in such amounts and on such terms as Landlord shall reasonably determine.

7.1.4 Cost of Landlord's Insurance. Tenant shall pay the cost of the insurance maintained by Landlord. Tenant will pay such insurance costs to Landlord in twelve (12) equal, monthly installments on the first day of each month of such year as Additional Rent.

7.2 Tenant. Tenant, at Tenant's expense, shall obtain and keep in force at all times the following insurance:

7.2.1 Commercial General Liability Insurance (Occurrence Form). A policy of commercial general liability insurance (occurrence form) having a combined single limit of Two Million Dollars ($2,000,000) per occurrence and Five Million Dollars ($5,000,000) aggregate per location if Tenant has multiple locations, providing coverage for, among other things, blanket contractual liability, premises, products/completed operations and personal and advertising injury coverage. Such coverage amounts may be achieved through the use of umbrella liability insurance otherwise meeting the requirements of this Section 7.

7.2.2 Automobile Liability Insurance. Business automobile liability insurance having a combined single limit of Two Million Dollars ($2,000,000) per occurrence and insuring Tenant against liability for claims arising out of ownership, maintenance, or use of any owned, hired or non-owned automobiles;

7.2.3 Workers' Compensation and Employer's Liability Insurance. Workers' compensation insurance having limits not less than those required by state statute and federal statute, if applicable, and covering all persons employed by Tenant in the conduct of its operations on the Premises (including an all states endorsement and, if applicable, the volunteers endorsement), together with employer's liability insurance coverage in the amount of at least One Million Dollars ($1,000,000); and

7.2.4 Property Insurance-Tenant's Property. "Special Form" property insurance including boiler and machinery comprehensive form, if applicable, covering damage to or loss of any of Tenant's personal property, fixtures, equipment and alterations, including electronic data processing equipment (collectively "**Tenant's Property**") and coverage for the full replacement cost thereof, including business interruption of Tenant.

7.3 General.

7.3.1 Insurance Companies. Insurance required to be maintained by Tenant and Landlord shall be written by companies authorized to do business in the state in which the Premises are located with a rating of at least A-VII in Best's Key Rating Guide (or such higher rating as may be required by a lender having a lien on the Premises).

7.3.2 Certificates of Insurance. Tenant shall furnish to Landlord, prior to Tenant's entry into the Premises, a certificate of insurance (or renewal thereof) issued by the insurance carrier of each policy of insurance carried by Tenant pursuant hereto. Said certificates shall expressly

provide that such policies shall not be cancelable or subject to reduction of coverage below the minimum amounts required by this Lease or required by any lender having an interest in the Premises or otherwise be subject to modification except after thirty (30) days prior written notice to the parties named as insured or loss payee in this Section 7.3. Tenant shall, at least ten (10) days prior to expiration of the policy, furnish Landlord with certificates of renewal or "binders" thereof. Each certificate shall expressly provide that such policies shall not be cancelable or otherwise subject to modification except after thirty (30) days prior written notice to the parties named as additional insureds or loss payee in this Lease, except in the case of cancellation for nonpayment of premium in which case cancellation shall not take effect until at least ten (10) days' notice has been given to the named insured(s). If Tenant fails to maintain any insurance required in this Lease, Tenant shall be liable for any loss or cost resulting from said failure, and Landlord shall have the right to obtain such insurance on Tenant's behalf and at Tenant's sole reasonable expense. This Section 7.3.2 shall not be deemed to be a waiver of any of Landlord's rights and remedies under any other section of this Lease. If Landlord obtains any insurance which is the responsibility of Tenant to obtain under this Section 7, Landlord shall deliver to Tenant a written statement setting forth the cost of any such insurance and showing in reasonable detail the manner in which it has been computed and Tenant shall promptly remit said amount as Additional Rent to Landlord. Upon written request by Tenant, Landlord shall deliver to Tenant a certificate of insurance evidencing coverages carried by Landlord hereunder.

7.3.3 Additional Insureds. Landlord, any property management company of Landlord for the Premises (if Tenant has requested that Landlord manage the Premises), any lender specified by Landlord and any other parties reasonably requested by Landlord in writing, shall be included as additional insureds under all of the policies required by Section 7.2.2 (except for Workers' Compensation, employer's liability insurance, and other policies for which naming such parties as additional insureds is not available or appropriate). An Additional Insured endorsement using endorsement form CG2037 04/13 or its equivalent shall be attached to the certificate of insurance. The policies required under Section 7.2 shall provide for severability of interest if reasonably available.

7.3.4 Primary Coverage. All insurance to be maintained by Tenant shall, except for workers' compensation and employer's liability insurance, be primary, without right of contribution from insurance of Landlord. Any umbrella liability policy or excess liability policy shall provide that if the underlying aggregate is exhausted, the excess coverage will drop down as primary insurance. The limits of insurance maintained by Tenant shall not limit Tenant's liability under this Lease.

7.3.5 Waiver of Subrogation. Neither Landlord nor Tenant shall be liable to the other for loss, either direct or consequential, arising out of damage to or destruction of the Premises, or the contents of any thereof, when such loss is caused by any of the perils which are included within or insured against by the property insurance maintained or required to be maintained pursuant to this Lease. All such claims for any and all loss however caused, hereby are waived. Said absence of liability shall exist whether or not the damage or destruction is caused by the negligence of either party or by any of their respective agents, servants or employees. It is the intention and agreement of both parties that the Rent reserved by this Lease has been fixed in contemplation that each party shall look to its respective insurance carriers for reimbursement of any such loss, and further, that the insurance carriers involved shall not be entitled to subrogation under any circumstances against any party to this Lease, and each party's insurance policies shall reflect the same. Neither party shall have any interest or claim in the other's insurance policy or policies, or the proceeds thereof, unless specifically covered therein as an insured.

7.3.6 Notification of Incidents. Tenant shall notify Landlord promptly after Tenant obtains knowledge of the occurrence of any accidents or incidents in the Premises, which could give rise to a claim under any of the insurance policies required under this Section 7.

7.3.7 Increase in Coverage. Landlord shall have the right, from time to time but in no event more often than once each calendar year, to increase the coverages required in Article 7, as Landlord reasonably determines is necessary to set coverage at levels commensurate with then prevailing coverage requirements for similarly situated properties in Western Washington.

7.4 Indemnity.

7.4.1 By Tenant. To the extent not covered by any applicable policy of insurance, and subject to the subrogation waiver contained in Section 7.3.5 above, Tenant will indemnify, defend and save harmless Landlord from and against any and all losses, liability, damages, or other actions arising from injury of persons or personal property on or about the Premises during the Term, except to the extent the fault or negligence of Landlord or its partners, directors, officers, employees, agents, attorneys, successors, affiliated companies, independent contractors or assigns shall have been the direct cause of such injury or damage. Tenant hereby agrees it shall not assert any industrial insurance immunity rights pursuant to Title 51 RCW (as the same may be amended, substituted or replaced) if such assertion would be inconsistent with or otherwise impair Landlord's right to indemnification under this Section 7.4.1, and, accordingly, hereby waives all such industrial insurance immunity rights solely for the purpose of effectuating Tenant's indemnity under this Section 7.4.1 and not for the benefit of any third parties (including, without limitation, any employee of Tenant). The foregoing waiver of industrial insurance immunity rights was specifically negotiated by Landlord and Tenant and is solely for the benefit of the Landlord and Tenant, and their successors and assigns, under this Lease, solely for the purpose of effectuating Tenant's indemnity under this Section 7.4.1 and is not intended as a waiver of Tenant's rights of immunity under such industrial insurance for any other purposes[1].

7.4.2 By Landlord. To the extent not covered by any applicable policy of insurance, and subject to the subrogation waiver contained in Section 7.3.5 above, Landlord will indemnify, defend and save harmless Tenant from and against any and all losses, liability, damages, or other actions arising from injury of persons or personal property on or about the Premises during the Term, when caused in whole or in part by the act or omission of Landlord or its directors, officers, employees, agents, attorneys, successors, affiliated companies, independent contractors or assigns during the Term, except to the extent the fault or negligence of Tenant or its partners, directors, officers, employees, agents, attorneys, successors, affiliated companies, independent contractors or assigns, shall have been the direct cause of such injury or damage. Landlord hereby agrees it shall not assert any industrial insurance immunity rights pursuant to Title 51 RCW (as the same may be amended, substituted or replaced) if such assertion would be inconsistent with or otherwise impair Tenant's right to indemnification under this Section 7.4.2, and, accordingly, hereby waives all such industrial insurance immunity rights solely for the purpose of effectuating Landlord's indemnity under this Section 7.4.2 and not for the benefit of any third parties (including, without limitation, any employee of Landlord). The foregoing waiver of industrial insurance immunity rights was specifically negotiated by Tenant and Landlord and is solely for the benefit of the Tenant and Landlord, and their successors and assigns, under this Lease, solely for the purpose of effectuating Landlord's indemnity under this Section 7.4.2 and is not intended as a waiver of Landlord's rights of immunity under such industrial insurance for any other purposes.

7.4.3 Survival. The obligations of Landlord and Tenant under this Section 7.4 shall survive the termination of this Lease with respect to any claims or liability arising prior to such termination.

[1] Because during the term of the Lease Tenant will have exclusive control of the Premises, Landlord believes Tenant should be responsible for anything that happens in the Premises except to the extent resulting from the negligence or willful misconduct of Landlord or its representatives.

7.5 Exemption of Landlord from Liability. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property including, but not limited to, Tenant's fixtures, equipment, furniture and alterations, and injury or death to persons in, upon or about the Premises arising from any cause, and Tenant hereby waives all claims in respect thereof against Landlord, except to the extent any such claims are caused by Landlord's negligence or willful misconduct (but only if such negligence of Landlord is not covered by the insurance carried by Tenant under Section 7.2 above). Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom or for damage to the property of Tenant, or injury to or death of Tenant, Tenant's employees, invitees, customers, agents or contractors or any other person in or about the Premises, whether such damage or injury is caused by fire, steam, electricity, gas, water or rain, or from the breakage, leakage or other defects of sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Tenant, except to the extent caused by Landlord's default of its obligations under this Lease (subject to applicable notice and cure periods), or its negligence or willful misconduct (but only if such negligence of Landlord is not covered by the insurance carried by Tenant under Section 7.2 above).

8. REPAIRS AND MAINTENANCE.

8.1 Landlord's Responsibility. During the first Lease Year only, Landlord, at Landlord's cost and expense, shall perform (or shall employ an agent of Landlord to perform) all maintenance, repairs and replacements as and when necessary, including, but not limited to, the purchase of materials related thereto, with respect to the following portions of the Premises ("**Structural Repairs**"):

(a) The structure and exterior of the Improvements including, without limitation, the roof and roof membrane, the structural walls, the structural elements of the floor, foundations, supports, windows, skylights, roof vents, drains and downspouts;

(b) The utility systems in or serving the Premises up to the point of connection to the Premises, including, without limitation, gas, water supply, sanitary sewers and septic systems, storm sewers and storm water drainage systems, sprinkler systems, exterior telephone and communications lines and circuits and underground and overhead electrical supply;

(c) Replacements (but not maintenance and repairs which shall be the responsibility of Tenant) to the mechanical systems including, without limitation, heating, ventilating, air conditioning, lighting, electrical and plumbing, in or serving the Premises when necessary (i.e., when the cost of repairs would exceed fifty percent (50%) of the reasonably estimated replacement cost thereof); and

(d) The substructure, all periodic repaving and any patching and pothole maintenance of the parking, drive and other hard-surfaced areas of the Premises, together with curbs and walkways.

Notwithstanding anything to the contrary in this Section 8.1, in the event any defects are discovered in any aspects of the Premises that remain under warranty, Landlord shall cause (or shall reasonably cooperate with Tenant, including without limitation, assignment of the applicable warranty if assignable, to help Tenant cause) the applicable contractor to correct all such defects in accordance with the terms and conditions of the applicable warranty. Landlord and Tenant shall take all measures necessary to preserve any warranties applicable to the construction of the Premises for the full term of such warranties.

Tenant agrees to notify Landlord of the necessity for any Structural Repairs of which Tenant may have knowledge and for which Landlord may be responsible under the provisions of this Section 8.1.

Landlord shall not be required to make any Structural Repair resulting from (i) any alteration or modification to the Improvements or to mechanical equipment within the Improvements performed by, for or because of Tenant or to special equipment or systems installed by, for or because of Tenant, (ii) the installation, use or operation of Tenant's property, fixtures and equipment, (iii) the moving of Tenant's property in or out of the Improvements or in and about the Premises, (iv) Tenant's use or occupancy of the Premises in violation of Section 10 of this Lease, (v) the negligent acts, negligent omissions or willful misconduct of Tenant and any Tenant Party (defined below), (vi) fire and other casualty, except as provided by Section 12 of this Lease, or (vii) condemnation, except as provided in Section 13 of this Lease. Landlord shall have no obligation to make repairs under this Section 8.1 until a reasonable time after receipt of written notice from Tenant of the need for such repairs, except as otherwise required in accordance with the prior paragraph. Except as provided in this Section, Tenant waives any right to repair at the expense of Landlord under any applicable governmental laws, ordinances, statutes, orders or regulations now or hereafter in effect respecting the Premises.

8.2 Tenant's Responsibility. Except for the Structural Repairs which are the responsibility of Landlord during the first Lease Year only, Tenant, at Tenant's expense, shall at all times during the Term maintain all aspects of the Premises (including the Structural Repairs) in good order, condition and repair, including, without limitation, the roof, the structural portions of the foundation and load-bearing walls, subfloors and floor coverings, walls and wall coverings, mechanical, electrical and plumbing systems, doors, windows, gutters and downspouts, landscaped areas on the Land, including the maintenance of any related irrigation systems, maintenance repairs and replacements of the paved and hard-surfaced areas of the Premises, such as parking areas, access roads, driveways, parking lot entrances and exits (including regular sweeping and restriping when necessary) and snow and ice removal as needed, storm water drainage facilities and signage. Tenant shall, at Tenant's election, (i) use qualified in-house technicians, or (ii) enter into regularly scheduled preventive maintenance/service contracts with reputable third party maintenance contractors, for servicing all hot water and heating and air conditioning systems and equipment in the Premises and the roof of the Premises. If Tenant elects to enter into third party contracts in accordance with the foregoing subsection (ii), then at Landlord's request, Tenant shall provide Landlord with a copy of each contract and shall furnish a copy of all reports and correspondence involving the condition of such systems and equipment to Landlord. If Tenant fails, in the reasonable judgment of Landlord, to maintain the Premises in first class order, condition and repair, Landlord shall have the right to perform such maintenance, repairs or refurbishing at Tenant's expense if Tenant fails to correct any deficiencies in maintenance within ten (10) days (or such longer period as is reasonably necessary, provided, repairs are commenced within such ten-day period and diligently completed) after written notice from Landlord to Tenant specifying the deficiencies.

9. ALTERATIONS.

9.1 Trade Fixtures; Alterations. Tenant may install necessary trade fixtures, equipment and furniture in the Premises without Landlord's consent, provided such items are installed and are removable without structural or material damage to the Premises. Tenant shall not construct, nor allow to be constructed, any alterations or physical additions to the exterior or structural portions of the Premises without obtaining the prior written consent of Landlord, which consent shall be conditioned upon Tenant's compliance with Landlord's reasonable requirements regarding construction of improvements and alterations but such consent otherwise shall not be unreasonably withheld. Tenant shall submit plans and specifications for such exterior or structural alterations to Landlord with Tenant's request for approval and shall reimburse Landlord for all costs which Landlord may incur in connection with granting approval to Tenant for any such alterations and additions, including any costs or expenses which Landlord may incur in electing to have outside architects and engineers review said matters. Tenant shall file a notice of completion after completion of such work and provide Landlord with a copy thereof. Tenant shall provide Landlord with a set of "as-built" drawings for any such work.

9.2 Standard of Work. All work to be performed by or for Tenant pursuant hereto shall be performed diligently and in a first-class, workmanlike manner, and in compliance with all applicable laws, ordinances, regulations and rules of any public authority having jurisdiction over the Premises and/or Tenant and Landlord's insurance carriers. Landlord shall have the right, but not the obligation, to inspect periodically the work on the Premises and Landlord may require changes in the method or quality of the work if not in compliance with this Section 9.2.

9.3 Damage; Removal. Tenant shall repair all damage to the Premises caused by the installation or removal of Tenant's fixtures, equipment, furniture and alterations. Upon the termination of this Lease, Tenant shall remove any or all alterations, additions, improvements and partitions made or installed by Tenant and restore the Premises to its condition existing prior to the construction of any such items; provided, however, Landlord may require, upon written notice to Tenant, any such items designated by Landlord to remain on the Premises, in which event they shall be and become the property of Landlord upon the termination of this Lease. All such removals and restoration shall be accomplished in a good and workmanlike manner and so as not to cause any damage to the Premises.

9.4 Liens. Tenant shall promptly pay and discharge all claims for labor performed, supplies furnished and services rendered at the request of Tenant and shall keep the Premises free of all mechanics' and materialmen's liens in connection therewith. Tenant shall provide at least ten (10) days prior written notice to Landlord before any labor is performed, supplies furnished or services rendered on or at the Premises and Landlord shall have the right to post on the Premises notices of non-responsibility. If any lien is filed, Tenant shall cause such lien to be released and removed within thirty (30) days after the later of the date of filing or the date Landlord provides Tenant with written notice of the filing, and if Tenant fails to do so, Landlord may take such action as may be necessary to remove such lien and Tenant shall pay Landlord such amounts expended by Landlord together with interest thereon at the Default Rate from the date of expenditure; provided, however, Tenant may contest such liens or encumbrances by appropriate legal or administrative proceedings as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such thirty (30)-day period.

10. USE.

10.1 Permitted Uses. The Premises shall be used only for the Permitted Uses set forth in the Basic Lease Information and for no other uses without the prior written consent of Landlord, not to be unreasonably withheld; provided, however, that Tenant may, without Landlord's prior consent, use the building for other medical uses or practices that are or become permissible under applicable laws and regulations affecting the Premises. Tenant's use of the Premises shall be in compliance with and subject to all applicable governmental laws, ordinances, statutes, orders and regulations and any recorded covenants, conditions and restrictions affecting the Premises; provided, however, that after the date of this Lease, Landlord shall not enter into or voluntarily permit any covenants, conditions or restrictions to encumber the Premises that would materially and adversely affect Tenant's access to or use of the Premises for the Permitted Uses, or otherwise impair Tenant's rights or impose new obligations on Tenant hereunder. Tenant shall not commit waste, overload the floors or structure of the Premises, subject the Premises to any use which would damage the same or violate any insurance coverage, or take any action which would constitute a public nuisance, take any action which would abrogate any warranties, or use or allow the Premises to be used for any unlawful purpose. Tenant shall promptly comply with the reasonable requirements of any board of fire insurance underwriters or other similar body now or hereafter constituted. Tenant shall not do any act, which shall in any way encumber the title of Landlord in and to the Premises. Tenant shall not allow any objectionable noise, odor, vibration, radiation or other emission from the Premises.

10.2 The Americans With Disability Act. Subject to Landlord's construction and delivery requirements for the Premises as set forth in the Work Letter, Tenant is solely responsible for performing any additional alterations or improvements required to comply with Title III of the Americans with Disabilities Act of 1990 (as now or hereafter amended, the "**ADA**"); provided, however, Tenant shall be responsible for the cost of making any repairs or changes to the Premises as a result of the Improvements being designed in a manner not in compliance with the ADA.

11. HAZARDOUS MATERIALS; MEDICAL WASTE.

11.1 Hazardous Materials. Tenant shall not cause nor permit, nor allow any of Tenant's employees, agents, customers, visitors, invitees, licensees, contractors, assignees or subtenants (collectively, "**Tenant Parties**") to cause or permit, any "Hazardous Materials" (defined below) to be manufactured, recycled, treated, disposed, discharged, released or used on, under or about the Premises, except for routine office, janitorial supplies and other substances and materials used in Tenant's normal business operations, all to be in usual and customary quantities, and stored, used and disposed of in accordance with all applicable "Environmental Laws" (defined below). Furthermore, Tenant shall not cause nor permit nor allow any of the Tenant Parties to cause or permit Hazardous Materials to be brought upon, stored, generated, blended or handled on, under or about the Premises, except in accordance with all applicable Environmental Laws and all other rules and regulations, including, but not limited to, all local, state and federal laws, rules and regulations. As used in this Lease, "**Hazardous Materials**" means any chemical, substance, material, controlled substance, object, condition, waste, living organism or combination thereof which is or may be hazardous to human health or safety or to the environment due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects, including, without limitation, petroleum and petroleum products, asbestos, radon, polychlorinated biphenyls (PCBs) and all of those chemicals, substances, materials, controlled substances, objects, conditions, wastes, living organisms or combinations thereof which are now or become in the future listed, defined or regulated in any manner by any Environmental Law based upon, directly or indirectly, such properties or effects. As used in this Lease, "**Environmental Laws**" means any and all federal, state or local environmental, health and/or safety-related laws, regulations, standards, decisions of courts, ordinances, rules, codes, orders, decrees, directives, guidelines, permits or permit conditions, currently existing and as amended, enacted, issued or adopted in the future which are or become applicable to Tenant or the Premises. Tenant and the Tenant Parties shall comply with all Environmental Laws and promptly notify Landlord of any notice of violation of any Environmental Law received by Tenant or if Tenant has knowledge of the violation of any Environmental Law with respect to the Premises, or the presence of any Hazardous Materials, other than as permitted above, on the Premises. Subject to the restrictions on access in Section 1.2 of this Lease, Landlord shall have the right to enter upon and inspect the Premises and to conduct tests, monitoring and investigations, in each case upon reasonable prior notice to Tenant (except in emergencies) and in a manner which minimizes disturbances to Tenant's business operations to the extent reasonably possible. If such tests indicate the presence of any environmental condition first occurred during the Term Tenant shall reimburse Landlord for the cost of conducting such tests unless the environmental condition was caused by Landlord or Landlord's agents, employees, contractors or invitees or the environmental condition is the result of offsite migration. The phrase "**environmental condition**" shall mean any adverse condition relating to any Hazardous Materials or the environment, including surface water, groundwater, drinking water supply, land, surface or subsurface strata or the ambient air and includes air, land and water pollutants, noise, vibration, light and odors in violation of (or requiring remediation under) Environmental Laws. In the event of any such environmental condition shown by tests to have occurred during the Term, Tenant shall promptly take any and all steps necessary to rectify the same to the extent required under applicable Environmental Laws or shall, at Landlord's election, reimburse Landlord, upon demand, for the reasonable cost to Landlord of performing rectifying work; provided that if such condition was caused by Landlord or Landlord's agents, employees, contractors or invitees, or is the result of offsite migration, Landlord shall

take such steps, at Landlord's expense. The reimbursement shall be paid to Landlord in advance of Landlord's performing such work, based upon Landlord's reasonable estimate of the cost thereof; and upon completion of such work by Landlord, Tenant shall pay to Landlord any shortfall within thirty (30) days after Landlord bills Tenant therefor or Landlord shall within thirty (30) days refund to Tenant any excess deposit, as the case may be.

11.2 Medical Wastes. Landlord acknowledges the Permitted Uses will generate Medical Wastes (defined below). Tenant's generation, use, storage and disposal of Medical Wastes will strictly comply with all applicable local, state and federal laws, codes, rules, regulations and guidelines. Tenant agrees Medical Wastes generated within the Premises must be disposed of separately from waste materials such as paper refuse and other abandoned items commonly thought of as trash. Tenant also agrees Tenant will not mix or place Medical Wastes in regular trash containers. Tenant will keep Medical Wastes containers segregated and make them available for regular removal from the Premises by Tenant or Tenant's contractors. Landlord will have no obligation or liability for the removal or disposal of any Medical Wastes. Tenant also agrees to separate particular items of Medical Wastes for separate disposal as required by law. The parties further agree, in the event any harm or injury of any type or nature whatsoever, should be caused to, incurred by, inflicted upon, or suffered by any individual, including Tenant or Tenant's agents, employees, patients, visitors, invitees or licensees, or Landlord or any of its agents, employees, guests, visitors, invitees or licensees, as the result of the failure of Tenant to timely, thoroughly and completely dispose of Medical Wastes, or as the result of coming into contact, whether by touching, breathing, inhaling, or in any other manner ingesting or consuming such item, or by being exposed in any manner thereto, Tenant will be liable to such individual, and will indemnify, save and hold Landlord and its principals and other tenants, agents, employees, patients, visitors, invitees or licensees harmless against any damages, liability, claims, causes of action or judgments arising therefrom. Tenant will be liable to and will pay any injured party for all damages, costs or expenses, including attorney fees, arising out of any exposure, harm, injury, disease, contamination, or affliction suffered as the result of any Medical Wastes stored, generated, or disposed of by Tenant or in or around the Premises. As used in this Lease, "**Medical Wastes**" means (a) medical devices or paraphernalia such as syringes, sutures, cotton swabs or pads, sponges, bandages, or wraps of any sort, or any other item which is utilized to treat any patient or other person for any medicinal, medical, diagnostic or therapeutic reason or purpose; (b) any material of any type or nature whatsoever that are radioactive to any degree, whether as the result of their manufacture, use or application; (c) any device or thing which is intended to come into contact with any part of the body, whether or not such item or device is so utilized prior to its disposal, including without limitation sharps; (d) any instrument or thing which is designed for use or application in the Premises, whether or not such device, instrument or thing is intended for any medical, diagnostic or therapeutic use; and (e) any device, instrument or thing which has become infected, contaminated, diseased, or otherwise exposed to harmful, contagious, or communicable organisms, bacteria, other life form or non-living material.

11.3 Tenant's Indemnification. Tenant shall indemnify, protect, defend (by counsel reasonably acceptable to Landlord) and hold harmless Landlord and its members, partners, directors, officers, employees, shareholders, lenders, agents, contractors and each of their respective successors and assigns (collectively the "**Landlord Parties**") from and against any and all clean-up costs, remedial or restoration work, claims, judgments, causes of action, damages, penalties, fines, taxes, costs, liabilities or losses and attorneys, consultants and expert fees arising as a result (directly or indirectly) of or in connection with (a) Tenant and/or any Tenant Parties' breach of any prohibition or provision of this Section 11 including, but not limited to, the presence of any environmental condition which occurred during the Term (other than an environmental condition caused by Landlord, or its agents, employees or contractors or is the result of offsite migration), or (b) the presence of Hazardous Materials or Medical Waste on, under or about the Premises or other property as a result (directly or indirectly) of Tenant's and/or Tenant Parties' activities, or failure to act as required hereunder, in connection with the Premises. This indemnity shall include the cost of any required or necessary repair, cleanup or detoxification, and the preparation and

implementation of any closure, monitoring or other required plans, whether such action is required or necessary prior to or following the termination of this Lease. Neither the written consent by Landlord to the presence of Hazardous Materials on, under or about the Premises, nor the strict compliance by Tenant with all Environmental Laws, shall excuse Tenant from Tenant's obligation of indemnification pursuant hereto. Tenant's obligations pursuant to the foregoing indemnity shall survive the expiration or earlier termination of this Lease.

11.4 Landlord's Indemnification. Landlord represents and warrants that to Landlord's current actual knowledge, (i) the Premises is free from Hazardous Materials which are required to be removed and/or remediated under Environmental Laws; (ii) there are no any underground storage tanks or wells on or under the Land; (iii) Landlord has made available to Tenant all environmental reports in Landlord's possession or control with respect to the Land; and (iv) Landlord has provided Tenant with copies of all notices within its possession or control (x) from governmental entities in connection with any Hazardous Materials contained within the Land; (y) from governmental entities relating to compliance of the Land with Environmental Laws related to Hazardous Materials; and (z) related to actual or threatened administrative or judicial proceedings in connection with any existing Hazardous Materials in the Land. Landlord shall indemnify, protect, defend (by counsel reasonably acceptable to Tenant) and hold harmless Tenant and the Tenant Parties from and against any and all clean-up costs, remedial or restoration work, claims, judgments, causes of action, damages, penalties, fines, taxes, costs, liabilities or losses and attorneys, consultants and expert fees arising as a result (directly or indirectly) of or in connection with (a) Landlord and/or any Landlord Parties' breach of any prohibition or provision of this Section 11 including, but not limited to, the presence of any environmental condition which occurred during the Term as a result of Landlord's and/or any Landlord Parties' activities, or (b) any environmental condition existing prior to the Delivery Date. This indemnity shall include the cost of any required or necessary repair, cleanup or detoxification, and the preparation and implementation of any closure, monitoring or other required plans, whether such action is required or necessary prior to or following the termination of this Lease. Landlord's obligations pursuant to the foregoing indemnity shall survive the termination or expiration of this Lease.

12. DAMAGE AND DESTRUCTION.

12.1 Casualty. If during the Term, the Premises or any part thereof shall be damaged or destroyed by fire, the elements or other casualty, event or loss, whether or not insured against and however occasioned, then Tenant shall give notice thereof to Landlord and, so long as insurance proceeds are made available to Landlord which are sufficient to permit Landlord to rebuild after operation of the terms of any mortgage or deed of trust executed by Landlord in favor of its lender, Landlord shall, promptly thereafter, repair or restore the Premises to substantially the same condition and market value they were in immediately prior to the casualty to the extent possible using only insurance proceeds. If the lender does not make the insurance proceeds available, Tenant at its option can either repair at its cost or terminate this Lease. The Improvements as repaired or restored shall immediately become part of the realty and the property of Landlord. All work shall be performed by Landlord or Tenant, as applicable, in a good and workmanlike manner in accordance with plans and specifications agreed to in writing by Landlord and Tenant (but if no such agreement can be reached then in accordance with the original plans and specifications for the Premises with any modifications required by law). The work shall be performed by Landlord or Tenant, as applicable, in accordance with all applicable laws, building permits, ordinances and regulations of governmental authorities pertaining thereto and shall be commenced as soon as practical following the date of the damage or destruction and insurance policy adjustment. Upon completion of the repair or restoration, Landlord shall notify Tenant that all repair or restoration work has been completed in accordance with the provisions of this article. Provided the casualty was not the result of intentional misconduct by Tenant or its agents, Rent will be abated in proportion to the square footage of the Premises affected by the casualty and related restoration work from the date of such casualty until the date the

Premises is restored to substantially its condition prior to such casualty and Tenant is reasonably able to commence use of the Premises for Permitted Uses.

12.2 Uninsured Casualty. If the damage or destruction is uninsured and the loss exceeds twenty-five percent (25%) of the replacement cost of the Improvements, then Tenant shall have the option to terminate this Lease. In such a case, all insurance proceeds shall be assigned to the Landlord. If the loss is less than twenty-five percent (25%) of the replacement cost of the Improvements or if greater than twenty-five percent (25%) of the replacement cost of the Improvements and Tenant does not opt to terminate this Lease, then this Lease shall not terminate, and Landlord shall restore, and Rent shall be abated, as described in Section 12.1 above.

12.3 Casualty during the Final Year. If an insured loss occurs in the last year of the Term and exceeds twenty-five percent (25%) of the replacement cost of the Improvements, then Tenant or Landlord shall have the option to terminate this Lease. In such a case, all insurance proceeds shall be assigned to the Landlord. If this Lease is not terminated, then Landlord shall restore the Premises as described in Section 12.1.

12.4 Lender's Costs. If Landlord's lender incurs costs due to such damage or destruction, Landlord will pay for such costs if required to do so under the deed of trust or mortgage in favor of such lender. Landlord will use its best efforts to satisfy the deed of trust or mortgage requirements so that lender will authorize release of the insurance proceeds.

12.5 Waiver. Except as otherwise provided in this Section 12, with respect to any damage or destruction which Landlord is obligated to repair or may elect to repair, Tenant waives all rights to terminate this Lease pursuant to rights otherwise presently or hereafter accorded by law.

13. EMINENT DOMAIN.

13.1 Total Condemnation. If all of the Premises is condemned by eminent domain, inversely condemned or sold under threat of condemnation for any public or quasi-public use or purpose ("**Condemned**"), this Lease shall terminate as of the earlier of the date the condemning authority takes title to or possession of the Premises, and Rent shall be adjusted to the date of termination.

13.2 Partial Condemnation. If any portion of the Premises is Condemned and such partial condemnation materially impairs Tenant's ability to use the Premises for Tenant's business as reasonably determined by Landlord and Tenant, this Lease shall terminate as of the earlier of the date title vests in the condemning authority or as of the date an order of immediate possession is issued and Rent shall be adjusted to the date of termination. If such partial condemnation does not materially impair Tenant's ability to use the Premises for the business of Tenant, Landlord shall promptly restore the Premises to the extent of any condemnation proceeds recovered by Landlord, excluding the portion thereof lost in such condemnation, and this Lease shall continue in full force and effect except that after the date of such title vesting Rent shall be adjusted as reasonably determined by Landlord and Tenant based on the proportionate size of the portion taken.

13.3 Award. If the Premises are wholly or partially Condemned, Landlord shall be entitled to the entire award paid for such condemnation, and Tenant waives any claim to any part of the award from Landlord or the condemning authority; provided, however, Tenant shall have the right to recover from the condemning authority such compensation as may be separately awarded to Tenant in connection with the loss of Tenant's leasehold interest and costs in removing Tenant's merchandise, furniture, fixtures, leasehold improvements and equipment to a new location. No condemnation of any kind

shall be construed to constitute an actual or constructive eviction of Tenant or a breach of any express or implied covenant of quiet enjoyment.

13.4 Temporary Condemnation. In the event of a temporary condemnation not extending beyond the Term and not materially adversely impacting Tenant's use and occupancy of the Premises, this Lease shall remain in effect, Tenant shall continue to pay Rent and Tenant shall receive any award made for such condemnation except damages to any of Landlord's property. In the event of a temporary condemnation not extending beyond the Term which materially adversely impacts Tenant's use and occupancy of the Premises, Tenant shall receive a proportionate reduction of Rent to the extent the Premises are unusable for Tenant's normal business purposes and/or such repairs unreasonably interfere with the business carried on by Tenant in the Premises. If a temporary condemnation is for a period which extends beyond the Term and materially adversely impacts Tenant's use and occupancy of the Premises, Tenant may terminate this Lease as of the date of initial occupancy by the condemning authority and any such award shall be distributed in accordance with the preceding section. If a temporary condemnation remains in effect at the expiration or earlier termination of this Lease, Tenant shall pay Landlord the reasonable cost of performing any obligations required of Tenant with respect to the surrender of the Premises.

13.5 Waiver of Right to Condemn. To the fullest extent allowed by applicable law, Tenant waives any right it may have to exercise the power of eminent domain to condemn all or any part of the Premises, or threaten to do so.

14. DEFAULT.

14.1 Events of Defaults. The occurrence of any of the following events shall, at Landlord's option, constitute an "**Event of Default**":

14.1.1 Failure to pay Rent on the date when due and the failure continuing for a period of five (5) days after written notice that such payment is due;

14.1.2 Failure to perform Tenant's covenants and obligations hereunder (except default in the payment of Rent) where such failure continues for a period of thirty (30) days after written notice from Landlord; provided, however, if the nature of the default is such that more than thirty (30) days are reasonably required for its cure, Tenant shall not be deemed to be in default if Tenant commences the cure within the thirty (30) day period and diligently and continuously prosecutes such cure to completion; or

14.1.3 The making of a general assignment by Tenant for the benefit of creditors; the filing of a voluntary petition by Tenant or the filing of an involuntary petition by any of Tenant's creditors seeking the rehabilitation, liquidation or reorganization of Tenant under any law relating to bankruptcy, insolvency or other relief of debtors and, in the case of an involuntary action, the failure to remove or discharge the same within sixty (60) days of such filing; the appointment of a receiver or other custodian to take possession of substantially all of Tenant's assets or this leasehold; Tenant's insolvency or inability to pay Tenant's debts or failure generally to pay Tenant's debts when due; any court entering a decree or order directing the winding up or liquidation of Tenant or of substantially all of Tenant's assets; Tenant taking any action toward the dissolution or winding up of Tenant's affairs; the cessation or suspension of Tenant's use of the Premises; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets or this leasehold.

14.2 Remedies. Following an Event of Default by Tenant, Landlord shall have all the rights and remedies of a landlord provided by applicable law, including the right to: (a) immediately re-

enter and remove all persons and property from the Premises, storing property in a public warehouse or elsewhere at Tenant's expense without liability on the part of Landlord; (b) should Landlord elect to re-enter as provided in this Lease, or should Landlord take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Landlord may terminate this Lease; (c) collect by suit or otherwise each installment of rent or other sum as it becomes due or enforce by suit or otherwise any covenant or condition or Term required to be performed by Tenant; and (d) terminate this Lease.

14.2.1 Termination. If Landlord elects to terminate this Lease by giving a written termination notice to Tenant, on the date specified in such notice, this Lease shall terminate unless on or before such date all arrears of Rent and all other sums then due and payable by Tenant under this Lease (without acceleration) and all costs and expenses incurred by or on behalf of Landlord hereunder shall have been paid by Tenant and all other Events of Default at the time existing shall have been fully remedied to the satisfaction of Landlord.

14.2.1.1 Repossession. Following termination, without prejudice to other remedies Landlord may have, Landlord may in accordance with law (i) peaceably re-enter the Premises upon voluntary surrender by Tenant or remove Tenant therefrom and any other persons occupying the Premises, using such legal proceedings as may be available; (ii) repossess the Premises or relet the Premises or any part thereof for such term (which may be for a term extending beyond the Term), at such rental and upon such other terms and conditions as Landlord in Landlord's sole discretion shall determine, with the right to make reasonable alterations and repairs to the Premises to the extent Tenant was required, but failed, to do so under this Lease; and (iii) remove all personal property therefrom.

14.2.1.2 Rent. If Landlord elects to terminate this Lease, Landlord may recover from Tenant: (i) the worth at the time of award of any unpaid rental which had been earned at the time of the termination, plus (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after termination until the time of award exceeds the amount of rental loss Tenant proves could have been reasonably avoided, plus (iii) the worth at the time of award of the amount by which the unpaid rental for the balance of the Term after the time of award exceeds the amount of rental loss that Tenant proves could be reasonably avoided, plus (iv) any other amounts necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom plus, at Landlord's election, any other applicable amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of Washington. As used in clause (i) above, the "worth at the time of award" is computed by allowing interest at the Default Rate. As used in clauses (ii) and (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

14.2.2 Continuation. Even though an Event of Default may have occurred, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession; and Landlord may enforce all of Landlord's rights and remedies under this Lease, including the right to recover Rent as it becomes due. Landlord, without terminating this Lease, may, during the period Tenant is in default, enter the Premises and relet the same, or any portion thereof, to third parties for Tenant's account and Tenant shall be liable to Landlord for all reasonable costs Landlord incurs in reletting the Premises, including, without limitation, brokers' commissions, expenses of placing the Premises in the condition required under this Lease, and like costs. Reletting may be for a period shorter or longer than the remaining Term. Tenant shall continue to pay the Rent on the date the same is due. No act by Landlord hereunder, including acts of maintenance, preservation or efforts to lease the Premises or the appointment of a receiver upon application of Landlord to protect Landlord's interest under this Lease, shall terminate this Lease unless Landlord notifies Tenant that Landlord elects to terminate this Lease. If Landlord elects to relet the Premises, the rent that Landlord receives from reletting shall be applied to the payment of, first, any

indebtedness from Tenant to Landlord other than Base Rent and operating expenses and Real Property Taxes; second, all reasonable costs, including maintenance, incurred by Landlord in reletting; and, third, Base Rent and operating expenses and Real Property Taxes under this Lease. After deducting the payments referred to above, any sum remaining from the rental Landlord receives from reletting shall be held by Landlord and applied in payment of future Rent as Rent becomes due under this Lease. In no event, and notwithstanding anything in Section 15 to the contrary, shall Tenant be entitled to any excess rent received by Landlord. If, on the date Rent is due under this Lease, the rent received from the reletting is less than the Rent due on that date, Tenant shall pay to Landlord, in addition to the remaining Rent due, all costs, including maintenance, which Landlord incurred in reletting the Premises that remain after applying the rent received from reletting as provided in this Lease. So long as this Lease is not terminated, Landlord shall have the right to remedy any default of Tenant, to maintain the Premises, to cause a receiver to be appointed to administer the Premises and new or existing subleases and to add to the Rent payable hereunder all of Landlord's reasonable costs in so doing, with interest at the Applicable Interest Rate from the date of such expenditure.

14.3 Cumulative. Each right and remedy of Landlord provided for in this Lease or now or hereafter existing at law, in equity, by statute or otherwise shall be cumulative and shall not preclude Landlord from exercising any other rights or remedies provided for in this Lease or now or hereafter existing at law or in equity, by statute or otherwise. No payment by Tenant of a lesser amount than the Rent nor any endorsement on any check or letter accompanying any check or payment as Rent shall be deemed an accord and satisfaction of full payment of Rent; and Landlord may accept such payment without prejudice to Landlord's right to recover the balance of such Rent or to pursue other remedies.

15. ASSIGNMENT AND SUBLETTING.

15.1 General Provisions. Except as otherwise permitted in this Section 15, Tenant shall not assign, sublet or otherwise transfer, whether voluntarily or involuntarily or by operation of law, the Premises or any part thereof without Landlord's prior written approval, which shall not be unreasonably withheld, delayed or conditioned. The merger of Tenant with any other entity or the transfer of any controlling or managing ownership or beneficial interest in Tenant, or the assignment of a substantial portion of the assets of Tenant, whether or not located at the Premises, shall constitute an assignment of this Lease. If Tenant desires to assign this Lease or sublet any or all of the Premises, Tenant shall give Landlord written notice thereof with copies of all related documents and agreements associated with the assignment or sublease, including without limitation, the financial statements of any proposed assignee or subtenant, fifteen (15) Business Days prior to the anticipated effective date of the assignment or sublease. Landlord, without waiving any rights or remedies, may collect rent from the assignee, subtenant or occupant and apply the net amount collected to the Rent and apportion any excess rent so collected in accordance with the terms of the preceding sentence. Tenant shall continue to be liable as a principal and not as a guarantor or surety to the same extent as though no assignment or subletting had been made. Landlord may consent to subsequent assignments or subletting of this Lease or amendments or modifications to this Lease by assignees of Tenant without notifying Tenant or any successor of Tenant and without obtaining their consent. No permitted transfer shall be effective until there has been delivered to Landlord a counterpart of the transfer instrument in which the transferee agrees to be and remain jointly and severally liable with Tenant for the payment of Rent pertaining to the Premises and for the performance of all the terms and provisions of this Lease relating thereto arising on or after the date of the transfer. Tenant shall reimburse Landlord for Landlord's reasonable out of pocket legal, accounting and other reasonable expenses related to reviewing any Tenant request for approval of Landlord for assignment and/or subletting.

15.2 Permitted Assignments and Permitted Subleases. Notwithstanding anything to the contrary in this Section 15, Tenant may permit the Premises to be used by, or may sublease the Premises or assign this Lease to any party which directly or indirectly (i) wholly owns or controls Tenant, (ii) is wholly

owned or controlled by Tenant, (iii) is under common ownership or control with Tenant, (iv) into which Tenant or any of the foregoing parties is merged, consolidated or reorganized, or to which all or substantially all of Tenant's assets or any such other party's assets are sold, or (v) any national, state or regional health care provider, all without Landlord's consent, provided: (a) Landlord shall receive a copy of the executed transfer document promptly after execution, (b) Tenant shall remain liable under this Lease, (c) the transferee shall expressly assume Tenant's obligations under this Lease, and (d) the creditworthiness of the proposed transferee is sufficient, as reasonably determined by Landlord, to permit such transferee to perform all obligations of Tenant under this Lease for the balance of the Term (referred to as a "**Permitted Assignee**"). Tenant shall pay Landlord's reasonable out of pocket legal, accounting and other reasonable expenses incurred in the review of such documentation. In addition, Tenant may sublease or license, without Landlord's consent, portions of the Premises to a coffee shop, snack bar or other service provider meant to provide a convenience or benefit to Tenant's employees, patients or invitees. Landlord shall have a period of ten (10) Business Days following receipt of such notice and all related documents and agreements to notify Tenant in writing of Landlord's approval or disapproval of the proposed assignment or sublease. If Landlord fails to notify Tenant in writing of such election, Landlord shall be deemed to have disapproved such assignment or subletting. This Lease may not be assigned by operation of law. Any purported assignment or subletting contrary to the provisions hereof shall be void and shall constitute an Event of Default hereunder. In addition, without the prior written consent of Landlord but with prior written notice to Landlord, Tenant may sublease portions of the Premises to doctors, medical clinics and other providers of medical service, or to a coffee shop, snack bar or other service provider meant to provide a convenience or benefit to Tenant's employees, patients or invitees, all pursuant to written subleases which expressly provide that such subleases are subject and subordinate to this Lease (a "**Permitted Sublease**"). Landlord shall have no obligation to grant any sublessees non disturbance rights.

15.3 Additional Consideration. If Tenant receives rent or other consideration for any transfer (other than to a Permitted Assignee or pursuant to a Permitted Sublease) in excess of the Rent, or in case of the sublease of a portion of the Premises, in excess of such Rent that is fairly allocable to such portion, after appropriate adjustments to assure that all other payments required hereunder are appropriately taken into account, Tenant shall pay Landlord fifty percent (50%) of the difference between each such payment of rent or other consideration and the Rent required hereunder. In calculating excess rent or other consideration which may be payable to Landlord under this Section 15.3, Tenant shall be entitled to deduct tenant improvement costs, credits, tenant inducements (e.g., free rent and improvement allowance), out of pocket legal fees and commercially reasonable third-party brokerage commissions actually expended by Tenant in connection with such assignment or subletting, provided written evidence (reasonably acceptable to Landlord) of such expenditures is provided to Landlord.

16. ESTOPPEL ATTORNMENT AND SUBORDINATION.

16.1 Estoppel. Within fifteen (15) days after request by the other party, the party receiving the request shall deliver an estoppel certificate duly executed (and acknowledged if required by any lender or purchaser), in the form of Exhibit E attached or in such other commercially reasonable form as may be acceptable to the requesting party and/or its lender or purchaser. The receiving party's failure to deliver said statement in such time period shall be conclusive upon such party that (a) this Lease is in full force and effect, without modification except as may be represented by the requesting party; (b) there are no uncured defaults in the requesting party's performance, (c) if Landlord is the requesting party, that Tenant has no right of offset, counterclaim or deduction against Rent hereunder, and no more than one month's Base Rent has been paid in advance, and (d) such other reasonable information that, to the knowledge of the requesting party, is true and accurate.

16.2 Subordination. This Lease and all rights of Tenant hereunder, shall be and are hereby subordinate in all respects to the lien or charge of any mortgage, deed of trust, deed to secure debt

and/or other security interest (any of the foregoing, a "**Security Interest**") granted or conveyed with respect to the Premises or any portion thereof to the holder of any such Security Interest, whether now existing or hereafter placed on or affecting the Premises or Landlord's interest or estate therein, and to each advance made and/or hereafter to be made under any such Security Interest, and to all renewals, modifications, consolidations, replacements and extensions thereof and all substitutions therefor, provided Tenant in return shall receive a commercially reasonable non-disturbance agreement in form and substance reasonably satisfactory to Tenant from the entity requesting said subordination, and Tenant shall agree to attorn to said party. In confirmation of such subordination and within fifteen (15) days after Landlord's written request therefor, Tenant shall and hereby agrees to promptly execute and deliver any commercially reasonable certificate, statement or subordination agreement acknowledging or confirming such subordination that Landlord and/or any benefited party under the Security Interest, together with respective successors and assigns, may reasonably request. Notwithstanding the foregoing, however, it is agreed that the provisions of this Section 16.2 are self-operative and, subject to Tenant's right not to be disturbed by any successor Landlord, and subject to Landlord using commercially reasonable efforts to obtain a reasonable subordination and non-disturbance agreement as provided below, as long as Tenant is not in default under this Lease, no such certificate, statement or subordination agreement shall be necessary in order to effect the subordination of this Lease to the lien of the Security Interest. Landlord shall use commercially reasonable efforts to obtain and provide Tenant prior to the Commencement Date with a subordination and non-disturbance agreement in form reasonably acceptable to Tenant from the lender providing the "Project Loan" (as defined in the Work Letter).

16.3 Attornment. In the event of a foreclosure proceeding, the exercise of the power of sale under any mortgage or deed of trust or the termination of a ground lease, Tenant shall, if requested, attorn to the purchaser thereupon and recognize such purchaser as Landlord under this Lease; provided, however, Tenant's obligation to attorn to such purchaser shall be conditioned upon Tenant's receipt of a non-disturbance agreement.

17. DEFAULT BY LANDLORD; LENDER PROTECTION; TENANT'S RIGHT TO CURE.

17.1 Default by Landlord. Landlord shall be in default if Landlord fails to perform its obligations under this Lease within thirty (30) days after its receipt of notice of nonperformance from Tenant; provided that if the default cannot reasonably be cured within the thirty (30) day period, Landlord shall not be in default if Landlord commences the cure within the thirty (30) day period and thereafter diligently pursues such cure to completion.

17.2 Notice to Lender. Notwithstanding anything to the contrary in this Lease, Landlord shall not be in default under any provision of this Lease unless written notice specifying such default is given to Landlord and to any lender who has been identified to Tenant in writing as a party to whom notice must be sent. Any lender of Landlord entitled to notice pursuant to the preceding sentence shall have the right to cure any default on behalf of Landlord within the later of (a) thirty (30) days after receipt of such notice, or (b) ten (10) Business Days after the expiration of any cure period provided to Landlord pursuant to this Lease (the "**Cure Period**); provided, if such default cannot reasonably be cured within the Cure Period, the lender shall be entitled to such additional time as may be reasonably necessary to cure the default, if within the Cure Period the lender commences and thereafter diligently pursues the actions necessary for the lender to cure such default by Landlord (including, if possession of the Premises is necessary to cure the default, commencing such judicial or nonjudicial proceedings as may be necessary for the lender or a receiver to take possession of the Premises). So long as a lender is diligently taking the actions reasonably necessary for it to cure Landlord's default, Tenant shall not exercise its remedies for Landlord's default under this Lease.

18. MISCELLANEOUS.

18.1 General.

18.1.1 Entire Agreement. This Lease sets forth all the agreements between Landlord and Tenant concerning the Premises; and there are no agreements either oral or written other than as set forth in this Lease. This Lease supersedes any prior written or oral agreements or understandings between Landlord and Tenant, or their respective affiliates, with respect to the Improvements or the Land, including but not limited to the letter of intent between Tenant and Optimum Properties, LLC and the Reimbursement Agreement between Tenant and Optimum Properties, LLC (the "**Reimbursement Agreement**").

18.1.2 Time of Essence. Time is of the essence of this Lease.

18.1.3 Attorneys' Fees. In any action or proceeding which either party brings against the other to enforce its rights hereunder, the unsuccessful party shall pay all costs incurred by the prevailing party, including reasonable attorneys' fees, which amounts shall be a part of the judgment in said action or proceeding, whether incurred at trial, on appeal, in any arbitration or bankruptcy proceeding or otherwise.

18.1.4 Severability. If any provision of this Lease or the application of any such provision shall be held by a court of competent jurisdiction to be invalid, void or unenforceable to any extent, the remaining provisions of this Lease and the application thereof shall remain in full force and effect and shall not be affected, impaired or invalidated.

18.1.5 Law. This Lease shall be construed and enforced in accordance with the laws of the State of Washington.

18.1.6 No Option. Submission of this Lease to Tenant for examination or negotiation does not constitute an option to lease, offer to lease or a reservation of, or option for, the Premises; and this document shall become effective and binding only upon the execution and delivery hereof by Landlord and Tenant.

18.1.7 Successors and Assigns. This Lease shall be binding upon and inure to the benefit of the successors and assigns of Landlord and, subject to compliance with the terms of Section 15, the successors and assigns of Tenant. Landlord shall have the absolute right to convey all or any portion of its interest in the Premises and upon such conveyance, Landlord shall be automatically relieved of all liability as respects the further performance of its covenants or obligations hereunder and from any and all further obligations, liabilities and claims arising from or connected with this Lease other than outstanding unsatisfied obligations of Landlord and Landlord's indemnity obligations specifically set forth in this Lease with respect to any obligation, loss or occurrence that arose prior to such conveyance.

18.1.8 Third Party Beneficiaries. Nothing in this Lease is intended to create any third party benefit.

18.1.9 Memorandum of Lease. Tenant shall not record this Lease, but may record on or after the Commencement Date, a short form memorandum of this Lease, in the form of Exhibit G attached, describing among other things, Tenant's right of first offer described in Section 18.14 below and option to purchase the building as described in Exhibit F.

18.1.10 Agency, Partnership or Joint Venture. Nothing contained in this Lease nor any acts of the parties hereto shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership or of joint venture by the parties hereto or any relationship other than the relationship of landlord and tenant.

18.1.11 Merger. The voluntary or other surrender of this Lease by Tenant or a mutual cancellation thereof or a termination by Landlord 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.

18.1.12 Headings. Section headings have been inserted solely as a matter of convenience and are not intended to define or limit the scope of any of the provisions contained therein.

18.1.13 Damages. Landlord and Tenant both agree that neither party shall have any obligation to the other for any consequential or indirect damages suffered by such party in relation to this Lease, except for any consequential or indirect damages suffered by Landlord as a result of any holding over by Tenant after the expiration of the Term not consented to in advance in writing by Landlord (provided, that such damages may only apply if Landlord has given Tenant written notice of the existence of an executed lease agreement by a subsequent tenant).

18.2 Signs. All signs and graphics of every kind visible in or from public view or corridors or the exterior of the Premises shall be subject to any applicable governmental laws and ordinances. Tenant shall remove all such signs and graphics prior to the expiration or earlier termination of this Lease. Such installations and removals shall be made in such manner as to avoid injury or defacement of the Premises; and Tenant shall repair any injury or defacement, including without limitation, discoloration caused by such installation or removal.

18.3 Waiver. No waiver of any default or breach hereunder shall be implied from any omission to take action on account thereof, notwithstanding any custom and practice or course of dealing. No waiver by either party of any provision under this Lease shall be effective unless in writing and signed by such party. No waiver shall affect any default other than the default specified in the waiver and then such waiver shall be operative only for the time and to the extent therein stated. Waivers of any covenant shall not be construed as a waiver of any subsequent breach of the same.

18.4 Financial Statements. Tenant will provide Landlord with (a) internally prepared financial statements of Tenant not more than forty five (45) days after the end of each of Tenant's fiscal quarters, and (b) a current audited financial statement of Tenant prepared by an independent certified public accountant not more than one hundred twenty (120) days after the end of each fiscal year of Tenant during the Term, provided, that Tenant shall not be required to provide such documents if they are public record or otherwise publicly available. In addition, in connection with an actual or potential sale, financing, ground lease or similar transaction involving the Premises, within ten (10) Business Days after Landlord's written request therefor, Tenant shall provide Landlord with such additional financial information and statements as Landlord may reasonably request, provided, that Tenant shall not be required to provide such documents if they are public record or otherwise publicly available. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

18.5 Limitation of Liability. The obligations of Landlord under this Lease are not personal obligations of the individual partners, members, directors, officers, shareholders, agents or employees of Landlord; and Tenant shall look solely to the Premises for satisfaction of any liability of Landlord and shall not look to other assets of Landlord nor seek recourse against the assets of the individual

partners, members, directors, officers, shareholders, agents or employees of Landlord. Whenever Landlord transfers its interest, Landlord shall be automatically released from further performance under this Lease and from all further liabilities and expenses hereunder and the transferee of Landlord's interest shall assume all liabilities and obligations of Landlord hereunder from the date of such transfer, other than outstanding unsatisfied obligations of Landlord and Landlord's indemnity obligations specifically set forth in this Lease with respect to any obligation, loss or occurrence that arose prior to such conveyance, for which Landlord shall remain liable.

18.6 Notices. All notices shall be personally delivered, sent via electronic mail, sent via a nationally recognized overnight courier service (such as Federal Express, UPS or DHL) or sent by certified United States mail (return receipt requested). Notices sent via personal delivery, overnight courier service will be effective upon receipt, and notices sent by mail will be effective three (3) Business Days after being deposited with the United States Post Office, postage prepaid. Notice given by electronic mail will be effective upon transmission if the transmission is made on a Business Day on or before 5:00 pm Pacific Time and otherwise the next Business Day after the transmission is made. A courtesy copy of any notice given by electronic mail also shall be mailed to the party receiving the notice. The addresses to be used in connection with such correspondence and notices are the addresses set forth in the Basic Lease Information, or such other address as a party shall from time to time direct in writing by notice given pursuant to this Section 18.6, but any such notice of a new address shall not be effective until actually received by the other party.

18.7 Brokers. Each party represents and warrants to the other party that it has dealt with no real estate brokers or salespersons in connection with this Lease. If any person or entity claims that a real estate fee or commission or other such fee is due from Landlord in connection with this Lease, and such claim is based on actual or alleged oral or written agreements or understandings with Tenant, Tenant shall indemnify, defend and hold Landlord harmless from any such claims or demands (including reasonable attorneys' fees) incurred by Landlord as a result of any such claim or demand. If any person or entity claims that a real estate fee or commission or other such fee is due from Tenant in connection with this Lease, and such claim is based on actual or alleged oral or written agreements or understandings with Landlord, Landlord shall indemnify, defend and hold Tenant harmless from any such claims or demands (including reasonable attorneys' fees) incurred by Tenant as a result of any such claim or demand.

18.8 Authorization. Each individual executing this Lease on behalf of Tenant represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of Tenant and such execution is binding upon Tenant. Each individual executing this Lease on behalf of Landlord represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of Landlord and such execution is binding upon Landlord.

18.9 Holding Over; Surrender.

18.9.1 Holding Over. If Tenant holds over the Premises or any part thereof after expiration of the Term, such holding over shall constitute a month-to-month tenancy, if Tenant is holding over without the written consent of Landlord, at rent equal to one hundred fifty percent (150%) of the Base Rent in effect immediately prior to such holding over and shall otherwise be on all the other terms and conditions of this Lease. This paragraph shall not be construed as Landlord's permission for Tenant to hold over. Acceptance of Rent by Landlord following expiration or termination shall not constitute a renewal of this Lease or extension of the Term except as specifically set forth above. If Tenant fails to surrender the Premises upon expiration or earlier termination of this Lease, Tenant shall indemnify and hold Landlord harmless from and against all loss or liability resulting from or arising out of Tenant's failure to surrender the Premises, including, but not limited to, any amounts required to be paid to any tenant or prospective tenant who was to have occupied the Premises after the expiration or earlier termination of this Lease and

any related attorneys' fees and brokerage commissions (provided, that such damages and indemnification obligation may only apply if Landlord has given Tenant written notice of the existence of an executed lease agreement by a subsequent tenant).

18.9.2 Surrender. Upon the termination of this Lease or Tenant's right to possession of the Premises, Tenant will surrender the Premises, together with all keys, in good condition and repair, reasonable wear and tear, condemnation and casualty excepted. Conditions existing because of Tenant's failure to perform maintenance, repairs or replacements shall not be deemed "reasonable wear and tear."

18.10 Covenants and Conditions. Each provision to be performed by Tenant hereunder shall be deemed to be both a covenant and a condition.

18.11 Exhibits and Addenda. The Exhibits attached to this Lease, if any, are incorporated in this Lease by this reference as if fully set forth in this Lease.

18.12 Business Day. The term "**Business Day**" as used in this Lease means any day other than a Saturday, Sunday or federal or state holiday in the state where the Premises are located.

18.13 Option to Purchase Building. Tenant shall have the option of purchasing the Building and the Land on the terms and conditions set forth on Exhibit F attached.

18.14 Right of First Offer. If at any time during the Term, Landlord intends to sell the Premises, then provided Tenant is not then in default under the Lease beyond applicable notice and cure periods, Landlord shall first offer to sell the same to Tenant for a purchase price and other terms and conditions set forth in a written notice by Landlord to Tenant (the "**Offer**"). Tenant shall have a period of twenty (20) days after receiving the Offer to deliver written notice to Landlord of Tenant's election to accept the Offer, and if Landlord does not receive such written notice from Tenant within such period, or if Tenant does not accept all of the terms set forth in the Offer, Landlord shall thereafter have the right to sell the Premises for a purchase price that is not less than ninety five percent (95%) of the purchase price set forth in the Offer for a period commencing on the date on which Tenant shall have failed to accept the Offer (or refused to accept the Offer) and terminating twelve (12) months thereafter. If either (i) Landlord does not enter into a purchase agreement to sell the Premises within such 12-month period, or (ii) Landlord desires to accept an offer to purchase the Premises for a purchase price that is less than ninety five percent (95%) of the purchase price set forth in the Offer, Landlord shall again be required to provide a new Offer to Tenant and Tenant shall again have the right to purchase the Premises in accordance with this Section 18.14.

[signatures appear on following page]

IN WITNESS WHEREOF, the parties have executed this Lease as of the date set forth above.

LANDLORD:

SVH PARTNERS LLC, a Washington limited liability company

By: **SVH Manager LLC**, a Washington limited liability company, Its Manager

By_____
Joel Aslanian, Manager

TENANT:

PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW

By: _____

Name: _____

Title: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this _____ day of _____, 2021, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn personally appeared **Joel Aslanian**, known to me to be the Manager of **SVH Manager LLC**, a Washington limited liability company, the Manager of **SVH PARTNERS LLC**, a Washington limited liability company, the limited liability company that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company, for the purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature
_____
Print Name
NOTARY PUBLIC in and for the State of
Washington, residing at _____.
My commission expires _____.

STATE OF WASHINGTON)
) ss.
COUNTY OF SKAGIT)

On this _____ day of _____, 2021, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn personally appeared _____, known to me to be the _____ of **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW, the public hospital district that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said public hospital district, for the purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of Washington, residing at _____.
My commission expires _____.

EXHIBIT A

LEGAL DESCRIPTION OF PREMISES

[to be attached]

EXHIBIT B

WORK LETTER

THIS WORK LETTER ("**Work Letter**") is attached to and a material part of a Build to Suit Lease (the "**Lease**"), between **SVH PARTNERS LLC**, a Washington limited liability company ("**Landlord**"), and **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW ("**Tenant**"). The purpose of this Work Letter is to set forth how the "Improvements" (defined below) are to be designed and constructed. Capitalized terms not defined in this Work Letter shall have the meanings given to such terms in the Lease.

Landlord and Tenant agree as follows:

1. Definitions. As used in this Work Letter and in the Lease the following terms have the meanings set forth below:

(a) "**Architect**" means Zervas Group Architects, P.S., a Washington professional services corporation, or a licensed architectural firm selected by Tenant and approved and hired by Landlord.

(b) "**Budget**" means the budget for the Work, including the value of the Land and all additional costs incurred by Landlord in connection with the Work and the delivery of the Premises with the Improvements Substantially Complete. A preliminary budget is attached to this Work Letter as Exhibit B-2 (the "**Preliminary Budget**").

(c) "**Change Request**", "**Change Request Cost**", "**Change Request Delay**" and "**Change Request Delay Expense**" are defined in Section 6 of this Work Letter.

(d) "**Construction Contract**" is defined in Section 9 of this Work Letter.

(e) "**Contractor**" means BNBuilders, Inc., a Washington corporation, or another licensed general contractor selected by Landlord and reasonably approved by Tenant

(f) "**Contractor's Contingency**" is defined in Section 16 of this Work Letter.

(g) "**Design Milestones**" is defined in Section 5(c) of this Work Letter.

(h) "**Final Budget**" is defined in Section 5(d) of this Work Letter.

(i) "**Final Plans**" is defined in Section 5(b) of this Work Letter.

(j) "**Final Project Schedule**" is defined in Section 5(b) of this Work Letter.

(k) "**Force Majeure Delays**" is defined in Section 12 of this Work Letter.

(l) "**Improvements**" means the improvements to the Land described in the preliminary plans and specifications described in Exhibit B-1 attached to this Work Letter. The description of the Improvements will be further described in the Final Plans.

(m) "**Inspections**" is defined in Section 13 of this Work Letter.

(n) "**Landlord's Representative**" is defined in Section 3 of this Work Letter.

(o) "**Preliminary Plans**" is defined in Section 5(a) of this Work Letter.

(p) "**Project Cost**" means the total cost of the Work and other costs set forth in the Final Budget.

(q) "**Project Cost Contingencies**" is defined in Section 15 of this Work Letter.

(r) "**Project Loan**" is defined in Section 10 of this Work Letter.

(s) "**Project Schedule**" means a schedule for the commencement and completion of construction of the Improvements. A preliminary Project Schedule is attached to this Work Letter as Exhibit B-3.

(t) "**Substantial Completion**" and "**Substantially Complete**" mean the Improvements are complete, subject to minor details of construction and mechanical adjustments that remain to be completed by Landlord, as evidenced by issuance of a Standard AIA Certificate of Substantial Completion executed by the Architect(provided, that prior to execution by the Architect, the Architect, Landlord, Tenant and Tenant's commissioning agent shall confer in good faith to discuss whether Substantial Completion has occurred).

(u) "**Target Delivery Date**" means the date the Improvements will be Substantially Complete as set forth in the Final Project Schedule.

(v) "**Tenant Delays**" is defined in Section 12 of this Work Letter.

(w) "**Tenant's Representative**" is defined in Section 3 of this Work Letter.

(x) "**Work**" means the planning, financing, design, permitting, construction and installation of the Improvements and all other ancillary work performed by or for Landlord.

2. Completion of Improvements. Subject to the terms of the Lease and this Work Letter and any Tenant Delays or Force Majeure Delays, Landlord shall use commercially reasonable and diligent efforts to cause Contractor to complete the construction and installation of the Improvements in accordance with the terms of this Work Letter.

3. Designation of Representatives. With respect to the planning, design and construction of the Improvements, Landlord hereby designates Brian Oseran of Meriwether Partners LLC, as "**Landlord's Representative**" and Tenant hereby designates Darrin Gillis as "**Tenant's Representative**". Tenant hereby confirms Tenant's Representative has full authority to act on behalf of and to bind Tenant with respect to all matters pertaining to the planning, design and construction of the Improvements. Landlord hereby confirms Landlord's Representative has limited authority to act on behalf of Landlord with respect to matters pertaining to the planning, design and construction of the Improvements. Either party may change its designated representative upon five (5) days prior written notice to the other party.

4. Architectural Services. Architect, at the direction of Landlord and with input from Tenant, will be responsible for the design of the Improvements. Landlord has entered into a contract with Architect for such services dated October 13, 2020 (the "**Architect Contract**"). Tenant acknowledges receipt of a true and correct copy of the Architect Contract.

5. Improvement Plans and Costs.

(a) Preliminary Plans for Improvements. The plans, reports and narratives referenced in Exhibit B-1 to this Work Letter are the current preliminary plans and specifications for the Improvements (the "**Preliminary Plans**") and have been approved by Landlord and Tenant.

(b) Final Plans. Landlord and Tenant will continue to work with Architect to advance the Preliminary Plans to the 90% Construction Documents (the "**Final Plans**") for the construction of the Improvements. Both Landlord and Tenant must approve the plans and specifications Architect proposes submitting to municipal authorities for permit applications and the Final Plans prior to the start of construction. Neither Landlord nor Tenant shall unreasonably withhold, delay or condition its approval of the plans and specifications prepared by Architect.

(c) Design Milestones. Based on Architect's current schedule dated _____, 2021, major milestones ("**Design Milestones**") in the development of the project plans are:

(i) 100% Design Development – _____

(ii) 75% Construction Documents – _____

(iii) 90% Construction Documents – _____

Landlord and Tenant will use their best efforts to support the Architect in maintaining this schedule, including promptly responding to any requests from Architect for information regarding the design of the Improvements. In order to achieve the foregoing schedule, Landlord and Tenant each agrees to provide Architect and the other party in writing any comments it may have regarding the plans and specifications submitted by Architect within ten (10) Business Days (or such reasonable additional time as may be necessary as agreed to by the parties) after receiving the plans and specifications from Architect. If due to the acts of Tenant or its agents (or failure to act as required hereunder) the Design Milestones are not met by the applicable date set forth above, the Target Delivery Date will be extended by one (1) day for each day of delay.

(d) Work Cost Estimates. After each Design Milestone, Landlord and Contractor will update construction cost estimates and provide Tenant with an updated Budget for Tenant's review in substantially the same form as Exhibit B-2, and updates to the Project Schedule (including any updates to the estimated Target Delivery Date). Landlord will provide any available additional supporting documentation and detail reasonably requested by Tenant and cooperate with Tenant's evaluation and value-engineering efforts. Prior to the commencement of construction of any of the Improvements, Landlord shall submit to Tenant a current Budget based upon the Final Plans for Tenant's approval, such approval not to be unreasonably withheld, delayed or conditioned. Tenant will provide its written approval or disapproval of any budgets submitted to Tenant pursuant to this subparagraph (d) within ten (10) Business Days after its receipt of the Budget. The approved Budget is the "**Final Budget**". The Final Budget shall include the costs of the Project Loan, but shall not include any amounts intended as profit of Landlord and shall only include actual costs of the Work. Once the Final Budget has been approved, Landlord will provide Tenant with a final Project Schedule including the final Target Delivery Date (the "**Final Project Schedule**").

(e) No Representations. Notwithstanding anything to the contrary contained in the Lease or in this Work Letter, the cost estimates for the Improvements and the construction thereof shall not constitute any representation or warranty, express or implied, that the Improvements, if built in accordance with the Preliminary Plans and the Final Plans, will be suitable for Tenant's intended purpose. Tenant

acknowledges and agrees the Improvements are intended for use by Tenant and the specifications and design requirements for such Improvements are not within the special knowledge or experience of Landlord. Landlord's sole obligation shall be to arrange the construction of the Improvements in accordance with the requirements of the Preliminary Plans, the Final Plans, the Final Budget and the Final Project Schedule. Landlord agrees to assign to Tenant (to the extent assignable) the benefit of all construction warranties pertaining to the Improvements.

(f) Base Rent Adjustment. Landlord and Tenant agree the Base Rent specified in the Basic Lease Information in the Lease is based on the Preliminary Budget. The Base Rent for the initial Lease Year is based on the cost of the Work in the Preliminary Budget multiplied by the Rent Multiplier (defined below). When Landlord and Tenant have approved the Final Budget, Landlord and Tenant will execute an amendment to the Lease setting forth the revised Base Rent. Base Rent for the initial year of the Lease shall be calculated based on the "Rent Multiplier" multiplied by the Project Cost, with periodic increases as provided in the Basic Lease Information in the Lease. Notwithstanding anything to the contrary herein, in no event shall the Rent Multiplier exceed 8.25% or be less than 6.75%.

For purposes of this Section 5(f): (i) "**Rent Multiplier**" means the sum of (a) 7.25% and (b) one-half (1/2) of the Spread, and (ii) "**Spread**" means the difference between (i) 1.5% and (ii) the 7-day trailing average for the Ten Year Treasury Rate as of the date that is the earlier to occur of (A) Landlord's interest rate on the Project Loan is locked and (B) the date Landlord submits the Final Budget to Tenant for final approval. For example:

(A) if the 7-day trailing average for the Ten Year Treasury Rate on the applicable date is 2.5%, the Spread shall be 1% [2.5% - 1.5% = 1%], and the Rent Multiplier shall be 7.75% [7.25% + ½(1%) = 7.75%]; and

(B) if the 7-day trailing average for the Ten Year Treasury Rate on the applicable date is 1%, the Spread shall be -.5% [1% - 1.5% = -.5%], and the Rent Multiplier shall be 7.0% [7.25% + ½(-.5%) = 7.00%].

6. Tenant Change Requests. After the parties approve the Final Plans and a building permit for the Improvements is issued, any further changes to the Final Plans shall require the prior written approval of Tenant and Landlord (not to be unreasonably withheld or delayed). If Tenant desires any change in the Final Plans which is reasonable and practical (which shall be discussed by Landlord and Tenant in good faith but conclusively determined by the Architect) or a change in the Improvements, such changes may only be requested by the delivery to Landlord by Tenant of a proposed written "**Change Request**" specifically setting forth the requested change. Landlord shall work with the Architect and Contractor to determine (i) any increase in the cost of the Work caused by such change (the "**Change Request Cost**"), (ii) the number of days of a delay, if any, in completion of the Work caused by such proposed change (the "**Change Request Delay**"), and (iii) a statement of the cost, if any, of the Change Request Delay (the "**Change Request Delay Expense**"), which Change Request Delay Expense shall be the product of the number of days of delay multiplied by the daily Base Rent rate. Tenant shall then have five (5) Business Days to approve the Change Request Cost, the Change Request Delay and the Change Request Delay Expense and ten (10) Business Days to deposit the Change Request Cost and Change Request Delay Expense with Landlord. If Tenant approves these items, Landlord shall promptly execute the Change Request and cause the appropriate changes to the Final Plans to be made. If Tenant fails to respond to Landlord within said five (5) Business Day period, the Change Request Cost, the Change Request Delay and the Change Request Delay Expense shall be deemed disapproved by Tenant and Landlord shall have no further obligation to perform any work set forth in the proposed Change Request. The Change Request Cost shall include all reasonable costs associated with the Change Request, including, without limitation, architectural fees, engineering fees, permitting fees and construction costs (but excluding any Change

Request Delay Expense), together with a four percent (4%) fee of these costs as reimbursement for the expense of administration and coordination of such Change Request by Landlord's Representative; provided, however, that in no event shall the foregoing four percent (4%) fee be applied on any amount already subject to the four percent (4%) development fee described in Section 18 below. The Change Request Delay shall include all delays caused by the Change Request, including, without limitation, all design and construction delays, as determined by the Contractor.

7. Deductive Change Requests. Following the procedure described in Section 6, if the net effect of a Change Request is a reduction in Project Cost, such savings will be used to offset the costs of future potential Tenant Change Requests, if any. Such savings shall include a credit for the four percent (4%) development fee described in Section 18 below paid on the reduction in Project Cost. Whatever portion of such cost savings remains following Substantial Completion of the Work will be paid to Tenant by Landlord in a lump sum within sixty (60) days of Landlord obtaining a final lien release from the Contractor but shall not result in a reduction in the Base Rent. If a Tenant-directed Change Request results in accelerating the Final Project Schedule (the "**Saved Days**"), as conclusively determined by the Contractor, the Saved Days will be used to offset Change Request Delays. If there are Saved Days remaining upon Substantial Completion of the Work, Tenant will be granted one (1) day of Base Rent abatement for each Saved Day.

8. Contractor. Landlord has hired the Contractor (i.e., BNBuilders, Inc.) to provide certain preconstruction services to Landlord. Unless otherwise agreed by the parties, Landlord will enter into the Construction Contract (defined below) with Contractor once the Final Plans and Final Budget have been approved by Landlord and Tenant. Landlord may not replace the Contractor unless Contractor fails or refuses to execute the Construction Contract or Contractor defaults under the Construction Contract and fails to cure the default prior to the expiration of any applicable cure period. Any replacement general contractor must be approved by Tenant, such approval not to be unreasonably withheld, delayed or conditioned. Any replacement general contractor selected by Landlord and approved by Tenant thereafter shall be the Contractor for all purposes of this Work Letter. Tenant will provide its written approval or disapproval of a proposed replacement general contractor within ten (10) Business Days after Tenant's receipt of written notice of the proposed replacement general contractor.

9. Construction of the Improvements. Landlord and Contractor shall enter into a construction contract ("**Construction Contract**") for the construction and installation of the Improvements in accordance with the Final Plans. The Construction Contract will be a "guaranteed maximum price" format based on AIA Forms A201 and A102. The Construction Contract shall be subject to the reasonable approval of Tenant. The Construction Contract shall not be materially modified or amended without Tenant's consent, such consent not to be unreasonably withheld, delayed or conditioned. No consent of Tenant will be required with respect to modifications or amendments which do not (i) add any rental costs or other costs or expenses to Tenant, or (ii) modify the Improvements in any material respect. Tenant shall have ten (10) Business Days after its receipt of the Construction Contract, and five (5) Business Days after any material modifications or amendments to the Construction Contract, to approve or disapprove the same.

10. Financing Construction of Improvements. Landlord intends to finance a portion of the cost of the construction of the Improvements with the proceeds of a loan ("**Project Loan**") from a third party lender ("**Lender**") at the then prevailing market rate and market terms for similar projects. The Project Loan will be secured by the lien of a deed of trust encumbering the Land and Improvements. Tenant agrees to execute and/or provide all documents reasonably required by any Lender in connection with the Project Loan, including, without limitation, estoppel certificates, subordination agreements (subject to a subordination and non-disturbance agreement as more specifically described in Section 16.2 of the Lease), consents to the assignment of this Work Letter, written confirmation of the satisfaction of closing conditions, and evidence of the due execution, validity and enforceability of this Work Letter, at no out of

pocket cost to Tenant (except for Tenant's own legal fees if it chooses to negotiate the terms of the subordination and non-disturbance agreement).

11. Target Delivery Date. Subject to Tenant Delays and Force Majeure Delays, Landlord agrees to use its commercially reasonable efforts to cause the Improvements to be Substantially Complete on or before the Target Delivery Date. If for reasons other than Tenant Delays, or Force Majeure Delays, Substantial Completion has not occurred as of the date which is forty five (45) days after the Target Delivery Date ("**Outside Delivery Date**"), then Tenant shall have the right to receive, as Tenant's sole remedy, a credit against Rent in an amount equal to one (1) day of Rent for each day of delay from and after the Outside Delivery Date until Substantial Completion occurs.

12. Tenant Delays; Force Majeure Delays. As used herein, "**Tenant Delays**" means any delay in the completion of the Improvements resulting from any or all of the following: (a) Tenant's failure to timely perform any of its obligations pursuant to this Work Letter, including any failure to complete, on or before the due date therefore, any action item which is Tenant's responsibility pursuant to this Work Letter, including Tenant's failure to grant approvals within the time frames described herein; (b) Tenant's requested modifications, made at any time, to the Preliminary Plans or the Final Plans or any Tenant-initiated Change Requests; (c) Tenant's request for materials, finishes or installations which are outside of the agreed-upon procurement and installation timeframe; (d) any delay in any way whatsoever arising from Tenant's performance of Inspections; (e) Change Request Delays; or (f) any other act (or failure to act if required herein) by Tenant, Tenant's Representative, Tenant's employees, agents, independent contractors, consultants and/or any other person performing or required to perform services on behalf of Tenant, including interference with Landlord, Contractor, and any subcontractors or other contractors, during Tenant's early entry under Section 19 below. If Landlord believes a Tenant Delay has occurred, Landlord will give written notice to Tenant within five (5) days after first learning of the event that caused (or Landlord believes will cause) the Tenant Delay. If Landlord fails to give such timely notice, the extension in Landlord's deadlines to which it would otherwise be entitled for a Tenant Delay but for the late notice, shall be reduced on a day-for-day basis for each day that the notice is late. As used herein, "**Force Majeure Delays**" means delays resulting from causes beyond the reasonable control of Landlord or the Contractor, including, without limitation, any delay caused by any action, inaction, order, ruling, moratorium, regulation, statute, condition or other decision of any governmental agency having jurisdiction over any portion of the Project, over the construction of the Improvements or over any uses thereof, or by delays in inspections or in issuing permits by governmental agencies, or by fire, flood, inclement weather, strikes, lockouts or other labor or industrial disturbance (whether or not on the part of agents or employees of either party hereto engaged in the construction of the Improvements), civil disturbance, order of any government, court or regulatory body claiming jurisdiction or otherwise, act of public enemy, war, riot, sabotage, blockage, embargo, failure or inability to secure materials, supplies or labor through ordinary sources by reason of shortages or priority, discovery of hazardous or toxic materials, earthquake, or other natural disaster, delays caused by any dispute resolution process, acts of God, rioting or other civil disturbance, quarantine or "shelter in place" orders imposed by an applicable Governmental Authority due to COVID-19 or other pandemic or epidemic of similar nature and scope, or any cause whatsoever beyond the reasonable control (excluding financial inability) of the party whose performance is required, or any of its contractors or other representatives, whether or not similar to any of the causes hereinabove stated.

13. Meetings; Tenant's Inspection Rights.

(a) Landlord, or Landlord's representative, shall schedule and attend monthly progress meetings, walk-throughs and any other meetings with the Architect, the Contractor and Tenant to discuss the progress of the construction of the Improvements ("**Meetings**"). Tenant shall designate in writing the person or persons appointed by Tenant to attend the Meetings and such designated party shall be entitled

to be present at and to participate in the discussions during all Meetings; but Landlord may conduct the Meetings even if Tenant's appointees are not present.

(b) In addition, subject to site security and safety requirements of Landlord and Contractor, Tenant or its agents shall have the right at any and all reasonable times, with reasonable prior notice (written, including electronic mail, or telephonic) to Landlord and Contractor to conduct inspections, tests, surveys and reports of work in progress ("**Inspections**") for any purpose Tenant deems necessary, in its sole discretion. Tenant agrees to protect, hold harmless and indemnify Landlord from all claims, demands, costs and liabilities (including reasonable attorneys' fees) arising from Tenant's or Tenant's agents entry onto the Land for the purpose of conducting Inspections.

14. Walk-Through and Punch List. Upon Substantial Completion of the Improvements, Tenant (and its agent(s) if desired), Landlord, the Architect and the Contractor shall jointly conduct a walk-through of the Improvements and shall jointly prepare a punch list ("**Punch List**") of minor items needing additional work that will not materially affect Tenant's use of the Premises; provided, however, the Punch List shall be limited to items which are required by the Construction Contract, the Final Plans, Change Requests and any other changes agreed to by the parties. Landlord will correct items stated in the Punch List which are the responsibility of Landlord or the Contractor. The existence of Punch List items shall not postpone the Delivery Date, provided that the Improvements are Substantially Complete.

15. Project Cost Contingencies and Shared Savings. The Budget includes a Hard Cost Contingency equal to five percent (5.0%) of hard construction costs and a Soft Cost Contingency equal to three percent (3.0%) of all budgeted soft costs (collectively, "**Project Cost Contingencies**"). The Project Cost Contingencies are included in the Budget for Landlord to direct to costs including but not limited to: unforeseen site conditions, errors and omissions in architectural plans or unanticipated municipal requirements and fees, and added design, engineering, inspection or construction costs required during the course of construction. If any of the Project Cost Contingencies remain unspent after the Work is Substantially Complete, Landlord will remit seventy five percent (75%) of such unused funds to Tenant within sixty (60) days of Landlord obtaining a final lien release from the Contractor. Use of hard and soft cost contingencies will be documented monthly and tracked in the Budget.

16. Contractor Contingency and Shared Savings. Landlord anticipates that the Construction Contract will provide reasonable Contractor contingency funds within the Contractor's budget (the "**Contractor's Contingency**"), which shall not exceed a reasonable amount to be approved by both Landlord and Tenant at the time the Construction Contract is approved. The Contractor's Contingency is different from the Project Cost Contingencies. Landlord anticipates that the Construction Contract will also contain a clause requiring the Contractor to share a percentage of any unspent Contractor's Contingency with Landlord after Project completion, which share amounts must be approved by both Landlord and Tenant at the time the Construction Contract is approved. Landlord will remit seventy five percent (75%) of any funds it receives from Contractor under this provision to Tenant within sixty (60) days of receipt.

17. Land Cost. The Budget includes the value of the Land. The Land cost of $5,853,500 in the Preliminary Budget reflects the fair-market value of the Land as established by the CBRE, Inc. appraisal dated December 7, 2020.

18. Development Fee. Landlord has hired Meriwether Partners LLC to provide development management services for the Project. The Budget includes a development fee payable to Meriwether Partners LLC equal to four percent (4.0%) of Project Cost, excluding the Land cost detailed in Section 17 and the costs of the Project Loan.

19. Early Entry. Notwithstanding anything to the contrary contained in the Lease or this Work Letter, Tenant shall have the right to enter the Premises at least sixty (60) day prior to the Delivery Date (based on the reasonable estimate thereof by Contractor, Landlord and Architect) to install phone systems, furniture, fixtures and equipment, infrastructure, systems, etc. Tenant agrees (i) any such early entry by Tenant shall be at Tenant's sole risk, (ii) Tenant shall not interfere with Landlord, Contractor and any subcontractors or other contractors completing the Work, cause any labor difficulties or delay the Substantial Completion of the Work, (iii) Tenant, together with its employees, agents and contractors, will schedule and coordinate such early entry with Landlord and Contractor, (iv) Tenant shall comply with the site security and safety requirements of Landlord and Contractor, (v) Tenant shall comply with and be bound by all provisions of the Lease during the period of any such early entry except for the payment of rent, (vi) prior to entry upon the Premises by Tenant, Tenant shall pay for and provide to Landlord certificates evidencing the existence and amounts of liability insurance carried by Tenant and its contractors, which coverage must comply with the provisions of the Lease relating to insurance, (vii) Tenant and its agents and contractors shall comply with all applicable laws, regulations, permits and other approvals required to perform its work during the early entry on the Premises, and (viii) to indemnify, protect, defend and save Landlord and Contractor harmless from and against any and all liens, liabilities, losses, damages, costs, expenses, demands, actions, causes of action and claims (including, without limitation, attorneys' fees and legal costs) arising out of the early entry, use, construction, or occupancy of the Premises by Tenant or its agents, employees or contractors. Tenant shall be responsible for any cost associated with any delays in the Final Project Schedule resulting from the activities of Tenant or its agents, employees and contractors during any early entry, and Landlord and/or Contractor will not approve installation or placement of any of Tenant's systems, furniture, fixtures and equipment during any early entry that Contractor and Landlord reasonably believe may delay the timely issuance of a Standard AIA Certificate of Substantial Completion or delay the issuance by the City of Mount Vernon of a temporary or final certificate of occupancy.

20. Landlord Termination Right. Landlord shall have the right to terminate the Lease by written notice given to Tenant prior to the commencement of construction of the Improvements (which commencement shall be deemed to occur when the demolition of the existing improvements on the Premises commences), if: (a) all of the following have occurred: (i) construction of the Improvements has not commenced by December 31, 2022, (ii) the 10-year Treasury Bond yield is greater than 3.50% as of such date, and (iii) Landlord has otherwise fulfilled its obligations under this Work Letter; (b) Tenant is not timely fulfilling its obligations under this Work Letter to advance the design and entitlement of the Project, or giving any approvals required by Tenant pursuant to this Work Letter and any such failure is not cured by Tenant within ten (10) Business Days after written notice by Landlord to Tenant; (c) construction of the Improvements has not commenced by March 31, 2023, provided that Landlord has diligently pursued all necessary permits and approvals required for commencement of construction of the Improvements and has otherwise fulfilled its obligations under this Work Letter; or (d) Tenant is in default of the Coverage Requirement or the Liquidity Requirement defined and specified in the bond resolutions authorizing the Tenant’s outstanding revenue bonds, which currently consist of Public Hospital District No. 1, Skagit County, Washington, Hospital Revenue Improvement and Refunding Bonds, 2013A (Tax-Exempt), dated May 30, 2013, authorized to be issued by Resolution No. 3104 of the Tenant; Public Hospital District No. 1, Skagit County, Washington, Hospital Revenue Improvement and Refunding Bonds, 2016, dated November 3, 2016, authorized to be issued by Resolution No. 3538 of Tenant; and Public Hospital District No. 1, Skagit County, Washington, Hospital Revenue Refunding Bond, 2019, dated December 30, 2019, authorized to be issued by Resolution No. 3982 of Tenant. Any termination notice given by Landlord pursuant to this Section 20 shall be effective thirty (30) days after the date such notice is given to Tenant. If Landlord terminates the Lease pursuant to subsections (b) or (d) of this Section 20, Landlord will present Tenant with a detailed statement of the Project Cost incurred by Landlord as of the date the termination notice is given to Tenant, or irrevocably committed to be incurred by Landlord as of such date, and Tenant

shall pay such costs plus interest from the date of disbursement of such Project Costs, calculated at an interest rate of 4.0% per annum within thirty (30) days after such detailed statement is given to Tenant.

21. Miscellaneous.

(a) Coordination with Lease. Nothing in this Work Letter shall be construed as (i) constituting Tenant as Landlord's agent for any purpose whatsoever, or (ii) a waiver by Landlord or Tenant of any of the terms or provisions of the Lease. Any default by either party with respect to any portion of this Work Letter, shall be deemed a default under the Lease for which Landlord and Tenant shall have all the rights and remedies as in the case of a breach of the Lease by the other party.

(b) Cooperation. Landlord and Tenant agree to reasonably cooperate with one another and to cause their respective employees, agents and contractors to reasonably cooperate with one another to coordinate any Work being performed by Landlord and/or Tenant under this Work Letter, and their respective employees, agents and contractors so as to avoid unnecessary interference and delays with the completion of the Work.

[signatures appear on following page]

LANDLORD:

SVH PARTNERS LLC, a Washington limited liability company

By: **SVH Manager LLC**, a Washington limited liability company, Its Manager

By_____
Joel Aslanian, Manager

TENANT:

PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW

By: _____

Name: _____

Title: _____

EXHIBIT B-1

PRELIMINARY PLANS AND SPECIFICATIONS

[to be attached]

EXHIBIT B-2

PRELIMINARY BUDGET

[to be attached]

EXHIBIT B-3

PRELIMINARY SCHEDULE

[to be attached]

EXHIBIT C

SITE PLAN

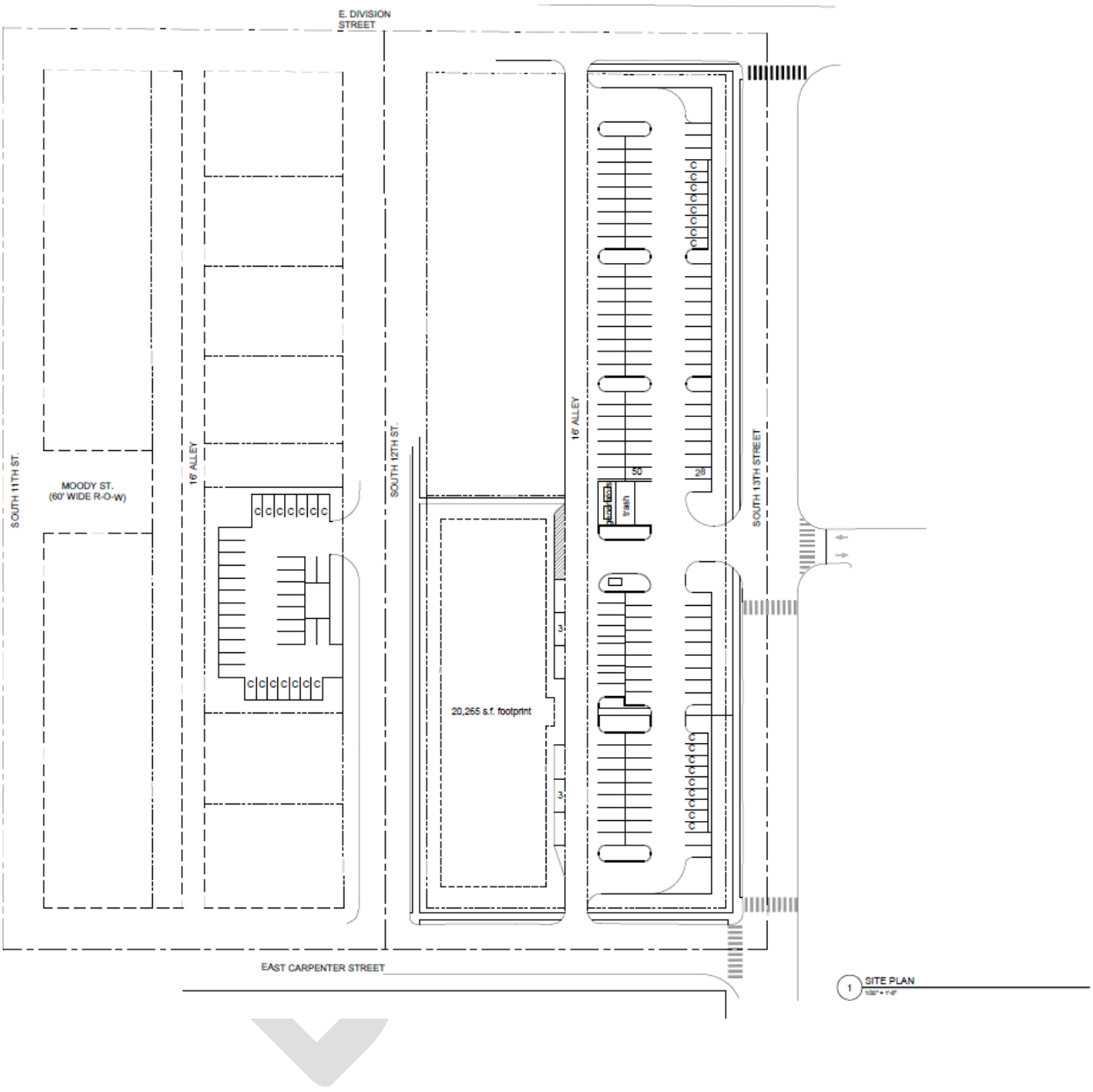


EXHIBIT D

COMMENCEMENT DATE MEMORANDUM

With respect to that certain Build to Suit Lease ("**Lease**") dated _____, 2021, between **SVH PARTNERS LLC**, a Washington limited liability company ("**Landlord**"), and **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW ("**Tenant**"), whereby Landlord leased to Tenant and Tenant leased from Landlord the building and land located at _____ in Mount Vernon, Washington (the "**Premises**"), Tenant hereby acknowledges and certifies to Landlord as follows:

(1) Landlord delivered possession of the Premises to Tenant in a Substantially Completed condition on _____;

(2) The Commencement Date of the Lease is _____;

(3) The Expiration Date of the Lease is _____; and

(4) Tenant has accepted and is currently in possession of the Premises and the Premises are acceptable for Tenant's use.

This Commencement Date Memorandum is executed this _____ day of _____, 20__.

PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW

By: _____

Name: _____

Title: _____

EXHIBIT E

TENANT ESTOPPEL CERTIFICATE

To: _____
_____
_____

Attn: _____

Re: Build to Suit Lease dated _____, 2021 (the "**Lease**"), between **SVH PARTNERS LLC**, a Washington limited liability company ("**Landlord**"), and the **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW ("**Tenant**")

Tenant hereby certifies that as of _____ 20__:

1. Attached hereto as Exhibit A is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in Exhibit A represent the entire agreement between the parties as to the Premises.

2. Tenant currently occupies the Premises described in the Lease. The Term commenced on _____, and the Term expires on _____, and Tenant has no option to terminate or cancel the Lease or to purchase all or any part of the Premises except as expressly stated in the Lease.

3. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in Exhibit A.

4. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows: _____.

5. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through _____. The current monthly installment of Base Rent is $_____ and the current monthly installment of estimated Additional Rent is $_____.

6. To Tenant's actual knowledge, all conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied, except as follows: _____.

7. To Tenant's actual knowledge, Landlord is not in default thereunder, except as follows: _____. In addition, Tenant has not delivered any notice to Landlord regarding a default by Landlord thereunder that has not been cured, except as follows: _____.

8. No Rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord.

9. To Tenant's actual knowledge, as of the date hereof, there are no existing defenses or offsets, or, to Tenant's knowledge, claims or any basis for a claim, that Tenant has against Landlord, except as expressly provided in the Lease and/or as follows: _____.

10. Tenant hereby represents and warrants that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

11. There are no actions pending against Tenant under bankruptcy or similar laws of the United States or any state, except as follows: _____.

12. To Tenant's actual knowledge, all tenant and other work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by Tenant.

Tenant acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this Estoppel Certificate is a condition of making such loan or acquiring such property. Capitalized terms used in this Estoppel Certificate and not defined shall have the meanings given to them in the Lease.

Executed as of _____, 20__.

PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW

By:_____

Name:_____

Title:_____

EXHIBIT F

OPTION TO PURCHASE

This Exhibit is attached to and made a part of that certain Build to Suit Lease (the "**Lease**") between **SVH PARTNERS LLC**, a Washington limited liability company ("**Landlord**"), and **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW ("**Tenant**"). Capitalized terms used in this Exhibit and not defined shall have the meanings given to them in the Lease. Landlord and Tenant agree as follows:

1. Grant of Option. Landlord hereby grants to Tenant the option, at various times during the term of the Lease (each, an "**Option**"), to purchase the Premises at the price and on the terms and conditions set forth in this Exhibit. Each Option shall terminate if Tenant defaults under the Lease and fails to cure such default within the applicable cure period. Each individual Option (but not subsequent Options) shall terminate if Tenant exercises an Option but fails to close on the purchase due to a default by Tenant. Each Option is personal to Tenant and may not be exercised by or for any assignee of Tenant's rights under the Lease.

2. Exercise.

(a) An Option may be exercised by Tenant at any time during the following periods:

i. No more than twelve (12) months, and no less than six (6) months, prior to the tenth (10th) anniversary of the Commencement Date ("**First Option**");

ii. No more than twelve (12) months, and no less than six (6) months, prior to the Expiration Date of the Lease Term (including for each Additional Term, if applicable) (the "**Expiration Option**").

(b) To exercise an Option Tenant must give Landlord written notice of its election to exercise the Option (the "**Option Notice**") within the applicable time period described in Paragraph 2(a) above. Failure of Tenant to exercise any one Option shall not nullify Tenant's right to exercise any subsequent Option. If Tenant exercises an Option and Tenant fails to close as a result of a default by Tenant, Tenant's rights under this Exhibit F will terminate and Tenant will have no further rights to exercise an Option. Unless otherwise agreed in writing by Landlord and Tenant, the date for the Closing (the "**Closing Date**") for each Option shall be as follows

i. The Closing Date for the First Option shall be the first (1st) Business Day after the tenth (10th) anniversary of the Commencement Date.

ii. The Closing Date for the Expiration Option shall be Expiration Date of the Lease Term (including for each Additional Term, if applicable).

3. Purchase Price. The purchase price (the "**Purchase Price**") payable by Tenant for the Premises shall be the greater of (a) the "fair market value" (as defined below) of the Premises, and (b) the "CPI Adjusted Project Cost" (defined below); provided, however, if the CPI Adjusted Project Cost is greater than the fair market value, Tenant may elect to rescind the Option Notice (a "**Purchase Option Retraction**") by giving Landlord written notice of such election not more than ten (10) Business Days after the Purchase Price is determined pursuant to this Section 3. The Purchase Price shall be payable in cash at Closing; provided, however, at Tenant's option, and subject to the approval of the lender, Tenant may elect to assume Landlord's then existing financing secured by a deed of trust encumbering the Property (the "**Existing Financing**"). If

Tenant exercises the Option, then not more than sixty (60) days after Landlord's receipt of the Option Notice Landlord will give Tenant written notice of the projected CPI Adjusted Project Cost and Landlord's determination of the fair market value of the Premises ("**Landlord's Notice**"). Promptly after Tenant's receipt of Landlord's Notice (but not more than thirty (30) days after Tenant's receipt of Landlord's Notice), the parties (or their designated representatives) shall meet and attempt to agree on the fair market value of the Premises. If the parties have not agreed in writing on the fair market value of the Premises within sixty (60) days after Tenant receives Landlord's Notice, unless otherwise agreed in writing by the parties, the fair market value of the Premises shall be determined in accordance with Exhibit F-1 attached. The last day of such sixty (60) day period (as the same may be extended by the written agreement of the parties) is referred to in this Lease as the "**Arbitration Commencement Date**". The term "**fair market value**" means the purchase price a third party would pay in an all cash arm's length transaction for a medical office building similar to the size and quality of the Premises in the "Market Area" (defined below) taking into consideration the existence of the Lease and the remaining term of the Lease. For purposes of this Exhibit the term "**Market Area**" means King County, Pierce County, Skagit County, Snohomish County and Whatcom County. The term "**CPI Adjusted Project Cost**" means the budgeted "Project Cost" (as defined in the Work Letter) as shown in the Final Budget (as opposed to the actual final cost of the Project), multiplied by a fraction, the numerator of which is the CPI Index most recently published prior to the tenth (10th) anniversary of the Commencement Date, and the denominator of which is the CPI Index most recently published prior to the Commencement Date, but in no event shall the CPI Adjusted Project Cost exceed the budgeted Project Cost increased at a 2% compound annual growth rate as of the Closing Date. Notwithstanding anything to the contrary herein, in the event Tenant timely exercises the Purchase Option Retraction, the First Option shall be reinstated (a "**Reinstated Option**"), and Tenant shall again be entitled to exercise the First Option on all the same terms and conditions as originally stated herein, provided that the dates and deadlines for the First Option shall be extended by two (2) years, such that the notice of the First Option shall be due no more than twelve (12) months, and no less than six (6) months, prior to the twelfth (12th) anniversary of the Commencement Date and the Closing Date for the First Option shall be the first (1st) Business Day after the twelfth (12th) anniversary of the Commencement Date. Tenant's Purchase Option Retraction right and the 2-year extended time fame shall apply again to each Reinstated Option.

4. Title.

(a) Not more than thirty (30) days after Landlord receives the Option Notice, Landlord shall provide Tenant with a preliminary commitment ("**Title Commitment**") for a standard form of owner's title policy issued by "Escrow Agent" (defined below), together with copies of the documents forming the basis for each exception therein to the extent available. Tenant shall have fifteen (15) Business Days from Tenant's receipt of the Title Commitment to advise Landlord in writing (the "**Title Objection Notice**") of Tenant's approval or disapproval of any of the exceptions in the Title Commitment, stating with specificity the basis for any disapproval. If Tenant fails to timely send the Title Objection Notice, Tenant will be deemed to have approved the title exceptions in the Title Commitment. Landlord shall have ten (10) Business Days after receiving the Title Objection Notice in which to notify Tenant in writing ("**Landlord's Title Response**") if Landlord will cause the removal or cause Escrow Agent to insure over at Closing any title objections noted in the Title Objection Notice. If Landlord fails to provide Tenant with Landlord's Title Response within ten (10) Business Days after receiving the Title Objection Notice, then Landlord shall be deemed to have refused to cause the removal or cause Escrow Agent to insure over at Closing any title objections noted in the Title Objection Notice. If Landlord provides Tenant with Landlord's Title Response and in such notice Landlord's indicates it cannot or will not remove or cause Title Company to insure over any of title objection noted in the Title Objection Notice, then Tenant shall have ten (10) Business Days after receiving Landlord's Title Response to notify Landlord in writing that Tenant waives the title objection(s) and Tenant will proceed to close the transaction, or revoke Tenant's exercise of the Option in which event this Exhibit shall have no further force or effect. The title exceptions Tenant approves (or is deemed to have approved), or Tenant otherwise waives, are deemed the "**Permitted Exceptions**." Notwithstanding the foregoing, any monetary liens or encumbrances

arising by, through or under Landlord shall not be Permitted Exceptions, and the Premises shall be conveyed free and clear of such monetary liens and encumbrances regardless of whether or not objected to by Tenant unless Tenant elects to assume the Existing Financing, in which case such Existing Financing (and no other monetary liens) shall be Permitted Exceptions.

(b) Title to the Premises shall be conveyed to Tenant at Closing pursuant to a Bargain and Sale Deed in the form attached as Exhibit F-2 (the "**Deed**"), free of encumbrances other than the Permitted Exceptions.

5. Closing.

(a) Closing will occur on the Closing Date in the offices of Fidelity National Title Insurance or another title company acceptable to Landlord and Tenant ("**Escrow Agent**"). For purposes of this Exhibit, "**Closing**" means the date the Deed is recorded and the net sales proceeds are available for disbursement to Landlord.

(b) At Closing, Landlord will pay the title insurance premium for an Owner's standard coverage title policy in the amount of the Purchase Price; the cost of any title endorsements necessary to cause the removal of any title exceptions which Landlord committed to remove pursuant to Paragraph 4 above; the real estate excise tax; and one-half of the escrow fee charged by Escrow Agent. At Closing, Tenant will pay the recording fee for the recording of the Deed; the title insurance premium for the added costs of extended coverage title insurance; the cost of any title endorsements requested by Tenant or any lender to Tenant; one-half of the escrow fee charged by Escrow Agent.

(c) At least one (1) Business Day prior to Closing, Landlord will deposit in escrow with Escrow Agent, the original Deed signed by Landlord; a FIRPTA affidavit signed by Landlord; and a real estate excise tax affidavit signed by Landlord and such documents and affidavits reasonably required by Escrow Agent to provide an extended coverage title policy. At least one (1) Business Day prior to Closing, Tenant will deposit in escrow with Escrow Agent, in immediately available funds, the Purchase Price, less the outstanding principal balance of the Existing Financing if the Existing Financing will be assumed by Tenant at Closing; plus the amount necessary for Tenant to pay all closing costs payable by it; and a real estate excise tax affidavit signed by Tenant.

(d) As Tenant is the only Tenant of the Premises, there shall be no proration of Real Property Taxes for the current year, or utilities or operating expenses, for all shall be paid by Tenant; however, Rent and Additional Rent shall be prorated as of Closing.

6. Condition of Property. At Closing Tenant shall accept the Premises in an "AS IS" condition with all faults and waives all claims and remedies against Landlord which relate to the condition of the Premises.

7. Remedies.

(a) IF TENANT FAILS, WITHOUT LEGAL EXCUSE, TO CLOSE ON THE PURCHASE THE PREMISES AFTER EXERCISING AN OPTION, LANDLORD'S SOLE AND EXCLUSIVE REMEDY (WHETHER AT LAW OR IN EQUITY) FOR SUCH BREACH SHALL BE REIMBURSEMENT OF LANDLORD ACTUAL, REASONABLE COSTS AND EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES) INCURRED IN CONNECTION WITH TENANT'S EXERCISE OF SUCH OPTION, WHICH AMOUNT SHALL CONSTITUTE FULL, LIQUIDATED DAMAGES FOR SUCH BREACH. TENANT'S FAILURE WITHOUT LEGAL EXCUSE TO CLOSE ON THE PURCHASE OF THE PREMISES AFTER EXERCISING AN OPTION SHALL NOT BE DEEMED

A DEFAULT BY TENANT UNDER THE LEASE. IN ADDITION, TENANT'S RIGHTS UNDER THIS EXHIBIT F SHALL TERMINATE.

(b) IF LANDLORD FAILS, WITHOUT LEGAL EXCUSE, TO CONSUMMATE THE SALE OF THE PREMISES TO TENANT, TENANT SHALL BE ENTITLED TO ALL AVAILABLE LEGAL OR EQUITABLE REMEDIES, INCLUDING BUT NOT LIMITED TO REIMBURSEMENT OF TENANTS ACTUAL, REASONABLE COSTS AND EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES) INCURRED IN CONNECTION WITH THE EXERCISE OF THE OPTION OR SPECIFIC PERFORMANCE; PROVIDED, HOWEVER, IN NO EVENT SHALL LANDLORD BE LIABLE TO TENANT FOR CONSEQUENTIAL, PUNITIVE OR INCIDENTAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS. IF LANDLORD FAILS TO REIMBURSE THE COSTS TO WHICH TENANT IS ENTITLED UNDER THIS PARAGRAPH WITHIN TEN (10) BUSINESS DAYS AFTER WRITTEN DEMAND IS MADE ON LANDLORD PURSUANT TO THIS PARAGRAPH, THEN TENANT MAY CREDIT THE AMOUNT THEREOF AGAINST THE BASE RENT AND ADDITIONAL RENT NEXT COMING DUE UNDER THE LEASE.

LANDLORD AND TENANT SPECIFICALLY ACKNOWLEDGE THAT THEY HAVE READ AND SPECIFICALLY NEGOTIATED AND AGREED TO THE LIMITATION OF REMEDIES AS PROVIDED FOR IN PRECEDING PARAGRAPHS 7(a) AND 7(b).

8. Casualty and Condemnation. Tenant may terminate the Option if the Premises are destroyed or materially damaged by casualty before Closing, or if condemnation proceedings are commenced against all or a portion of the Premises before Closing, and pursuant to the terms of the Lease, Tenant would have the right to terminate the Lease.

9. Costs and Expenses. Except as otherwise expressly provided in this Exhibit, each party hereto will bear its own costs and expenses in connection with the negotiation, preparation and execution of this Exhibit and other documentation related hereto and in the performance of its duties hereunder.

10. Notices. All notices given pursuant to this Exhibit shall be given pursuant to the terms of the Lease.

11. Further Documentation. Each of the parties agrees to execute, acknowledge, and deliver upon request by the other party any document which the requesting party reasonably deems necessary or desirable to evidence or effectuate the rights conferred in this Exhibit or to implement or consummate the purposes and intents of this Exhibit, so long as such imposes no different or greater burden upon such party than is otherwise imposed hereunder.

12. Form 17 Waiver. Tenant and Landlord agree and acknowledge that the Premises constitutes "Commercial Real Estate" as defined in RCW 64.06.005. Tenant has been advised of its right to receive a completed Landlord disclosure statement ("**Landlord Disclosure Statement**") about the Premises pursuant to RCW Chapter 64.06. Tenant hereby waives (a) the right to receive the Landlord Disclosure Statement from Landlord pursuant to RCW Chapter 64.06, and (b) the right to rescind Tenant's exercise of the Option based on Tenant's lack of receipt of such a Landlord Disclosure Statement. Except as otherwise disclosed in any materials known to or provided to Tenant, including without limitation any environmental reports delivered by Landlord to Tenant, Landlord represents that it would not have answered "Yes" to any of the disclosure questions in the "Environmental" section of the statutory form of the Landlord Disclosure Statement. The provisions of this Paragraph 12 shall survive the Closing or termination of the Option.

13. Miscellaneous.

(a) Calculation of Time Periods. Unless otherwise specified in computing any period of time described in this Exhibit, the day of the act or event after which the designated period of time begins to run is not to be included and the last day of the period so computed is to be included, unless such last day is a Saturday, Sunday or legal holiday. The final day of any such period shall be deemed to end at 5 p.m., Pacific time.

(b) Time of Essence. Time is of the essence of this Exhibit.

14. Waiver. A party may, at any time or times, at its election, waive any of the conditions to its obligations hereunder, but any such waiver shall be effective only if contained in a writing signed by such party. No waiver shall reduce the rights and remedies of such party by reason of any breach of any other party. No waiver by any party of any breach hereunder shall be deemed a waiver of any other or subsequent breach.

15. Exchange. Each party agrees to cooperate with the other, if the other wishes to transfer the Premises as part of a tax deferred exchange, so long as such cooperation is at no expense or liability to the other party. No such exchange may delay the Closing of the sale of the Premises hereunder. If necessary as part of such exchange, a party may transfer its rights and obligations under this Exhibit to a qualified exchange facilitator, but such transfer shall not release the transferor from liability hereon. Neither Landlord nor Tenant shall be obligated to take title to any property in connection with its cooperation pursuant to this Paragraph 15.

EXHIBIT F-1

1. Not more than fifteen (15) days after the Arbitration Commencement Date, each party shall provide the other party with written notice (each an "**FMV Notice**") of its determination of the fair market value of the Premises. If the fair market values in the FMV Notices are within five percent (5%) of each other, the fair market value of the Premises shall be the average of the fair market values in the FMV Notices, otherwise the determination of the fair market value of the Premises shall then be submitted for decision to an arbitrator (the "**Arbitrator**") as provided below. The Arbitrator shall be an MAI real estate appraiser who has been active over the ten (10) year period ending on the Arbitration Commencement Date in the appraisal of medical office buildings in the Market Area.

2. If Landlord and Tenant have not agreed on the Arbitrator within thirty (30) days after the Arbitration Commencement Date, each shall select an appraiser who must have the same qualifications as set forth above for the Arbitrator, and so notify the other party in writing not more than ten (10) Business Days after the end of such thirty (30) day period. The two (2) appraisers so chosen by the parties shall then appoint the Arbitrator not more than ten (10) Business Days after the date of the appointment of the last appointed appraiser. If either party fails to select its appraiser within such ten (10) Business Day period, and the other party timely selects its appraiser, then the appraiser selected by the other party shall select the Arbitrator. If the two (2) appraisers chosen by the parties have not agreed on the Arbitrator within ten (10) Business Days after the date the second appraiser has been appointed, the Arbitrator will be appointed by the then presiding judge of the Skagit County Superior Court upon the application of either party.

3. Not more than thirty (30) days after the selection of the Arbitrator pursuant to Paragraph 2 above, the Arbitrator shall determine fair market value of the Premises by selecting either the fair market value stated in Landlord's FMV Notice or the fair market value stated in Tenant's FMV Notice. The Arbitrator shall have no power to average such amounts or to designate a fair market value other than as specified in either Landlord's FMV Notice or Tenant's FMV Notice.

4. Both parties may submit information to the Arbitrator for his or her consideration, with copies to the other party. The Arbitrator shall have the right to consult experts and competent authorities for factual information or evidence pertaining to the determination of fair market value. The Arbitrator shall render his or her decision by written notice to each party. The determination of the Arbitrator will be final and binding upon Landlord and Tenant.

5. The cost of the arbitration will be paid by Landlord if the Arbitrator selects the fair market value specified in Tenant's FMV Notice, and by Tenant if the Arbitrator selects fair market value specified in Landlord's FMV Notice. Each party will pay the costs of the appraiser selected by it pursuant to Paragraph 2 above.

EXHIBIT F-2

WHEN RECORDED RETURN TO:

_____

_____

_____

Document Title: Bargain and Sale Deed
Grantor:
Grantee:
Legal Description:
Abbreviated Legal Description:
Full Legal Description: See Exhibit A attached
Assessor's Tax Parcel Nos.:
Reference Nos. of Documents Released or Assigned: Not applicable

BARGAIN AND SALE DEED

The Grantor, _____, a _____ ("**Grantor**"), for and in consideration of $10.00 and other valuable consideration, in hand paid, bargains, sells and conveys to _____ _____ ("**Grantee**"), the following described real estate, situated in the County of _____, State of Washington, legally described on Exhibit A; subject, however, to the exceptions to title more specifically set forth on Exhibit B attached.

Grantor, for itself and for its successors in interest, does by these presents expressly limit the covenants of the deed to those herein expressed, and excludes all covenants arising or to arise by statutory or other implication, except for those expressly provided for in Section 64.04.040 of the Revised Code of Washington, and does hereby covenant that against all persons whomsoever lawfully claiming or to claim by, through or under said Grantor and not otherwise, it will forever warrant and defend the said described real estate.

Dated _____, 20___.

_____

By_____

Its_____

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of _____, 20___, before me, the undersigned, a Notary Public in and for the State of _____, duly commissioned and sworn personally appeared _____, known to me to be the _____ of _____, the _____ that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said _____, for the purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of
_____, residing at _____.
My commission expires _____.

EXHIBIT G

FORM OF MEMORANDUM OF LEASE

After Recording Return To:

_____
_____
_____

Document Title: Memorandum of Lease

Grantor: **SVH PARTNERS LLC**, a Washington limited liability company

Grantee: **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**

Legal Description:
Abbreviated Legal: _____
Full Legal: See Exhibit A attached.
Tax Parcel No.: _____
Reference Nos. of Related Documents: Not applicable.

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE ("**Memorandum**") is made as of _____, by and between **SVH PARTNERS LLC**, a Washington limited liability company ("**Landlord**"), and the **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW ("**Tenant**").

1. Lease. Landlord and Tenant entered into a Build to Suit Lease dated as of _____, 2021 (the "**Lease** "), pursuant to which Landlord leased to Tenant the real property legally described on Exhibit A attached and the improvements constructed thereon (collectively the "**Premises**"). Pursuant to the Lease, Landlord granted Tenant an option to purchase the Premises and a right of first offer to purchase the Premises. The term of the Lease commenced on _____ and will expire on _____ (the "**Term**"). Subject to the terms of the Lease, Tenant has the option to extend the Term for up to two (2) additional periods of one hundred twenty (120) months each.

2. Incorporation of Lease. This Memorandum is for informational purposes only and is intended to provide record notice of the Lease. Nothing contained in this Memorandum shall be deemed to in any way modify or otherwise affect any of the terms and conditions of the Lease, the terms of which are incorporated herein by reference.

[Signatures are on following page]

The parties have executed this Memorandum as of the day and year first above written.

LANDLORD:

SVH PARTNERS LLC, a Washington limited liability company

By: **SVH Manager LLC**, a Washington limited liability company, Its Manager

By_____
Joel Aslanian, Manager

TENANT:

PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW

By: _____

Name: _____

Title: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this _____ day of _____, 20___, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn personally appeared **Joel Aslanian**, known to me to be the Manager of **SVH Manager LLC**, a Washington limited liability company, the Manager of **SVH PARTNERS LLC**, a Washington limited liability company, the limited liability company that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company, for the purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature
_____
Print Name
NOTARY PUBLIC in and for the State of
Washington, residing at _____.
My commission expires _____.

STATE OF WASHINGTON)
) ss.
COUNTY OF SKAGIT)

On this _____ day of _____, 20___, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn personally appeared _____, known to me to be the _____ of **PUBLIC HOSPITAL DISTRICT NO. 1, SKAGIT COUNTY, WASHINGTON, D/B/A SKAGIT REGIONAL HEALTH**, a Washington municipal corporation formed pursuant to Chapter 70.44 RCW, the public hospital district that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said public hospital district, for the purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

_____
Signature

_____
Print Name
NOTARY PUBLIC in and for the State of Washington, residing at _____.
My commission expires _____.

EXHIBIT A
LEGAL DESCRIPTION

Exhibit 7

Zoning Information

ZERVAS

To: Whom it May Concern
From: Jed Ballew
Date: April 8th, 2021
RE: **Skagit Regional Health - Proposed OSC**

The proposed **O S C** located on South 13th Street in Mount Vernon, WA (combining parcels: P53011, P53012, P53018, P53019, P53021, P53022, P53023, P53025, P53026) is allowed by the current zoning for the City of Mount Vernon.

Jed Ballew, Principal
Zervas Architects

Brian Oseran, Principal
Meriwether Partners LLC

https://mountvernonwa.maps.arcgis.com/apps/MapSeries/index.html?appid=594aed008cc2428cb038fa1d...

Sign in

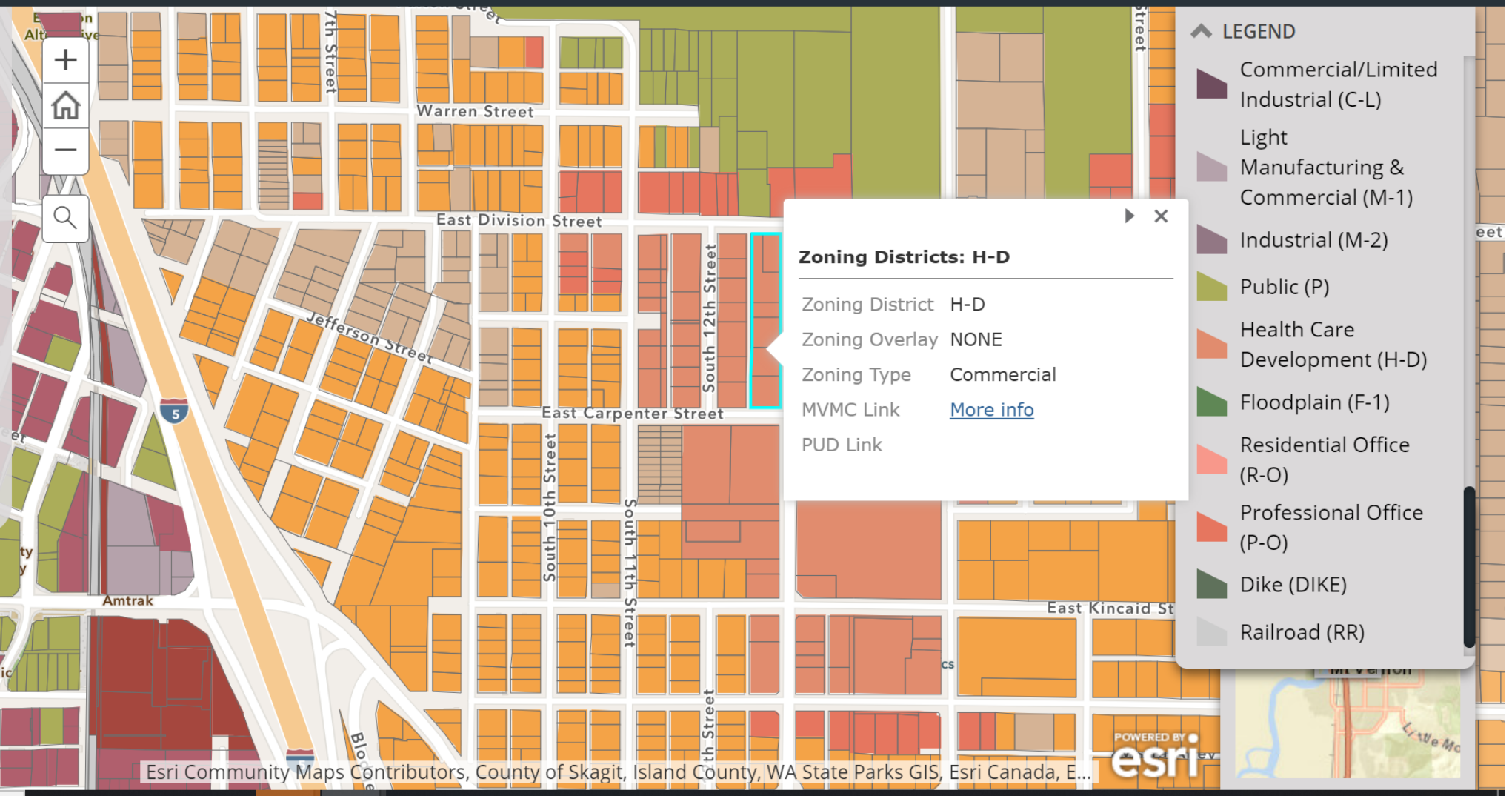
Mount Vernon Land Use Designations

Explore the maps and view information regarding zoning and land use districts outlined in the City's 2016-2036 Comprehensive Plan

City of Mount Vernon Development Services

Zoning Designations | Comprehensive Plan

This map identifies zoning designations for property throughout the City. This zoning map is implemented by the City's zoning code that is adopted as Mount Vernon Municipal Code Title 17. The purpose of the City's Zoning Code is to "...promote the most appropriate and compatible uses of the land within the city; prevent undue concentration of population and avoid overcrowding of land; encourage coordinated development of unbuilt areas; conserve or restore natural beauty and other natural resources; preserve areas and buildings of architectural, cultural or historic significance; facilitate the orderly development and use of transportation, water, sewage and other public services; provide adequate light and air; lessen traffic congestion; and secure safety from fire."



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1:50 PM
7/21/2021

https://mountvernonwa.maps.arcgis.com/apps/MapSeries/index.html?appid=594aed008cc2428cb038fa1d...

Sign in

Mount Vernon Land Use Designations

City of Mount Vernon Development Services

Explore the maps and view information regarding zoning and land use districts outlined in the City's 2016-2036 Comprehensive Plan

Zoning Designations | Comprehensive Plan

This map identifies zoning designations for property throughout the City. This zoning map is implemented by the City's zoning code that is adopted as Mount Vernon Municipal Code Title 17. The purpose of the City's Zoning Code is to "...promote the most appropriate and compatible uses of the land within the city; prevent undue concentration of population and avoid overcrowding of land; encourage coordinated development of unbuilt areas; conserve or restore natural beauty and other natural resources; preserve areas and buildings of architectural, cultural or historic significance; facilitate the orderly development and use of transportation, water, sewage and other public services; provide adequate light and air; lessen traffic congestion; and secure safety from fire."

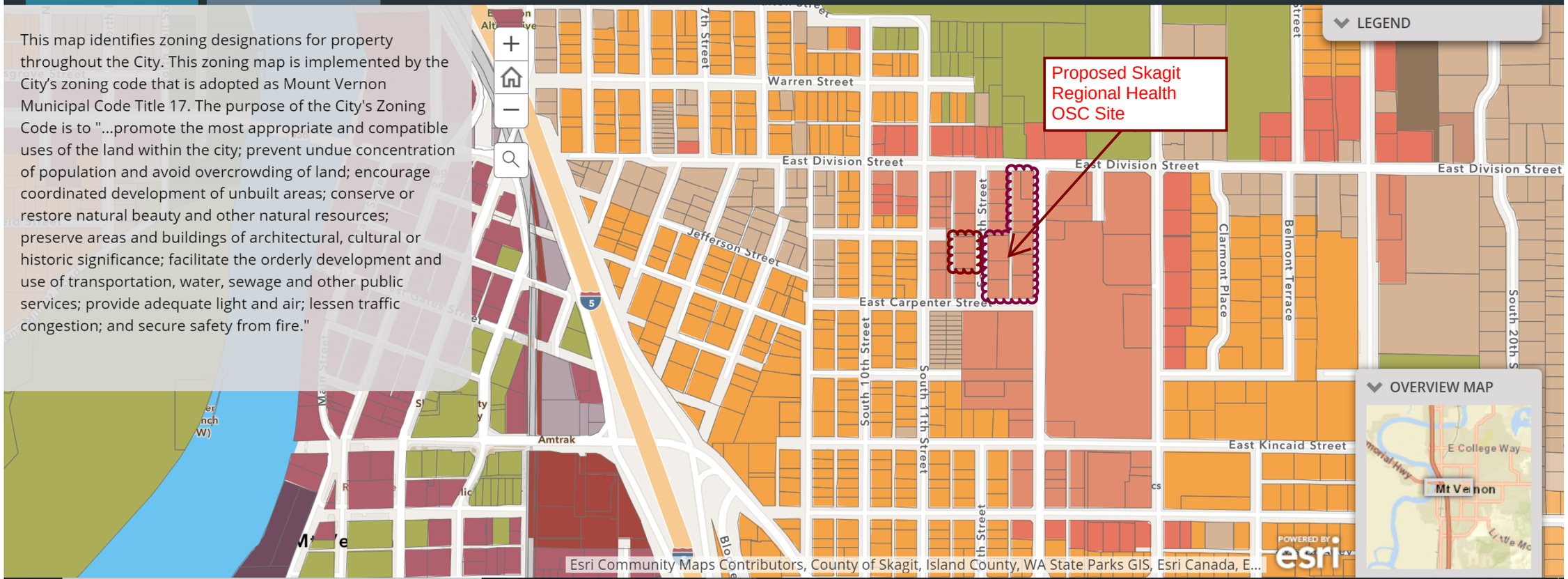

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Exhibit 8

Letter of Commitment

Skagit Regional Health

July 27, 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 Skagit Regional Health (SRH) will use reserves to fund the capital and start-up costs associated with the Certificate of Need request to establish a five-operating room/three endoscopy procedure room dedicated outpatient surgical center at Skagit Valley Hospital. The new outpatient surgical center is needed to decant the current high occupancy of the hospital's main operating rooms.

As documented in SRH's audited financials, included as Appendix 1 of the Certificate of Need application, SRH has more than sufficient reserves to fund the project.

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

Sincerely,

Paul Ishizuka, MBA, CPA,
Regional Vice President and Chief Financial Officer

Exhibit 9

Equipment List

Room	Description	QTY NEEDED
Lobby		
Furniture (seating)	Interior Décor (Art)	10
	Bariatric Wheelchair	3
	Wheelchair, standard	6
	Hip Chair	4
	2-Seater	6
	Square side table	4
	AED	1
	Kuerig/Accessories	1
Receiving		
	Carts	5
	Float Station/Chair	1
	Hand Truck	1
	Cardboard Bin	1
	Pallet Jack	1
	Supply Bins/Totes	40
	Wire Racks	6
Housekeeping		
	Cleaning Cart	1
	Linen Hamper	1
	Mop/Bucket	1
	Swiffer	1
	Vaccum	1
	Wire Rack	2
Medical Gas Storage		
	O2 Holders	10

Staff Lounge		
	Chair, Stackable	12
	Clock	1
	Cork Board	1
	Kuerig/Accessories	1
	Table	2
	Toaster	1
	Trashcan	2
Staff Shower (1)		
	Shower Chair	1
	Shower Curtain	1
Reception		
Check-in		

	Task Chair	4
	Trash Can	4
	Desk Accessories	4
	File Cabinets	4
Provider Work area (2)		
	Clock	2
	Desk	5
	Executive Chairs	8
	Printer Side Table	2
	Trash Can	5
Quiet/Dictation Room		
	Clock	1
	Float Desk	1
	Refrigerator, Mini (lactation)	1
	Side Chair	1
	Task Chair	1
	Trash Can	1
Private Office (5)- Pharm, Anesth., Admin, Office, Manager office		
	Book Shelf	5
	Clock	5
	File Cabinet (4 drawer)	5
	Float Desk	5
	Pedestal File Cabinet	5
	Printer Side Table	5
	Task Chair	5
	Trash Can	5
Work area (2) Implant Coord., Purchasing		
	Float Desk	2
	Printer Side Table	1
	Task Stool	2
	Trash Can	2
	Whiteboard	2
Endo Procedure Room (3)		
	Anesthesia Cart	1
	Anesthesia Machine	1
	Anesthesia Monitor	1
	BIS Monitor	1
	BIS Monitor Wall Mount	1
	Cautery Unit	3
	Ceiling Exam Light	3
	Clock	3
	CO2 Insufflator	3

	Oto/Opth Scope Wall Mount System	3
	Flushing Pump	3
	Headlamp, light	3
	Holder, Glove Box Triple	3
	Instruments	3
	IV Pole	3
	Linen Hamper	3
	Mayo Stand	3
	Medical Grade Power Strip	2
	Neptune Suction	3
	Patient Monitor Roll Stands	3
	Patient Monitors	3
	Procedure Cart/Monitor Unit	3
	Processor	2
	Scopes, GI	20
	Stool, Physician	3
	Supply Bins	60
	Syringe Pump	3
	Trashcan	3
	Vaporizer	5
	Video Monitor	6
	Vital Sign Monitor	3
	Vital Signs Roll Stand	3
	Wall Mounted Computer Arm	3
	Wow- Battery Powered	6
Nurse Station		
	Blanket Warmer	3
	Clock	3
	Refrigerator, Under Counter	2
	Sensor, Temp Monitor	2
	Task Chair	8
	Trashcan	3
Soiled Holding (2)		
	Docking Station (Neptune)	1
	Wall mounted computer Arm	1
	Holder, Glove Box Triple	2
	Linen Hamper	2
	Step Trash Can	4
	Wire Rack	2
Clean Utility (1)		
	Cart Wire Supplies / Linen	1
	Holder, Glove Box Triple	1
	Supply Bins	10
	Trashcan	1

Equipment Storage		
	Blood Warmer	1
	Cameras	20
	C-Arm- Large	2
	C-Arm- Mini	2
	CSZ Cooler/Warmer	5
	Hana Ortho Table	1
	Ortho Power, Large	6
	Ortho Power, Medium	6
	Ortho Power, Micro	2
	Pegasus Storage System	1
	Positioning Equipment, GYN	3
	Positioning Equipment, Ortho	2
	Positioning Equipment, Ortho Spider	1
	Positioning Equipment, Spine- Misc.	1
	Positioning Equipment, Urology- Misc.	1
	ENT Surgical Equipment	1
	Power Insufflator	4
	Rigid Scopes	2
	Scopes, Flexible	4
	Scopes, Rigid Cystoscope	4
	Scopes, Rigid Ureteroscope	3
	Syringe Pumps	5
	Ultrasound	3
	Wire Racks	10
EVS Room		
	Holder, Glove Box Triple	1
	Mop/Bucket	1
	Swiffer	1
	Wire Rack	1
Nourishment Area		
	Mini Refrigerator	1
SPD		
	Cart Washer	1
	Case Carts, Full Size	10
	Case Carts, Small	10
	DI RO Water System	1
	Drying Cabinet	1
	Heat Sealer	1
	Holder, Glove Box Triple	3
	Instrument Pass Through (SPD)	1
	Instrument Storage Racks	4
	Pickline Carts	20

	Prep and Pack Station	1
	SPD Incubator	2
	SS Instrument Peg Board	2
	SS Work Tables	3
	Steam Sterilizer	2
	Sterile Wrap Rack	3
	Sterilizer (Low Temp)	2
	Sterilizer Loading Carriage	4
	Sterilizer Loading Cart	4
	Storage Bins	1
	Supply Bins	200
	Ultrasonic Cleaner	1
	Wash Sinks	3
	Washer Disinfector	2
	Wire Utility Carts	8
	Wow- Wall Mounted	3
Semi-Restricted Corridor		
	Blanket Warmer	3
	Crash Cart	2
	Defibrillator	2
	Fluid Warmer (Smith Hotline)	1
	Pressure Infuser (Level 1)	1
	Implant Carts	8
	Instrument Storage Carts	7
	Irrigator Stand	2
	Lead Aprons	20
	Lead Apron Mounting Hooks	20
	Lead Screens	3
	MH Cart	1
	Sub Zero Freezer	1
	Suture Cart	4
	Utility Carts	5
OR (5) 4 full-time, 1 shared with Pain Manage.		
	Anesthesia Cart	5
	Anesthesia Machine	5
	Anesthesia Monitor	5
	Spinal Positioning Device	5
	Savi Scout	1
	Back Table	10
	Single Basin Stand	5
	BIS Monitor	5
	BIS Monitor Wall Mount	5
	Cautery Unit	5
	Clock	5
	Double Basin Stand	5

	High Basin Stand	2
	ESU Generator	5
	Front Table	5
	Gas/Utility/Power Columns	5
	Glide Scope	2
	Laryngoscope McGrath	3
	Hamper	5
	Head Lights	5
	Instrument Sets and Trays	1
	Aesculap Tray Cans	1
	Interactive OR Video System	1
	Arthroscopy Cart	2
	IV Pump	5
	Kick Bucket	5
	Mayo Stand	5
	Medical Grade Power Strip	10
	Neptune's	6
	OR Boom	5
	OR Lights	5
	OR Stools	5
	OR Surgery Table	5
	PACS System	1
	Pass Through Cabinets	4
	Patient Monitor	5
	Patient Monitor Roll Stands	5
	Patient Monitors	5
	Side Table	5
	Step Stool	5
	Suction Regulators	8
	Supply Bins	40
	Surgeon Stool	5
	Tourniquet	5
	Vaporizer	5
	Vital Sign Monitor	5
	Vital Signs Roll Stand	5
	Waste Receptacle	50
	Wall mount Computer arm	5
	WOW's- battery powered	10
Phase 1 Recovery rooms		
	Computer Stations (Arms)	4
	Patient Monitor Roll Stands	4
	Patient Monitors	4
	Stretchers	4
	Trash Can	4
Pre/Post OR/Endo		

	Computer Stations, wall mounted arm	24
	Patient Monitor Roll Stands	24
	Ice Machine	1
	Patient Monitors	24
	Recliners	6
	Stool, Physician	12
	Stretchers	19
	Trash Can	24
	Wow- Battery Powered	4
Medication Room		
	Wall Mounted Computer Arm	1
Decontamination Area		
	Scrub Sink	3
Control Desk		
	Clock	1
	Task chair	3
Patient Belongings		
	Lockers	1
Scope Drying		
	Scope Drying Closet	2
	Wire Rack	4
Scope Processing		
	Docking Station (Neptune)	1
	Holder, Glove Box Triple	1
	Leak Tester	1
	Scope Processor	2
	Stainless Steel Sink Insert /Adjustable Heig	1
	Transport Cart	2
	Wire Rack	1
Procedure Room (doubles as OR room when not being used for Pain)		
	RF Generator	1
	RF Probe Sets	3
	Table, Treatment	1
	Holder, Glove Box Triple	1
	Oto/Opth Scope Wall Mount System	1
	Instruments	1
	Supply Bins	10
	Clock	1

Exhibit 10

Medical Director Job Description

Medical Director Job Description
Mount Vernon Outpatient Surgery Center

1. *Selection and Appointment of a Medical Director*:

   a. The SRH administration selects the Medical Director candidate from medical staff members within a department or specialty of SRH. This selection is based on the qualifications listed below. All subsequent reviews and assessments will be by the Chief Medical Officer of SRH.
   b. The Medical Director shall act as a liaison between the Medical Staff and the Outpatient Surgery Center.
   c. This agreement is not and shall not be construed as any form of guarantee or assurance by SRH that the Physician will receive or retain necessary Medical Staff Membership or privileges for purpose of discharging his/her responsibilities hereunder; application, appointment, reappointment and granting of privileges shall be governed solely by the Medical Staff Bylaws of SRH then in effect.

2. *Qualifications of a Medical Director:*
   a. Possess a valid and unlimited license to practice medicine pursuant to the laws of the State of Washington;
   b. Member of the active medical staff in good standing;
   c. Board certified or board eligible in field (NAME SPECIALTY) as per the medical staff approved specialty requirements, the Medical Director contract will list the appropriate medical staff approved specialty(s);
   d. Possess a valid federal narcotics number, DEA;
   e. Be and remain a participating provider in the Medicare and Medicaid programs (Titles XVIII and XIX of the Social Security Act, respectively), and with any managed care program with which Practice is now or hereafter becomes affiliated;
   f. Be eligible for and not denied professional liability insurance coverage in accordance with Section 1.8;
   g. Meet any and all such other requirements of the Bylaws, Rules and Regulations of SRH or Facility as applicable to medical director, a copy of which shall be provided to Director and Physician;
   h. Not be convicted of, nor plead no contest to, any crime;
   i. Not be suspended or excluded from participating in Federal health care programs (Medicare) and/or State health care programs (Medicaid) pursuant to 42USC1320a-7
   j. Have reached at least three years in clinical practice;
   k. Required training going forward as of 1/1/2020.
      i. Must complete the SRH New Medical Director orientation and training prior to providing services as a Medical Director and refresh if a current medical director
      ii. Just Culture training
      iii. Completed all SRH mandatory CBL's
      iv. If not already completed, complete the provider leadership education program

l. Have a contract with SRH as a Medical Director or appointed as a Medical Director as part of a group contract for services with a required Medical Director responsibility.
m. Shall yearly submit a written conflict of interest statement to the SRH Director of Risk and Compliance.

3. *Reporting Structure for a Medical Director:* The Medical Director reports directly to the Chief Medical Officer of Skagit Regional Health and or designee

4. *Goals of the Medical Director:* To attain the quality initiatives that are jointly set for the department/service with the CMO. The focuses will be patient safety, clinical outcomes, timeliness of care, team work, and cost efficiency.

5. *Core Medical Director Duties:*
   a. Collaborates with Outpatient Surgery Center Administrator on overall medical planning, program direction and efforts necessary for the effective operation of the department/program in accordance with professional society standards, organizational goals, SRH policies and procedures and standards of accrediting bodies.
   b. Is available to the Outpatient Surgery Center staff to assist in decision making regarding patient admission, patient care and patient discharge.
   c. Manage the team of physicians to assure the best clinical outcomes, improve practice and maintain compliance with medical staff and SRH policy and establish provider performance standards with the medical staff leadership.
   d. Provides current medical expertise and direction to the reviews of policies, procedures and order sets.
   e. Participate in key medical staff committees that improve the quality of care and efficiencies of care or delegate to a colleague. Holds regular Outpatient Surgery Center department meetings.
   f. Organize annual educational schedules for key medical topics for the outpatient surgery center.
   g. Develops with Outpatient Surgery Center administrator and in consultation with Quality Management a QAPI program for the department to include a Quality dashboard, quality improvement projects, audits for critical safety elements and utilization.
   h. Help to resolve any conflicts between the medical director's physicians, administration and other team members.
   i. On boards the new providers in their department or delegates to a colleague.
   j. Designates a liaison within the medical director's group to work with the GME program.
   k. Assists the administration in communication of department programs to the community.

6. *Physical Demands & Work Environment:* The physical demands described here are representative of those that must be met by an employee to successfully perform the essential functions of this job. While performing the duties of this job, the employee is regularly required to talk and hear. This position is very active and requires standing, walking, bending, kneeling, stooping, crouching, crawling, and climbing all day. The employee must frequently lift or move objects and patients weighing over 50 pounds. Specific vision abilities required by this job include close vision, distance vision, color vision, peripheral vision, depth perception and ability to focus.

7. *Our Mission:* To continually improve the health of our communities serving with compassion and respect, one person at a time.

8. *About Us:* Skagit Regional Health the umbrella name for Skagit Valley Hospital, Skagit Regional Clinics, and Cascade Valley Hospital and Clinics is a health care leader in Northwest Washington, providing advanced, quality and comprehensive services to the people of our communities. Skagit Regional Health has been recognized as a "Leader in LGBT Healthcare Equality" by the Human Rights Campaign (HRC). Skagit Regional Health is a smoke free campus and is committed to Safety, Compassion, Presentation, and Efficiency.

ACKNOWLEDGEMENT:

I, _____, acknowledge that I have read this job description, and understand the requirements and expectations set forth herein. I hereby accept this job and agree to perform the identified essential functions and expectations in a safe manner and in accordance with Mount Vernon Surgery Center established procedures.

_____ _____

Signature Date

Exhibit 10

Physician List

MVSC Medical Staff			
Name		**Professional License #**	**Specialty (1)**
Actis, Richard M.	MD	MD60750154	Anesthesia
Atkins, Brian C.	DO	OP60678494	Anesthesia
Blum, Jared J.	MD	MD60074659	Anesthesia
Brumfield, Brooks A.	MD	MD61054622	Anesthesia
Carrigan, Michael J.	MD	MD60746921	Anesthesia
Carter, Robert W.	DO	OP60272963	Anesthesia
Clark II, Robert E.	MD	MD60672610	Anesthesia
Getz, Jeremy B.	DO	OP60070568	Anesthesia
Hambleton, Jeffrey S.	MD	MD00043151	Anesthesia
Harris, Bradley D.	MD	MD60967202	Anesthesia
Hilles, Robyn L.	MD	MD60902133	Anesthesia
Huynh, Bao T.	MD	MD60080820	Anesthesia
Irwin, Lisa A.	MD	MD60771703	Anesthesia
King, James C	MD	MD60091659	Anesthesia
Kotlarczyk, Jaroslaw J.	MD	MD00033166	Anesthesia
Leedom, Tyler J.	DO	OP60125454	Anesthesia
Loth, Karl R.	MD	MD61045070	Anesthesia
Ludwig, Thomas A.	MD	MD00049359	Anesthesia
Miller, Jonathan P.	MD	MD60321412	Anesthesia
Moller, Jeffrey L.	MD	MD60339118	Anesthesia
Morrison, John E.	MD	MD60965828	Anesthesia
Oldroyd, Daniel	MD	MD60978272	Anesthesia
Pitsch, Trevor J.	MD	MD60071861	Anesthesia
Raybeck, Mark J.	MD	MD60954714	Anesthesia
Rubenstein, Peter B.	MD	MD60770459	Anesthesia
Schoene, Peter B.	MD	MD60907935	Anesthesia
Shaw, Regina A.	MD	MD00036798	Anesthesia
Shewmaker, Eric J.	MD	MD60657485	Anesthesia
Skirball, Jarrett A.	MD	MD60658279	Anesthesia
Skjei, Scott M.	MD	MD60461259	Anesthesia
Sneed, Nathan A.	MD	MD60652460	Anesthesia
Sullivan, Shaun P.	MD	MD00020213	Anesthesia
Sutherland, Michael A.	MD	MD60082307	Anesthesia
Swan, Malcolm A.	MD	MD60917685	Anesthesia
Trauscht, David	MD	MD61078007	Anesthesia
Van Mieghem, John P.	MD	MD60273897	Anesthesia
Vanderleest, Scott D.	MD	MD60208322	Anesthesia
VonFeldt, Matthew J.	MD	MD00038923	Anesthesia
Walters, Lawrence C.	MD	MD00036764	Anesthesia

MVSC Medical Staff			
Name		**Professional License #**	**Specialty (1)**
Richardson, Brent A.	MD	MD00045352	Anesthesia
Alagugurusamy, Sanker Suresh	MD	MD60404231	Gastroenterology
Jette, Emily J.	PA-C	PA60868442	Gastroenterology
Karimi, Nassim R.	MD	MD00028850	Gastroenterology
Liang, David B.	MD	MD60197486	Gastroenterology
McMahon, Megan T.	PA-C	PA60824358	Gastroenterology
Webb, Duane D	MD	MD00046034	Gastroenterology
Allam, Rasha	MD	MD60189761	Gynecology
Elliott, Sarah	MD	MD60944415	Gynecology
King, Carlyn	DO	OP61031415	Gynecology
Silva, William Andre Z.	MD	MD00044925	Uro-gynecology
De Cardenas, Ashton T.	PA-C	PA60980474	Orthopedics
Stahlberg, Bill	PA-C	PA61078913	Orthopedics
Frey, Peter	PA-C	PA60257957	Orthopedics
Sheu, Christopher L.	MD	MD60657218	Orthopedics
Vellinga, Ryan	MD	MD60942874	Orthopedics
Willis, Alexander	MD	MD61107806	Orthopedics
Brown, Gary L.	MD	MD00013171	Otolaryngology
England, Christopher R.	MD	MD60719422	Otolaryngology
Grant, Jonathan R.	MD	MD60187241	Otolaryngology
Gross, James R.	MD	MD00019697	Otolaryngology
Harris, Kevin C.	MD	MD00042133	Otolaryngology
Johnson, Gary K.	MD	MD00011699	Otolaryngology
Carlin, John D.	PA-C	OA60902560	Pain Management
Tsirulnikov, Yuri	DO	OP60203919	Pain Management
Anderson, Randolph V.	DPM	PO00000455	Podiatry
Cocheba, Jay R.	DPM	PO00000773	Podiatry
Lam, Doris	DPM	PO00000652	Podiatry
Pea, Anisa S.	DPM	PO60088825	Podiatry
Riojas, Michael	DPM	PO00000735	Podiatry
Skiles, Todd C	DPM	PO00000471	Podiatry
Ullom, Nathan A.	DPM	PO60398534	Podiatry
Pietro, Michael	MD	MD00023940	Surgery- General
Dean, Joel G.	MD	MD60465075	Surgery, Colon/Rectal
Barger, James K.	DO	OP60815058	Surgery, General
Chew, Weslee	MD	MD60886224	Surgery, General
Hawkins, Joshua	MD	MD60271801	Surgery, General
Huntsman, Michael	PA-C	OA61091541	Surgery, General
Kang, Janice H.	MD	MD60520851	Surgery, General

MVSC Medical Staff			
Name		**Professional License #**	**Specialty (1)**
Porter, Allison	MD	MD60455857	Surgery, General
Renco, Fred H.	PA-C	PA10003130	Surgery, General
Rowan, Brittany C.	PA-C	PA60118197	Surgery, General
Schmaltz, Kristine E.	MD	MD00026417	Surgery, General
Schnabel, Catherine A.	PA-C	PA60644274	Surgery, General
Turner, Seth R.	PA-C	PA60703194	Surgery, General
Van Allen, Erin E.	PA-C	PA10004559	Surgery, General
Dang, Jimmy B.	DO	OP60606905	Surgery, Orthopedic
O'Neill, Kathleen Mary	PA-C	PA10004305	Surgery, Orthopedic
Pennington, Jon	PA-C	OA60805679	Surgery, Orthopedic
Picco, Michael J.	DO	OP00002317	Surgery, Orthopedic
Ruff, Jon William	PA-C	PA60544695	Surgery, Orthopedic
Shepherd, Brittany N.	PA-C	OA60646866	Surgery, Orthopedic
Thomas, Christopher M.	DO	OP61044324	Surgery, Orthopedic
Williamson, Richard V.	MD	MD00024574	Surgery, Orthopedic
Chang, Edwin Y.	MD	MD00049137	Surgery, Plastic
Edwards, James A.	MD	MD60000969	Surgery, Plastic
Scott, Jeffrey R.	MD	MD00045488	Surgery, Plastic
Arisco, Amy M.	MD	MD60396514	Urology
Hadjinian, Sandra J.	MD	MD60152962	Urology
Ho, Richard Von	DO	OP60865742	Urology
Kaestner, Katie A.	PA-C	PA61107236	Urology

APPENDIX 1

Audited Financials

REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

PUBLIC HOSPITAL DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON

December 31, 2020 and 2019

MOSSADAMS

Table of Contents

MOSSADAMS

Report of Independent Auditors

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 1 of Skagit County, Washington (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 1 of Skagit County, Washington, as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 23 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on page 57 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
April 14, 2021

This discussion and analysis provides an overview of the financial position and financial activities of Public Hospital District No. 1 of Skagit County, Washington (the District). The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division, which is known as Skagit Regional Clinics (SRC), was acquired when Skagit Valley Hospital employed the physicians of the former Skagit Valley Medical Center (SVMC) and started operations. On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH and the SRC operations. On June 1, 2016, the District began leasing the facilities of Public Hospital District No. 3 of Snohomish County and providing hospital and clinic services under the name Cascade Valley Hospital and Clinics (CVH).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section.

The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position and changes in it. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Financial Highlights

- SRH's total operating revenue grew by 0.8%, or $3.4 million, from $424.8 million in 2019 to $428.2 million in 2020. Over the same period, total operating expenses grew by 3.4%, or $14.4 million, from $424.5 million in 2019 to $438.8 million in 2020.

- SRH ended 2020 with an operating loss of $10.6 million. This represents a $10.9 million decline from the 2019 operating income of $0.3 million. In 2020, SRH also had a net nonoperating income of $26.1 million and a gain on transfer of assets of $1.3 million, producing an increase in net position of $16.8 million for 2020.

- In September 2019, the District carried out the advance refunding of a portion of the outstanding Unlimited Tax General Obligation Bonds, 2012 with the issuance of the Unlimited Tax General Obligation Bond, 2019. The advance refunding will save the District's taxpayers a total of $3,126,813 and a net present value savings of $2,886,456 at the time of issuance.

- In December 2019, the District carried out the advance refunding of the outstanding Hospital Revenue Bonds, 2010 with the issuance of the Hospital Revenue Refunding Bond, 2019. The advance refunding will save the District $8,425,503 and a net present value savings of $6,611,503.

- The District expanded on a partnership with Skagit Radiology to open the Skagit Imaging Pavilion in September 2019 north of Skagit Valley Hospital in Mount Vernon and bring the first 3D mammography units to the community. The center also features the latest in several more diagnostic imaging modalities including Magnetic Resonance Imaging (MRI), ultrasound, Computed Tomography (CT) and stereotactic biopsy. The Skagit Valley Hospital Foundation raised $2 million to help equip the Women's Imaging Center where the 3D mammography units are located.

Financial Highlights (continued)

- Danny Vera, PharmD, MBA, became the Chief Operating Officer of the District in November 2018. He previously served as Vice President of Operations with Dignity Health Mercy San Juan Medical Center in Carmichael, California, a 370-bed, Level II trauma facility with 2,500 employees. Mr. Vera holds an MBA from the California State University, Fresno Craig School of Business and a Doctor of Pharmacy from the University of California, San Francisco, School of Pharmacy.

- The District board approved the purchase of the $2 million da Vinci® Xi™ Surgical System, which began operating in September 2018. The system is used in a variety of minimally invasive surgeries and is shown to improve patient outcomes, reduce recovery time and shorten hospital stays. The da Vinci® Xi™ Surgical System was installed at the Skagit Valley Hospital in Mount Vernon and is the first robotic tool system offered by Skagit Regional Health to combine technology and services to improve outcomes for patients.

- The District is making a strategic investment of approximately $72 million for the five-year span of 2016–2020 to build a new Electronic Health Record (EHR) and selected Epic as the vendor in 2015. The new EHR is a powerful, state-of-the-art tool that provides system interoperability, connectivity with patients, access to information, and data sharing across the District's entire system, including SVH, SRC, and CVH. The EHR became operable across the system in October 2017.

- The District passed a resolution in November 2018 authorizing the sale of the outpatient kidney dialysis operations to Fresenius Medical Care Ventures, LLC. Fresenius offers outpatient dialysis services out of the space previously occupied by the Skagit Valley Kidney Center near Skagit Valley Hospital in Mount Vernon, WA. Fresenius leases the space from the District and has purchased some assets as part of the transaction. Fresenius has employed the majority of Skagit Regional Health's dialysis employees. Moving to a specialty vendor, such as Fresenius, to provide dialysis services is a trend in industry care models for dialysis across the United States. The District looks forward to collaborating with Fresenius, which has outstanding quality scores and is an industry leader offering wrap-around patient services. The sale closed December 17, 2018, with the District recognizing a gain on sale of operations of $9.2 million, net of associated costs. The District will continue to offer inpatient dialysis services at Skagit Valley Hospital.

Financial Highlights (continued)

- The District approved a letter of intent, dated April 6, 2015, with the University of Washington, acting through UW Medicine, and Public Hospital District No. 3 of Snohomish County (PHD No. 3), d/b/a Cascade Valley Hospital and Clinics in Arlington, Washington. The three parties (the Parties) approved the affiliation agreement (the Agreement) on May 29, 2015. The Agreement establishes the general principles and conditions that will guide the clinical integration between UW Medicine, SVH, and CVH. This Agreement is not a merger, acquisition, corporate restructure, or lease and does not constitute a change in governance or change in mission for any organization. This Agreement defines a process for joint efforts to seek clinical integration to increase efficiency in the delivery of patient care, monitor and utilize health care services to provide quality patient outcomes, and make care more affordable to the extent consistent with applicable law. The Parties are committed to working with each other to seek to increase their level of clinical integration, including but not limited to; standardized clinical protocols, patient safety programs, connectivity of electronic health information, cost and quality benchmarks, collection of quality and cost data, and a commitment to providing continuity of care for patients by remaining within the clinically integrated programs for their entire episode of care.

- Pursuant to this Agreement, UW Medicine will serve as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine will be available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

- The District and PHD No. 3 also entered into an Affiliation Agreement regarding the lease and operation of Cascade Valley Hospital and Clinics, dated December 4, 2015 (the Affiliation Agreement). Under the terms of the Affiliation Agreement and effective as of the closing date, June 1, 2016, the District began leasing and operating all of PHD No. 3's health care facilities, including its hospital and clinic facilities. Please see the "Affiliation Agreement with Snohomish County PHD No. 3" at the end of this Management Discussion and Analysis for further information on the Affiliation Agreement.

Financial Highlights (continued)

COVID-19

On February 29, 2020, the Governor of the State of Washington, Jay Inslee, declared a state of emergency after the first known death attributed to COVID-19 in the State of Washington occurred in the Seattle metropolitan area. Shortly thereafter, the World Health Organization declared the COVID-19 outbreak a global pandemic. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 pandemic, ordering all states to establish emergency operations and authorizing the use of federal funds. On March 18, 2020, pursuant to direction from the State of Washington, SRH began canceling or postponing non-urgent and elective procedures.

On March 23, 2020, Gov. Inslee issued a "Stay Home, Stay Healthy" proclamation, which included an order to halt certain elective procedures including surgeries, outpatient procedures and dental services to preserve the availability of critical equipment for health care workers caring for COVID-19 positive patients. Gov. Inslee issued a proclamation on May 18, 2020, defining the state's plan for the resumption of non-urgent medical and dental procedures. The plan requires an assessment of the organization's readiness as well as the current COVID-19 activity in the community to determine the appropriateness of reopening. As part of the assessment, the proclamation requires specific criteria related to screening, personal protective equipment (PPE), social distancing and hygiene, surge capacity, telemedicine, and others, to be met in order to resume non-urgent procedures. SRH met the requirements defined in the proclamation and resumed non-urgent procedures the week of May 18, 2020.

In response to a surge of COVID-19 related hospitalizations in November 2020, SRH postponed elective surgical procedures that required an inpatient stay through the end of the year.

Major federal and state stimulus and liquidity support came in in several forms described below:

- **Medicare Accelerated and Advance Payment Program:** In April 2020, SRH applied for expedited Medicare payments through the Centers for Medicare and Medicaid Services (CMS) Medicare Accelerated and Advance Payment Program. SRH received approximately $8 million in funds through the program in June and a second advance of approximately $35 million in September. At the time of receipt, repayment of the funds was set to begin 120 days after the funds were received. SRH repaid the $8 million advance in September 2020. In October, the Continuing Appropriations Act, 2021 and Other Extensions Act amended the repayment terms to begin one year after funds were received. At December 31, 2020, SRH had a current liability of $35,247,911 related to these funds.

Financial Highlights (continued)

COVID-19 (continued)

- **CARES Act Provider Relief Funds (CARES-PRF):** The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided more than $170 billion to be distributed to health care providers to address, in part, the loss of revenue resulting from reduced elective procedures and the cost incurred in caring for COVID-19 patients. The distribution of these funds began in April 2020 and continued through November in several general and targeted distributions. SRH received approximately $20 million in funds. SRH has recognized all of these funds in 2020 as nonoperating revenues on the Statements of Revenues, Expenses, and Changes in Net Position.

- **CARES Act FICA Deferral:** The CARES Act also provided for interest free payment deferral of the employer's portion of Social Security taxes that would otherwise be required to be paid during the period beginning March 27, 2020, and ending December 31, 2020. This deferred payment will be due in two installments with 50% to the deferred amount to be deposited by December 31, 2021, and the remaining 50% to be deposited by December 31, 2022. As a result, SRH has a liability of $7,727,975 related to this deferral.

- **FEMA Public Assistance Program:** SRH applied for a $2 million expedited funding grant from the Federal Emergency Management Agency (FEMA) Public Assistance Program, covering the timeframe of March 1 to September 22, 2020. Meant to offset incremental expenses incurred as a result of the COVID-19 pandemic, this funding channel allows for an organization to receive 50% of estimated expenses prior to project close, after removing a 25% state cost share requirement. SRH received approximately $800 thousand through this funding source. This amount was recognized in 2020 as nonoperating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

- **Other federal, state, and other expense grants:** SRH received additional funding from several sources, including funds made available through the CARES Act and passed through the State of Washington, PPE grants made available through the Washington State Hospital Association, as well as other federal, state, and private grants. These funds totaled approximately $1 million and were recognized in 2020 on the Statements of Revenues, Expenses, and Changes in Net Position.

Operating Statistics

Following are key operating statistics for the years ended December 31, 2020, 2019, and 2018:

Statistical Volumes and Definitions [1]

VOLUME	2020	2019	2018
Skagit Valley Hospital			
Admissions *(excludes Newborns)*			
Medical/Surgical	6,018	6,711	6,736
Obstetrics	872	934	977
Behavioral Health	308	383	369
Total Admissions	7,198	8,028	8,082
Discharges *(excludes Newborns)*			
Medical/Surgical	5,926	6,653	6,739
Obstetrics	866	922	979
Behavioral Health	335	401	392
Total Discharges	7,127	7,976	8,110
Patient Days *(excludes Newborns)*			
Medical/Surgical	29,570	29,523	28,977
Obstetrics	1,613	1,671	1,797
Behavioral Health	3,972	3,722	4,156
Total Patient Days	35,155	34,916	34,930
Average Length of Stay *(excludes Newborns)*			
Medical/Surgical	4.99	4.44	4.30
Obstetrics	1.86	1.81	1.84
Behavioral Health	11.86	9.28	10.60
Total Overall Average Length of Stay	4.93	4.38	4.31
Occupancy *(excludes Newborns)*	70.1%	69.8%	69.9%
Surgical Cases			
Inpatient Cases	1,394	1,521	1,294
Outpatient Cases	4,333	4,576	4,239
Total Surgical Cases	5,727	6,097	5,533
Endoscopy Cases	5,850	6,652	4,700
Deliveries	810	864	927
Emergency Department Visits [2]	29,306	33,900	34,324
Oncology Visits			
Medical Visits	18,392	20,339	17,924
Radiation Therapy Visits	11,130	11,236	11,097
Total Oncology Visits	29,522	31,575	29,021
Diagnostic Imaging Procedures			
CT	20,254	20,931	20,688
MRI	8,275	8,841	9,367
X-Ray	57,639	67,708	69,673
Other Diagnostic Imaging	34,386	37,424	36,295
Total Diagnostic Imaging Procedures	120,554	134,904	136,023
Cath Lab Procedures	3,328	3,507	2,961

[1] Volumes include all patients unless otherwise noted.

[2] Includes those patients who are later admitted.

Operating Statistics (continued)

Statistical Volumes and Definitions [1]

VOLUME	2020	2019	2018
Cascade Valley Hospital			
Admissions *(excludes Newborns)*			
Medical/Surgical	1,187	1,248	1,268
Obstetrics	141	160	155
Total Admissions	1,328	1,408	1,423
Discharges *(excludes Newborns)*			
Medical/Surgical	1,176	1,241	1,270
Obstetrics	138	156	161
Total Discharges	1,314	1,397	1,431
Patient Days *(excludes Newborns)*			
Medical/Surgical	4,909	5,402	5,369
Obstetrics	238	276	290
Total Patient Days	5,147	5,678	5,659
Average Length of Stay *(excludes Newborns)*			
Medical/Surgical	4.17	4.35	4.23
Obstetrics	1.72	1.77	1.80
Total Overall Average Length of Stay	3.92	4.06	3.95
Occupancy *(excludes Newborns)*	29.3%	32.4%	32.3%
Surgical Cases			
Inpatient Cases	517	525	457
Outpatient Cases	1,079	983	784
Total Surgical Cases	1,596	1,508	1,241
Endoscopy Cases	822	807	818
Deliveries	127	143	135
Emergency Department Visits [2]	17,102	19,779	18,834
Diagnostic Imaging Procedures			
CT	6,833	6,961	5,730
MRI	1,243	1,242	1,096
X-Ray	11,347	13,458	12,461
Other Diagnostic Imaging	8,543	8,696	7,240
Total Diagnostic Imaging Procedures	27,966	30,357	26,527
Skagit Regional Health - Clinics			
Provider Clinic Visits			
Primary Care Clinic Visits	171,050	190,824	190,723
Specialty Care Clinic Visits	149,862	147,873	133,491
Total Provider Clinic Visits	320,912	338,697	324,214

[1] Volumes include all patients unless otherwise noted.

[2] Includes those patients who are later admitted.

Performance Overview

The following is a comparison of 2020 actual revenues, expenses, and changes in net position results to 2019 and 2018 results (in thousands):

	2020	2019	2018
Operating revenues			
Net patient service revenue	$ 397,012	$ 396,212	$ 374,835
Other operating revenues	31,189	28,544	23,813
Total operating revenues	428,201	424,756	398,648
Operating expenses			
Salaries and wages	197,389	191,088	176,382
Employee benefits	50,463	45,272	40,001
Professional fees	19,748	19,080	17,185
Supplies	70,851	69,485	58,817
Purchased services and other	76,663	75,453	80,218
Depreciation and amortization	18,061	17,754	16,557
Interest and amortization	5,669	6,321	6,038
Total operating expenses	438,844	424,453	395,198
Operating income (loss)	(10,643)	303	3,450
Net nonoperating income, net	4,623	6,721	5,343
CARES Act Provider Relief Fund and other assistance	21,519	-	-
Gain on disposal of operations	-	-	9,240
Gain on transfer of assets	1,269	2,274	2,011
Capital contributions	-	2,308	69
Increase in net position	16,768	11,606	20,113
Net position, beginning of year	166,869	155,263	135,150
Net position, end of year	$ 183,637	$ 166,869	$ 155,263

Health Care Outlook

Skagit Regional Health is committed to the delivery of safe, quality, and cost effective patient care consistent with the Triple Aim.

SRH believes the market will reward performance for those who effectively shift operations from volume to value. In 2020, SRH continued to partner with the University of Washington's Accountable Care Network (UWACN) while running Cascadia Care Network (CCN), SRH's Medicare Accountable Care Organization. CCN received notice of successful shared savings related to performance year 2019 this year. CCN's portion of the savings was $1.6M dollars. These funds will be reinvested in programs and tools that increase the value of healthcare that is offered to our patients.

SRH is shifting its focus away from the acute care hospital business to an ambulatory emphasis. This will allow the District to more efficiently manage the transition from volume to value and cover more lives. The core of that strategy is the expansion and effective operation of the Skagit Regional Clinics, including expansion of virtual care and telehealth capabilities.

Operating Revenue (in thousands)

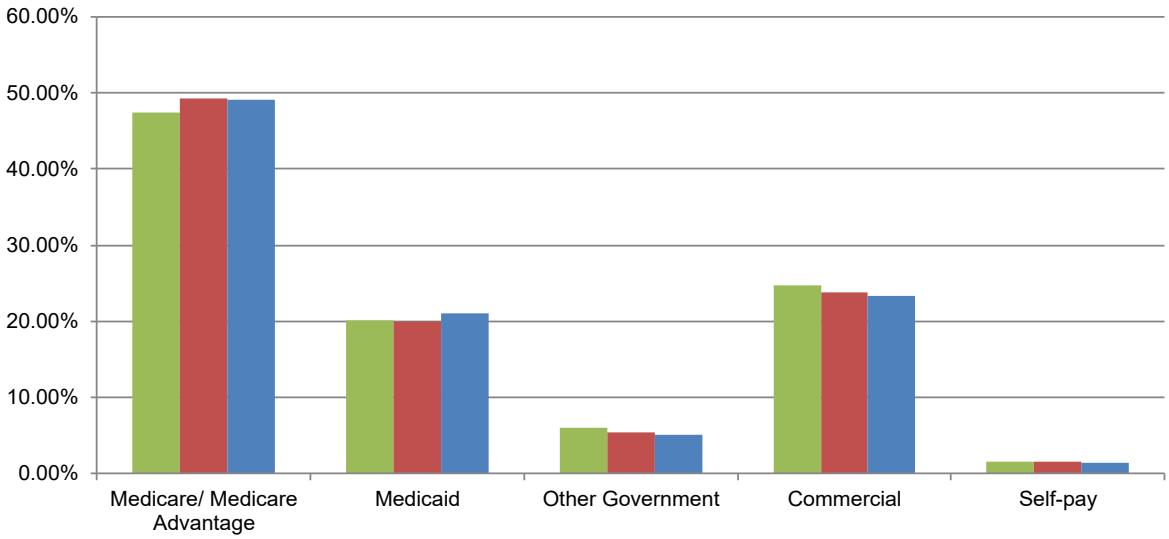
Net Patient Revenue

Net patient revenue consists of gross patient charges less contractual adjustments, charity care, and a provision for bad debt. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District has entered into agreements. In addition, the District provides care to patients, at no charge or reduced rates, who meet certain criteria under its charity care policies. The District also estimates the collectability of accounts receivable and records a provision for bad debt. The resulting net patient revenue is highly dependent on the District's payor mix.

Operating Revenue (in thousands) (continued)

The table and graph below illustrate the three-year trend in SRH's payor mix, based on gross patient charges, for the years ended December 31, 2018 through 2020.

	Years Ended December 31,		
	2020	2019	2018
Payor Mix			
Medicare / Medicare Advantage	47.46%	49.26%	49.06%
Medicaid	20.18%	20.01%	20.99%
Other Government	6.03%	5.35%	5.08%
Commercial	24.69%	23.86%	23.39%
Self Pay	1.64%	1.52%	1.48%
	100.00%	100.00%	100.00%



2020 saw major swings in net patient revenue at SRH, brought on by the COVID-19 pandemic. While overall gross charges at SRH fell by $33,095, SRH ended the year just slightly below $1 higher than the year prior in net patient revenue, primarily due to an improving contractual adjustment rate. The contractual adjustment rate was positively impacted by a variety of factors, including a favorable 2014/2015 Disproportionate Share Hospital (DSH) Certified Public Expenditure Program settlement, a positive impact to the Federal Medical Assistance Percentage through CARES Act legislation. The shift of patient care to non-hospital based sites of care, and a rapid increase in the adoption of telemedicine by SRH, also increased the expected reimbursement percentage per patient charge.

Operating Revenue (in thousands) (continued)

In 2019, net patient revenue at SRH grew by $21,377 from $374,835 in 2018 to $396,212 in 2019. Ramp up of recently recruited primary and specialty care providers drove growth in clinic visit volume of 4.5%. Strong growth in surgery, cardiac catheterization, oncology, and endoscopy was the primary drive of the increase in net patient revenue.

Other Operating Revenue

Other operating revenue increased by $2,645 or 9.3% from $28,544 in 2019 to $31,189 in 2020 compared to $23,813 in 2018. Revenues from the 340B contracted pharmacy program increased by $3,527 or 21.9% from $16,100 in 2019 to $19,628 in 2020.

Operating Expenses (in thousands)

Total operating expenses in 2020 increased by $14,391 or 3.4%, from $424,453 in 2019 to $438,844 in 2020. Total operating expenses increased by $29,255 in 2019, from $395,198 in 2018.

Excluding providers, the District employed 1,895 full time equivalents (FTEs) for the year ending December 31, 2020, which was a decrease of 13 FTEs from the 1,908 FTEs employed in the same period in 2019, and an increase of 10 FTEs from the 1,898 FTEs employed in the same period in 2018. The observed FTE decreases in 2020 were primarily due to the District's response to the COVID-19 pandemic and involved labor reduction plans such as mandatory PTO usage, furloughs, and modifying staffing plans to reduced patient activity in selected business units.

At year-end 2020, SRH employed 229 providers, comprised of 129 doctors, 29 residents, and 71 mid-level providers. This is an increase of 34 employed providers from year-end 2019, comprised of 21 doctors and 14 mid-level providers, partially offset by a decrease of 1 resident. Growth was driven primarily by aggressive provider recruitment efforts in 2020, as well as the addition of new clinical practices, the largest of which was Cascade Ear, Nose and Throat in July 2020. A new Internal Medicine clinic was also established in September 2020 and Smokey Point Family Medicine in November 2020.

Salaries and benefits increased by $11,492 or 4.9%, from $236,360 in 2019 to $247,852 in 2020. Growth in salaries is related to operational activities mentioned above as well as union and non-union staff and provider wage increases. Salaries and benefits increased by $19,977 or 9.2%, from $216,383 in 2018. Wage growth due to Collective Bargaining Agreements as well as labor market conditions was the primary driver of this increase.

Operating Expenses (in thousands) (continued)

Professional fees increased by $668, from $19,080 in 2019 to $19,748 in 2020. Increased locums usage in gastroenterology and the obstetrics programs, along with outsourced labor to staff the COVID-19 screeners and the District's laboratories, were the main drivers of this increase. In 2019, professional fees increased by $1,895, from $17,185 in 2018. This increase was driven primarily by locums usage in gastroenterology as well as increased informational services professional costs related to upgrades to the Epic EHR and the District's Microsoft windows environment.

The District's supply expense increased from $69,485 for the twelve months ended December 31, 2019, to $70,851 for the same period in 2020, an increase of $1,366 or 2.0%. Even with the addition of a new Ear, Nose, and Throat practice and two other clinics, the pause on elective cases in surgical services due to COVID-19 had the greatest impact on supply expense. However, the combination of increased high-cost drugs and steady patient volume in Oncology led to an increase for pharmaceuticals which contributed to an overall slight increase for 2020 when compared to 2019. 2019 showed a significantly greater increase over 2018 in supply expenses, from $58,817 in 2018 to $69,485 in 2019, an increase of $10,668 or 18.1%. The increase was primarily due to increased patient volume in Oncology and increased drug supply expense, as well as volume increases in surgical service lines with high patient-related supply costs, including cardiac catheterization, endoscopy and robotic surgery.

Purchased services and other expense increased $1,210 or 1.6%, from $75,453 in 2019 to $76,663 in 2020. This increase was primarily related to COVID-19 laboratory testing. Additional variances include a decrease in usage of information technology purchased services and software license fees, offset by increases in rents and leases, insurance premiums and taxes. Purchased services and other expense decreased in 2019 by $4,765 or 5.9%, from $80,218 in 2018. This variance was primarily attributed to the insourcing of laboratory services at the SVH campus, which was partially offset by increased FTEs and salaries, as well as a decrease in usage of information technology and technical support services, and increases in software license fees, insurance premiums and taxes.

Depreciation expense of $18,061 in 2020 was $307 or 1.7% higher than the 2019 depreciation expense of $17,754. In 2019, depreciation expense increased $1,197 or 7.2% over the 2018 expense of $16,557. In response to COVID-19, SRH reduced and deferred approximately 50% of the capital budget in 2020, focusing on quality and safety related capital needs. Major capital purchases in 2019 include the purchase of a Drager patient monitoring system and the replacement of inpatient beds across the system, along with routine replacement and upgrades to major moveable equipment.

Net Nonoperating Income and Other Changes in Net Position (in thousands)

Interest and amortization expense decreased by $652 or 10.3% to $5,669 in 2020, from $6,321 in 2019. In 2019, interest and amortization expense increased by $283 or 4.7%, from $6,038 in 2018. Interest rate savings related to the refinancing of the 2010 Hospital Revenue Bonds, which closed in December 2019, was the main driver for this increase. Closing costs related to the refinancing was the main driver of the increase in 2019.

Net nonoperating income and other changes in net position decreased by $16,108, from $11,303 in 2019 to $27,411 in 2020 and decreased in 2019 by $5,360, from $16,663 in 2018. COVID-19 related federal and state stimulus funds from the CARES-PRF, FEMA, and other programs account for $21,519 in 2020. This increase was partially offset by a reduction of $2,135 in nonoperating investment income related deteriorating return rates on investments. In 2019, nonoperating investment income increased by $1,189 over 2018. Transfers of assets related to the affiliation agreement with PHD 3 decreased from $2,274 in 2019 to $1,269 in 2020 flowing an increase in 2019 from 2,011 in 2018. Additional information about this transfer can be found in the "Affiliation Agreement with Snohomish County PUD No. 3" section below.

The 2018 gain on disposal of operations is related to the sale of the outpatient KD operating in December 2018 added $9,240. Donations received for capital contributions were $2,308 in 2019, compared with $69 in 2018, an increase of $2,239. SRH did not receive capital contributions in 2020. The majority of the 2019 donations were gifts from the hospital foundation for various projects including the Skagit Imaging Pavilion.

Statements of Net Position (in thousands)

The following is a presentation of certain financial information derived from the District's statement of net position (in thousands):

	2020	2019	2018
Current assets			
Cash and short-term investments	$ 104,157	$ 49,669	$ 40,246
Accounts receivable, net	51,444	57,800	56,207
Other current assets	22,021	19,675	16,820
Total current assets	177,622	127,144	113,273
Assets whose use is limited, net of current portion	129,709	131,444	127,829
Capital assets, net	140,806	149,780	151,991
Investments in joint ventures	13,572	13,031	12,212
Total assets	461,709	421,399	405,305
Deferred outflows of resources	14,063	10,383	5,491
Total assets and deferred outflows of resources	$ 475,772	$ 431,782	$ 410,796
Current liabilities	$ 99,127	$ 70,596	$ 59,441
Long-term debt, net of current portion	150,445	160,115	166,953
OPEB liability	30,731	22,960	23,465
Estimated professional liability	6,421	5,213	4,983
Total liabilities	286,724	258,884	254,842
Deferred inflows of resources	5,411	6,029	691
Net position			
Net investment in capital assets	17,197	17,407	11,073
Restricted for debt service	10,663	13,075	12,887
Unrestricted	155,777	136,387	131,303
Total net position	183,637	166,869	155,263
Total liabilities, deferred inflows of resources, and net position	$ 475,772	$ 431,782	$ 410,796

Statements of Net Position (in thousands) (continued)

Assets and Deferred Outflows of Resources

Total current assets of $177,622 at December 31, 2020, were $50,478 higher than at year-end 2019. This increase is comprised of a $54,488 increase in cash and short-term investments, a decrease of $6,356 in net accounts receivable, and an increase of $2,346 in other current assets. The increase in cash and short-term assets in 2020 was related to the COVID-19 federal and state stimulus and liquidity support described above as well as an increase in the COVID-19 related PPE inventory.

Total current assets of $127,144 at December 31, 2019, were $13,871 higher than at year-end 2018. This increase is comprised of a $9,423 increase in cash and short-term investments, an increase of $1,593 in net accounts receivable, and an increase of $2,855 in other current assets. The increase in cash and short-term assets in 2019 was related to the positive operating results during the year and improvements in AR collections.

Assets whose use is limited decreased from $131,444 in 2019 to $129,709 in 2020, a decrease of $1,735, after increasing by $3,615 from $127,829 in 2018. The 2019 and 2020 changes were primarily related to investment returns and transfers of assets related to the affiliation agreement with PHD 3.

Net capital assets decreased in 2020 by $8,974, from $149,780 to $140,806. This decrease is made up of $9,087 of new capital assets, offset by $8,756 in retirements and an $18,061 increase in accumulated depreciation. In response to COVID-19 SRH reduced and deferred approximately 50% of the capital budget in 2020, focusing on quality and safety related capital needs. Net capital assets decreased in 2019 by $2,211, from $151,991 to $149,780. This decrease is made up of $15,543 of new capital assets, offset by $16,723 in retirements and a $17,754 increase in accumulated depreciation. Major capital projects in 2019 included the replacement of inpatient beds and IV pumps across the system, upgrade to the SVH operating room video system, as well as routine replacement of core information technology.

Investments in joint ventures increased from $13,031 in 2019 to $13,572 in 2020, an increase of $541. From 2018 to 2019, joint venture investments decreased by $819. Distributions from joint ventures accounted for the change in 2020. The increase in 2019 reflects the Districts contribution to the joint ventures that participated in the building of the Skagit Imaging Pavilion, offset by distributions from the joint ventures.

Deferred outflows of resources increased from $5,491 in 2018 to $10,383 in 2019 and to $14,063 in 2020. Increases in OPEB outflows related to changes in assumptions used in the actuarial analysis of the OPEB program contributed to the increase in 2020 and 2019. Deferred losses on refunding the 2012 UTGO bonds and the 2010 Revenue bonds were the main driver of the increase in 2019.

Statements of Net Position (in thousands) (continued)

Liabilities and Deferred Inflows of Resources

Current liabilities increased $28,531 from $70,596 in 2019 to $99,127 in 2020. This increase is comprised of an increase of $5,110 in accrued salaries, wages and benefits, a $28,468 increase in payments due to estimated third-party payor settlements and advances under the Medicare Accelerated and Advance Payment Program, an increase of $56 in accrued interest, a decrease of $3,789 in accounts payable and a decrease in the current portion of long-term debt of $1,314. Current liabilities increased $11,155 from $59,441 in 2018 to $70,596 in 2019, primarily related to an increase in payments due to third-party payors.

Long-term debt, net of current portion decreased by $9,670 in 2020 to $150,445 from $160,115 in 2019. In 2019, long-term debt, net of current portion decreased by $6,838 from $166,953 in 2018. Normal scheduled principal payments account for the decrease in 2020 and the full refinancing of the 2010 Revenue bonds account for the decrease in 2019.

The Governmental Accounting Standards Board (GASB) issued new standards in 2015 that define how other post-employment benefit (OPEB) liabilities were measured and reported. These standards, GASB 74 and GASB 75, came into effect for plan fiscal years beginning after June 15, 2017. GASB 75, requires a liability to be recognized for OPEB plans that are not pre-funded. Changes in the OPEB liability are recognized as expense in the Statements of Revenue, Expenses, and Changes in Net position or reported as deferred inflows/outflows of resources on the Statements of Net Position, depending on the nature of those changes. The District's OPEB liability increased $7,771 in 2020 from $22,960 in 2019 to $30,731 in 2020. In 2019, the OPEB liability decreased $505 from $23,465 in 2018. Further detail of the District's OPEB liability can be found in Note 10 to the financial statements.

Professional malpractice liability reserve increased by $1,208 in 2020, from $5,213 in 2019 to $6,421. This increase is based on an actuarial estimate of the professional malpractice liability, based on historic claims and changes in volume. In 2019, the professional malpractice liability reserve increased by $230, from $4,983 in 2018 to $5,213.

Affiliation Agreement with Snohomish County PUD No. 3

In accordance with the Affiliation Agreement, which was dated December 4, 2015, the District began operating Cascade Valley Hospital on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between Snohomish PHD No. 3 d/b/a Cascade Valley Hospital and Clinics and the District. Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 leased substantially all of its assets, including Cascade Valley Hospital, certain other clinic facilities, Snohomish PHD No. 3's interest as lessor in certain land leases, and intangible assets, to the District for a term of 30 years. The District will pay Snohomish PHD No. 3 an annual base rent of $10.00 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Financial Arrangement

Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 will transfer all of its cash and cash equivalents in excess of a retained amount to the District by June 2017. The retained amount is equal to Snohomish PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, Snohomish PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by Snohomish PHD No. 3. The Smokey Point LLC building is a two-story, 40,000-square-foot ambulatory center. The building is leased to UW Medicine, which operates a maternal fetal medicine clinic and the District, which operates an outpatient chemotherapy unit, an urgent care clinic, primary and specialty care clinics, and laboratory and imaging services. Snohomish PHD No. 3's excess property tax levy funds will be used solely for the purpose of paying the debt service on Snohomish PHD No. 3's outstanding unlimited tax general obligation bonds. The proceeds from the Snohomish PHD No. 3 regular property tax levy and the Smokey Point LLC lease will be used to pay Snohomish PHD No. 3's expenses, including the annual debt service on Snohomish PHD No. 3's outstanding limited tax general obligation bonds, and to fund the minimum cash balance of $1,000,000. To the extent the amount collected by Snohomish PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds Snohomish PHD No. 3's existing obligations in any year, and the Snohomish PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District.

In accordance with the Affiliation Agreement, the transferred funds will be deposited in Pool A of the "PHD No. 3 Support Fund." The funds in Pool A will be used by the District to: (1) support the provision of health care services rendered in Snohomish County; (2) pay for capital improvements and equipment located in Snohomish County; (3) pay for health information technology and other capital investments that may be located outside of Snohomish County if it serves both the District facilities and the Cascade Valley Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to Snohomish PHD No. 3's usage of the capital investment shall be allocated to Snohomish PHD No. 3; and (4) to cover any losses incurred by the District in the operation of Cascade Valley Hospital services.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

At the end of each fiscal year, the District will deposit into a special fund designated as Pool B of the "PHD No. 3 Support Fund" a portion of the District's net cash flow generated from the District's operations, calculated according to a formula set forth in the Affiliation Agreement but in no case less than 1.5% of the annual net revenue generated by the District's operation of the Cascade Valley Hospital services still in operation, which will be calculated based on a three-year rolling average. The funds in Pool B may generally be used and expended by the District in the following order of priority: (1) to cover any Cascade Valley Hospital operating losses, as defined in the Affiliation Agreement, to the extent the loss is not covered by any remaining funds in Pool A; (2) to reimburse the District for expenses incurred in prior years to cover such operating losses that were not reimbursed in prior years because there were insufficient funds in Pool A or Pool B; (3) to reimburse the District for expenses incurred by the District in prior years to fund capital improvements or equipment located at the Cascade Valley Hospital facilities or for health information technology or other capital investments located elsewhere to the extent it serves both the District and Cascade Valley Hospital facilities, but only for such portion that reasonably relate to Snohomish PHD No. 3's usage of the health information technology or other capital investment, to the extent that such expenses were not reimbursed in prior years because there were insufficient funds available in Pool A or Pool B; (4) to reimburse the District for expenses incurred by the District in the current year to fund Cascade Valley Hospital capital improvements, as defined by the Affiliation Agreement; and (5) subject to certain limitations, for other expenditures that support the provision of health care services in Snohomish County.

Required Services

The Affiliation Agreement obligates the District to provide certain required services in North Snohomish County (identified by zip codes 98223, 98241, 98292, 98271, 98270, 98258, and 98252) for 5, 10, and 30-year periods. The District has the right to determine the appropriate level of required services to meet the needs of the residents of North Snohomish County, such as the number of medical/surgical beds, ICU beds, observation beds, emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and staffing levels, provided it does so reasonably after appropriate evaluation and analysis of any impact a reduction in level of service may have on the residents of North Snohomish County.

During the five-year period following affiliation (the Five-Year Period), the District must provide OB/GYN, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which the District reasonably believes will appropriately serve the needs of the residents of North Snohomish County. The District must, however, continue to provide or cause to be provided, primary care services at the Darrington and Granite Falls clinics during the Five-Year Period.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

During the ten-year period following the affiliation (the Ten-Year Period), the District must provide inpatient and outpatient surgery, general inpatient acute services, and orthopedic general surgeons in North Snohomish County. In order to satisfy the Ten-Year Period commitment, the District is required to continuously maintain and operate Cascade Valley Hospital as a general acute care hospital duly licensed by the state of Washington and certified under the Medicare and Medicaid programs, with at least the following services: general inpatient acute services, inpatient surgery, a 24-hour emergency department, observation unit, ancillary medical services to the extent required to maintain state acute care hospital licensure, and an organized medical staff consisting, at a minimum, of primary care physicians, orthopedic surgeons, and general surgeons. The District is granted the right during the Ten-Year Period to modify or reduce the level of service provided at Cascade Valley Hospital provided: (1) it continues to provide an appropriate level of such services in North Snohomish County to meet the needs of residents; and (2) it has given notice to Snohomish PHD No. 3 and allowed Snohomish PHD No. 3 to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if the District elects to discontinue outpatient surgery services at Cascade Valley Hospital during the Ten-Year Period, the District must provide such services during remainder of the Ten-Year Period at an alternative location within North Snohomish County at appropriate levels to meet the needs of residents.

During the Thirty-Year Period following the affiliation, the District must provide a 24-hour emergency department, observation unit, ancillary medical services, and primary care physicians in North Snohomish County. After the Ten-Year Period, the District is entitled to relocate the required services that were subject to the Ten-Year Period commitment and that continue to be subject to the Thirty-Year Period commitment to any location within North Snohomish County that it reasonably believes will appropriately meet the needs of the residents of North Snohomish County.

In the event that the District intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give Snohomish PHD No. 3 90 days' advance written notice of such intent (the Change Notice). The Change Notice must include a detailed statement of the reasons for the intended action and must be accompanied by an analysis prepared by a qualified independent health care consultant analyzing the potential impact on the accessibility and availability of health care services for residents of North Snohomish County. Snohomish PHD No. 3 is granted the right to determine, in its sole and absolute discretion, whether it will permit the District to proceed with the requested change. Snohomish PHD No. 3 must notify the District within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If Snohomish PHD No. 3 fails to respond in writing within 90 days of receipt of the Change Notice, Snohomish PHD No. 3 will be deemed to have approved the proposed service change.

Dispute Resolution

Subject to the parties' right to equitable relief, all controversies, claims, and disputes arising in connection with the Affiliation Agreement must be settled by mutual consultation between the parties, but failing amicable settlement must be settled finally by arbitration, conducted in Seattle, Washington, in accordance with the rules and procedures promulgated by Judicial Dispute Resolution before one arbitrator. The decision of the arbitrator is final and binding on the parties.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Termination and Unwinding

The Affiliation Agreement permits termination of the Affiliation Agreement and an unwinding of the affiliation upon the happening of certain conditions. The Affiliation Agreement may be terminated: (1) by mutual written consent of the District and Snohomish PHD No. 3; (2) by either the District or Snohomish PHD No. 3 in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by the District in the event that a catastrophic event occurs that was not caused by the District and makes it no longer viable to continue operating Cascade Valley Hospital services as originally contemplated; (4) by either the District or Snohomish PHD No. 3 if Snohomish PHD No. 3 requires the District to purchase the leased facilities and assets as set forth in a certain provision of the Affiliation Agreement governing damages to the facilities related to the District's negligence; and (5) after six years, by the District if the District has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Cascade Valley Hospital services.

To effect an unwind, the District will transfer all of the facilities and assets owned by Snohomish PHD No. 3 back to Snohomish PHD No. 3 following a process consistent with how they were originally transferred. In addition, the District will transfer to Snohomish PHD No. 3 any remaining cash balance in Pool A or Pool B and will assign in part or grant sublicenses under any electronic health records software license, maintenance, and support services agreements in effect at Cascade Valley Hospital facilities immediately prior to termination.

All of the commitments by Snohomish PHD No. 3 to provide any cash or similar support to the District will terminate after the date the District provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason, provided that Snohomish PHD No. 3 will remain obligated to provide any cash or similar support on a pro rata basis for the applicable period of time prior to the notice of termination. The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Unlimited Tax General Obligation Bond, 2019

In September 2019, the District issued a bond in the amount of $29,040,000 to carry out the advance refunding of a portion of the District's outstanding Unlimited Tax General Obligation Bonds, 2012. The 2019 bond is an unlimited tax general obligation of the District's taxpayers. The principal and interest on this bond will be paid by a levy on taxable property in the District, authorized by a 2004 super majority vote on the property owners of the District. This advanced refunding issue had a total savings to the taxpayers of the District of $3,126,813 and a net present value savings of $2,886,456 at issuance.

Hospital Revenue Refunding Bond, 2019

In December 2019, the District issued a bond in the amount of $32,775,000 to carry out the advance refunding of the District's outstanding Hospital Revenue Bonds, 2010. The advance refunding will save the District $8,425,503 over the sixteen-year term of the bond with a net present value savings of $6,611,503.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Skagit Regional Health's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's financial management at Skagit Regional Health Business Center, 1415 East Kincaid Street, Mount Vernon, Washington 98273.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2020	December 31, 2019
CURRENT ASSETS		
Cash	$ 4,176,433	$ 1,787,525
Short-term investments	99,980,841	47,881,458
Patient accounts receivable, less allowance for uncollectible accounts of $12,460,367 and $11,530,743	45,287,556	50,167,058
Other receivables	6,156,532	7,632,775
Assets limited as to use, required for current liabilities	8,648,287	7,967,435
Supplies inventory	8,248,180	5,719,533
Prepaid expenses and other assets	4,804,834	5,121,283
Interest receivable	320,052	866,812
Total current assets	177,622,715	127,143,879
ASSETS LIMITED AS TO USE		
Board-designated for capital improvements	110,785,315	109,082,481
Board-designated for professional liability	1,655,843	1,666,216
Restricted for CVH project funds A & B	15,252,330	15,587,012
Restricted bond reserve funds held by trustee	9,519,908	9,599,080
Restricted for bond redemption fund	1,143,397	3,476,260
	138,356,793	139,411,049
Less amounts required for current liabilities	(8,648,287)	(7,967,435)
	129,708,506	131,443,614
CAPITAL ASSETS		
Land	11,712,330	11,712,330
Construction in progress	852,394	681,273
Depreciable capital assets, net of accumulated depreciation	128,241,551	137,386,658
	140,806,275	149,780,261
INVESTMENTS IN JOINT VENTURES	13,572,092	13,031,379
Total assets	461,709,588	421,399,133
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB outflows	7,706,233	3,298,767
Deferred losses on refundings	6,356,392	7,084,730
	14,062,625	10,383,497
Total assets and deferred outflows of resources	$ 475,772,213	$ 431,782,630

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31, 2020	December 31, 2019
CURRENT LIABILITIES		
Accounts payable	$ 16,220,996	$ 20,010,344
Accrued salaries, wages, and employee benefits	29,149,588	24,038,386
Estimated third-party payor settlements	9,082,701	15,862,321
Advances under Medicare Advance Payment Program	35,247,911	-
Accrued interest payable	483,287	427,435
Current portion of long-term debt	8,943,549	10,257,803
Total current liabilities	99,128,032	70,596,289
LONG-TERM DEBT, net of current portion	150,444,671	160,115,233
OPEB LIABILITY	30,730,533	22,960,006
ESTIMATED PROFESSIONAL LIABILITY	6,420,712	5,212,761
Total liabilities	286,723,948	258,884,289
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB inflows	5,411,301	6,029,159
NET POSITION		
Net investment in capital assets	17,196,312	17,406,902
Restricted for debt service	10,663,305	13,075,340
Unrestricted	155,777,347	136,386,940
Total net position	183,636,964	166,869,182
Total liabilities, deferred inflows of resources, and net position	$ 475,772,213	$ 431,782,630

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $16,489,448 and $18,722,444)	$ 397,011,718	$ 396,212,369
Other operating revenues	31,189,046	28,543,982
Total operating revenues	428,200,764	424,756,351
OPERATING EXPENSES		
Salaries and wages	197,389,255	191,088,222
Employee benefits	50,462,745	45,271,792
Professional fees	19,748,420	19,079,925
Supplies	70,851,022	69,484,832
Purchased services	51,101,038	45,683,614
Other	25,561,587	29,769,872
Depreciation and amortization	18,061,013	17,753,617
Interest and amortization	5,668,992	6,320,991
Total operating expenses	438,844,072	424,452,865
Operating (loss) income	(10,643,308)	303,486
NONOPERATING INCOME, net		
CARES Act Provider Relief Fund and other assistance	21,518,665	-
Investment income	1,965,001	4,099,725
Revenues from tax levies for general obligation bonds	4,260,185	4,577,499
Interest and amortization expense	(1,581,565)	(1,824,716)
Other expense	(20,324)	(131,560)
Nonoperating income, net	26,141,962	6,720,948
Excess of revenues over expenses before capital contributions and transfers	15,498,654	7,024,434
CAPITAL CONTRIBUTIONS	-	2,307,606
GAIN ON TRANSFER OF ASSETS	1,269,128	2,274,075
INCREASE IN NET POSITION	16,767,782	11,606,115
NET POSITION, beginning of year	166,869,182	155,263,067
NET POSITION, end of year	$ 183,636,964	$ 166,869,182

See accompanying notes.

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 395,111,600	$ 403,175,397
Cash paid to suppliers	(172,055,662)	(164,092,767)
Cash paid to employees	(239,995,595)	(230,765,869)
Cash received from Medicare Advance Payment Program	35,247,911	-
Other cash receipts	29,863,574	23,169,342
Net cash from operating activities	48,171,828	31,486,103
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from CARES Act Provider Relief Fund and other assistance	21,518,665	-
Net cash from noncapital financing activities	21,518,665	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(9,087,027)	(14,746,414)
Principal payments on long-term debt	(10,244,992)	(9,355,006)
Escrow payment for refunding of 2012 UTGO and refunding bonds	-	(29,554,720)
Escrow payment for refunding of 2010 revenue bonds	-	(32,335,093)
Interest paid on long-term debt	(7,206,191)	(7,974,723)
Proceeds from issuance of long-term debt	-	61,815,000
Cash paid for financing costs	-	(698,742)
Cash received from tax revenues for general obligation bonds	4,254,221	4,584,310
Cash received from transfer of assets	1,269,128	2,274,075
Cash received from capital contributions	-	2,307,606
Other	(20,324)	(131,560)
Net cash from capital and related financing activities	(21,035,185)	(23,815,267)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributions to joint ventures	-	(2,074,425)
Cash distributions from joint ventures	1,927,762	3,734,569
Net change in investments and assets limited as to use	(51,333,895)	(13,244,602)
Investment income	3,156,350	4,877,930
Net cash from investing activities	(46,249,783)	(6,706,528)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,405,525	964,308
CASH AND CASH EQUIVALENTS, beginning of year	4,022,064	3,057,756
CASH AND CASH EQUIVALENTS, end of year	$ 6,427,589	$ 4,022,064
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	$ 4,176,433	$ 1,787,525
Cash and cash equivalents in assets limited as to use	2,251,156	2,234,539
	$ 6,427,589	$ 4,022,064

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating (loss) income	$ (10,643,308)	$ 303,486
Adjustments to reconcile operating income to net cash from operating activities		
Net change in OPEB liability	2,745,203	3,008,271
Investment income considered an investing activity	(333,240)	(540,769)
Interest expense considered a capital financing activity	5,668,992	6,320,991
Depreciation and amortization	18,061,013	17,753,617
Income recognized from joint ventures	(2,468,475)	(2,479,673)
Changes in operating assets and liabilities		
Accounts receivable, net	4,879,502	761,855
Other receivables	1,476,243	(2,354,198)
Supplies inventory	(2,528,647)	(927,593)
Prepaid expenses	316,449	(1,000,778)
Accounts payable	(3,789,348)	1,624,490
Accrued salaries, wages, and employee benefits	5,111,202	2,585,874
Estimated third-party payor settlements	(6,779,620)	6,201,173
Reserve for professional liability costs	1,207,951	229,357
Advances under Medicare Advance Payment Program	35,247,911	-
Net cash from operating activities	$ 48,171,828	$ 31,486,103
DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Capital assets financed with capital lease obligation	$ -	$ 796,118

See accompanying notes.

Note 1 – Organization

Organization – Public Hospital District No. 1 of Skagit County, Washington (the District), is organized as a municipal corporation pursuant to the laws of the state of Washington. The District is governed by an elected seven (7)-member board. The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division is known as Skagit Regional Clinics (SRC). On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH's and SRC's operations. SVH is a licensed 137-bed acute care hospital in Mount Vernon, Washington. The District also operates Camano Rural Health Clinic on Camano Island, Washington.

UW Medicine and Public Hospital District No. 3 of Snohomish County (PHD No. 3), which operated Cascade Valley Hospital and Clinics (CVH) in Arlington, Washington, entered into a long-term alliance with UW Medicine with respect to clinical and other ventures and a lease by the District of PHD No. 3's health care facilities (UW Affiliation Agreement).

Pursuant to the UW Affiliation Agreement, UW Medicine serves as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine is available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

The District and PHD No. 3 also entered into an Affiliation Agreement Regarding the Lease and Operation of CVH, (the Affiliation Agreement). CVH is a 48-bed facility that is approximately 20 miles southeast of SVH's main campus. In accordance with Affiliation Agreement, the District began operating CVH on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between PHD No. 3 and the District. PHD No. 3 leased substantially all of its assets, certain other clinic facilities, PHD No. 3's interest as lessor in certain leases, and intangible assets to the District for a term of 30 years. The District will pay PHD No. 3 an annual base rent of $10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, PHD No. 3 transferred all of its cash and cash equivalents of a retained amount to the District in 2017. The retained amount is equal to PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by PHD No. 3. The proceeds from PHD No. 3's regular property tax levy and the Smokey Point LLC lease will be used to pay PHD No. 3's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of $1,000,000. To the extent the amount collected by PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds PHD No. 3's existing obligations in any year, and the PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District. Cash transferred by PHD No. 3 to the District resulted in a gain on transfer of assets of $1,269,128 and $2,274,075 in 2020 and 2019, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Note 2 – Summary of Significant Accounting Policies

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

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

Cash and cash equivalents – Cash and cash equivalents include demand and interest-bearing deposits with an original maturity of three months or less.

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

Supplies inventory – Supplies inventory, consisting of medicine and medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value.

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is $1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Note 2 – Summary of Significant Accounting Policies (continued)

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	3 – 40 years
Buildings	15 – 40 years
Fixed equipment	3 – 25 years
Major movable and minor equipment	3 – 20 years

Interest on borrowed funds less any interest earned on temporarily invested funds is capitalized on construction projects as a cost of the related project from the date of borrowing until the construction period ends and the related asset is placed in service. Capitalized interest is depreciated over the estimated useful life of the related asset.

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

Assets limited as to use and short-term investments – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements and self-insurance reserves. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. Pool A and Pool B funds are restricted for capital improvements and operations of CVH as defined in the Affiliation Agreement. These funds are invested in bankers' acceptances, obligations of the United States Government, the State Treasurer's Investment Pool, and certificates of deposit with financial institutions in accordance with state guidelines.

All District investments are carried at market value. Investment income earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Realized and unrealized investment income or losses on other investments are reported as nonoperating gains and losses.

Investments in joint ventures – The District has investments in several different joint ventures providing health care services and accounts for these investments using the equity method, under which the District's share of net income is reported in other operating revenues.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District pays certain workers' compensation claims on a self-insured basis. The District has purchased stop-loss insurance to cover workers' compensation claims that exceed stated limits and has recorded an estimated reserve for incurred but not reported claims based on an actuarial estimate, which was $4,078,000 and $3,003,000 at December 31, 2020 and 2019, respectively. These amounts are recorded in accrued salaries, wages, and employee benefits on the statements of net position. The District also pays certain professional liability claims on a self-insured basis (Note 11).

Note 2 – Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other Than Pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates (Note 10).

Net position – Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing health care services—the District’s primary business. Nonexchange revenues, such as revenues for tax levies and contributions for other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs related to general obligation bonds. Tax levy income and debt service related to general obligation bonds and peripheral or incidental transactions are reported as nonoperating gains and losses.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

CARES Act Provider Relief Fund – The District has received funds from the Provider Relief Fund under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Per United States Department of Health and Human Services (HHS) guidance, these funds are to be used towards COVID-19 specific expenditures and to assist with lost revenues associated with lower volumes and cancellations of procedures and services. For the year ended December 31, 2020, the District recorded these funds as nonoperating income totaling $19,562,059. The District recognizes revenue upon meeting the eligibility requirements associated with the funding. The CARES Act guidelines stipulate certain conditions that are required to be met, such as the incurrence of eligible expenditures or loss of revenue. Those conditions are identified, for accounting and financial reporting purposes, as eligibility requirements.

Note 2 – Summary of Significant Accounting Policies (continued)

Medicare Advance Payment Program – In April 2020, the District applied for expedited Medicare payments through the Centers for Medicare and Medicaid Services (CMS) Medicare Accelerated and Advance Payment Program. SRH received approximately $8 million in funds through the program in June, which was subsequently repaid, and a second advance of approximately $35 million in September. As of December 31, 2020, the District has recorded an advance liability totaling $35,247,911.

Charity care – The District provides care to patients who meet certain criteria under its charity care policies. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during 2020 and 2019 measured by the District's standard charges was $11,888,232 and $9,999,472, respectively.

Subsequent events – Subsequent events are events or transactions that occur after the statements of net position date but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of net position but arose after the statements of net position date and before the financial statements are available to be issued.

The District has evaluated subsequent events through April 14, 2021, which is the date the financial statements are available to be issued.

Note 3 – Net Patient Service Revenue

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

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of Medicare severity diagnosis-related groups (MS-DRGs). Each MS-DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that MS-DRG. The District's classification of MS-DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2015. Net revenue billed under Medicare totaled approximately $161,869,000 and $169,972,000 for 2020 and 2019, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2020 and 2019, were approximately $15,649,000 and $16,478,000, respectively.

Note 3 – Net Patient Service Revenue (continued)

Medicaid – Beginning July 1, 2005, a new inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals was implemented called "Certified Public Expenditures." Under this program, the District is paid for inpatient Medicaid services based on certain costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under this program, the District will be reimbursed the higher of the cost of service or "baseline" reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District's allowable operating expenses to total allowable revenue. The District has finalized the Medicaid CPE cost reports through 2014. Net revenue billed under the Medicaid program totaled approximately $54,821,000 and $52,803,000 for 2020 and 2019, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2020 and 2019, were approximately $5,736,000 and $4,355,000, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid through 2020 have been recorded in the accompanying statements of net position. 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. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

The following are the components of net patient service revenue for the District for the years ended December 31, 2020 and 2019:

	2020	2019
Gross patient service revenue	$ 1,443,483,002	$ 1,476,577,763
Less adjustments to gross patient service revenue		
Contractual adjustments	1,018,093,604	1,051,643,478
Provision for bad debts	16,489,448	18,722,444
Charity care	11,888,232	9,999,472
Total adjustments to gross patient service charges	1,046,471,284	1,080,365,394
Net patient service revenue	$ 397,011,718	$ 396,212,369

Note 4 – Deposits, Investments, and Assets Limited as to Use

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool (LGIP), eligible bankers' acceptances, and repurchase agreements.

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

At December 31, 2020 and 2019, all deposits and investments of the District are categorized as Category 1 and consist of the following:

	2020	2019
Unrestricted cash	$ 4,176,433	$ 1,787,525
Short-term investments		
Government agency securities	11,224,750	14,996,173
Investment in State Treasurer's Investment Pool	88,756,091	32,885,285
	99,980,841	47,881,458
Assets limited as to use		
Cash and cash equivalents	2,251,156	2,234,539
Government agency securities	76,919,656	105,549,219
Investment in State Treasurer's Investment Pool	59,185,981	31,627,291
	138,356,793	139,411,049
Total deposits and investments	$ 242,514,067	$ 189,080,032

The composition of investments, reported at fair value by investment type at December 31, 2020, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of $154,369,661, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	$ 88,144,406	100%

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

The composition of investments, reported at fair value by investment type at December 31, 2019, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of $68,534,640, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	$ 120,545,392	100%

The District's deposits and investments had the following maturities as of December 31, 2020:

Deposit/Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1–5
Demand deposit	$ 4,176,433	$ -	$ -
Money market	2,251,156	-	-
Government agency securities	88,144,406	71,142,769	17,001,637
Investment in State Treasurer's Investment Pool	147,942,072	-	-
	$ 242,514,067	$ 71,142,769	$ 17,001,637

The District participates in the LGIP. The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (WPDPC).

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

In addition to interest and investment income included in nonoperating income, interest income included in other operating revenues totaled $333,240 and $540,769 for the years ended December 31, 2020 and 2019, respectively.

Note 5 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2020 and 2019, were as follows:

	Beginning Balance January 1, 2020	Additions	Retirements	Account Transfers	Ending Balance December 31, 2020
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 11,712,330	$ -	$ -	$ -	$ 11,712,330
Construction in progress	681,273	988,606	-	(817,485)	852,394
Total nondepreciable capital assets	12,393,603	988,606	-	(817,485)	12,564,724
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	13,783	-	-	7,354,239
Buildings and leasehold improvements	145,790,145	76,269	(51,945)	9,560	145,824,029
Fixed equipment	23,501,620	708,563	(611,376)	16,928	23,615,735
Movable equipment	139,499,334	7,299,806	(8,092,868)	790,997	139,497,269
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,979,997)	(264,012)	-	-	(4,244,009)
Buildings and leasehold improvements	(72,410,236)	(5,705,405)	51,945	-	(78,063,696)
Fixed equipment	(19,715,181)	(608,299)	611,376	-	(19,712,104)
Movable equipment	(82,639,483)	(11,483,297)	8,092,868	-	(86,029,912)
Depreciable capital assets, net	137,386,658	(9,962,592)	-	817,485	128,241,551
	$ 149,780,261	$ (8,973,986)	$ -	$ -	$ 140,806,275

Note 5 – Capital Assets (continued)

	Beginning Balance January 1, 2019	Additions	Retirements	Account Transfers	Ending Balance December 31, 2019
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 11,712,330	$ -	$ -	$ -	$ 11,712,330
Construction in progress	2,278,516	3,726,030	-	(5,323,273)	681,273
Total nondepreciable capital assets	13,990,846	3,726,030	-	(5,323,273)	12,393,603
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	-	-	-	7,340,456
Buildings and leasehold improvements	140,007,942	1,060,866	-	4,721,337	145,790,145
Fixed equipment	23,143,017	308,541	-	50,062	23,501,620
Movable equipment	145,223,106	10,447,095	(16,722,741)	551,874	139,499,334
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,715,709)	(264,288)	-	-	(3,979,997)
Buildings and leasehold improvements	(66,858,189)	(5,552,047)	-	-	(72,410,236)
Fixed equipment	(19,120,592)	(594,589)	-	-	(19,715,181)
Movable equipment	(88,019,531)	(11,342,693)	16,722,741	-	(82,639,483)
Depreciable capital assets, net	138,000,500	(5,937,115)	-	5,323,273	137,386,658
	$ 151,991,346	$ (2,211,085)	$ -	$ -	$ 149,780,261

The District has included equipment under capital lease obligations with a cost of $2,983,239 and $9,122,585 in capital assets at December 31, 2020 and 2019, respectively. Amortization expense of $632,122 and $2,456,683 related to this equipment was recorded in depreciation and amortization expense for the years ended 2020 and 2019, respectively. Accumulated amortization for equipment under capital lease was $1,531,643 and $5,458,476 at December 31, 2020 and 2019, respectively.

Depreciation and amortization expense of operating assets for the years ended December 31, 2020 and 2019, was $18,061,013 and $17,753,617, respectively.

Note 6 – Investments in Joint Ventures

Cascade Imaging Associates, LLC – Together with a local radiology group, the District formed Cascade Imaging Associates, LLC (CIA), a limited liability company, to provide magnetic resonance imaging and computer-assisted tomography services to the residents of the community. The District has a 50% interest in CIA at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of $1,169,644 and $1,565,814, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was $726,657 and $347,013 at December 31, 2020 and 2019, respectively.

Medical Information Network – North Sound, Inc. – Together with area hospitals, the District joined Medical Information Network – North Sound, Inc. (MIN – NS), a Washington nonprofit corporation, to electronically connect patients, providers, and others to a regional electronic health record to improve quality and efficiency of health care services in North Sound communities. The District had a 50% interest in MIN – NS until March 2019. During the year ended December 31, 2019, the District recognized operating loss of $51,123 for its share of net loss realized by MIN – NS. The District's recorded investment in MIN – NS was $0 at December 31, 2019.

Skagit Digital Imaging, LLC – Together with a local radiology group, the District formed Skagit Digital Imaging, LLC (SDI), a limited liability company, to provide mammography and stereotactic biopsy services to the residents of the community. The District has a 50% interest in SDI at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating loss of $17,466 and operating income of $63,596, respectively, for its share of the net income realized by SDI. The District's recorded investment in SDI was $1,718,941 and $1,736,407 at December 31, 2020 and 2019, respectively.

Skagit Hospice Services, LLC – Together with Public Hospital District No. 304 of Skagit County, Washington, the District formed Skagit Hospice Services, LLC, dba Hospice of the Northwest (Hospice), a limited liability company, to provide hospice services to the residents of the community. The District has a 50% interest in Hospice at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of $573,518 and $112,918, respectively, for its share of the net income realized by Hospice. The District's recorded investment in Hospice was $1,857,330 and $1,283,812 at December 31, 2020 and 2019, respectively.

Skagit Valley Real Estate Partnership – As part of the closing of the integration with SRC in 2013, the District purchased a membership interest in Skagit Valley Real Estate Partnership (SVREP), a partnership that invests in and develops real property located mainly in Skagit and Snohomish Counties, Washington. The District has a 30% interest in SVREP at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of $326,520 and $402,808, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was $4,660,557 and $4,806,537 at December 31, 2020 and 2019, respectively.

Note 6 – Investments in Joint Ventures (continued)

Smokey Point Medical Center, LLC – Together with PHD No. 3, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns the building, land, and equipment leased to the District and PHD no. 3 to operate the Smokey Point clinics. The District has a 50% interest in SPMC at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of $400,997 and $395,841, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was $4,608,607 and $4,857,610 at December 31, 2020 and 2019, respectively.

Aggregated financial information for all of the District's joint ventures is summarized below:

	2020	2019
Current assets	$ 9,476,516	$ 6,323,075
Noncurrent assets, net	27,544,265	29,594,519
	$ 37,020,781	$ 35,917,594
Current liabilities	$ 3,559,092	$ 2,709,702
Long-term liabilities	11,252,633	12,424,668
Equity	22,209,056	20,783,224
	$ 37,020,781	$ 35,917,594
Revenue	$ 31,180,377	$ 29,804,450
Expenses	25,148,083	23,711,638
Net income	$ 6,032,294	$ 6,092,812

For more information on these joint ventures, including financial statements for the individual joint ventures, please contact the Business Services office of the District.

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2020 and 2019, for the District consisted of the following:

	2020	2019
Direct placement revenue refunding bond, 2019, 3.08%, due serially on December 1, in amounts from $800,000 in 2021 to $7,105,000 in 2035, maturing in 2035.	$ 32,130,000	$ 32,775,000
Direct placement unlimited tax general obligation refunding bond, 2019, 1.85% to 2.27%, due serially on December 1, in amounts from $300,000 in 2021 to $6,130,000 in 2028, maturing in 2028.	28,745,000	29,040,000
Revenue and refunding bonds, 2016, 4.00% to 5.00%, due serially on December 1, in amounts from $1,775,000 in 2021 to $5,875,000 in 2032, maturing in 2037, net of unamortized premium of $5,313,734 and $5,629,401 in 2020 and 2019, respectively.	61,563,734	63,584,401
Unlimited tax general obligation refunding bonds, 2012, 5.00%, due serially on December 1, in amounts from $3,455,000 in 2021 to $4,155,000 in 2023, maturing in 2023, net of unamortized premium of $2,534,894 and $2,855,090 in 2020 and 2019, respectively.	13,939,893	17,400,090
Revenue and refunding bonds, 2013A series, 4.00% to 5.00%, due serially on December 1, in amounts from $1,835,000 in 2021 to $7,895,000 in 2036, maturing in 2037, net of unamortized premium of $1,646,039 and $1,749,999 in 2020 and 2019, respectively.	20,846,039	22,699,999
Note payable to individuals, due in monthly installments from $4,700 to $12,400, including interest of 4.50% maturing in 2024.	632,033	787,168
Note payable to bank, paid in full during 2020.	-	112,279
Capital lease obligations, stated at present value of future minimum lease payments.	1,531,521	3,974,099
	159,388,220	170,373,036
Less current portion	(8,943,549)	(10,257,803)
	$ 150,444,671	$ 160,115,233

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Under the terms of the revenue and refunding bonds, the District has agreed to maintain certain financial ratios and meet certain covenants. Management is not aware of any violations with its debt covenants.

During 2019, the District issued the 2019 direct placement revenue bonds to carry out a taxable refunding of the 2010 revenue bonds. The refunding resulted in the recognition of an accounting loss of $1,593,000, which will be deferred and amortized over the life of the 2010 bond, which was set to mature in 2035 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by $8,426,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $6,612,000. On December 1, 2020, the revenue bond, a taxable bond, converted to a tax-exempt bond bearing an interest at a tax-exempt rate of 3.08% per annum.

During 2019, the District issued the 2019 direct placement unlimited tax general obligation refunding bond to carry out a taxable refunding of a portion of the 2012 unlimited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of $3,731,700, which will be deferred and amortized over the life of the 2012 bond, which was set to mature in 2028 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by $3,127,000 over the next 9 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2,886,000. If certain conditions are met, on December 1, 2022, the UTGO bond, a taxable bond, will convert to a tax-exempt bond with an interest rate of 1.85%. If conditions are not met, the taxable bond remains outstanding, with an interest rate of 2.27% until such time that the conversion occurs or until maturity thereof.

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Changes in the District's noncurrent liabilities during the years ended December 31, 2020 and 2019, are summarized below:

	Beginning Balance January 1, 2020	Additions	Reductions	Ending Balance December 31, 2020	Amounts Due Within One Year
LONG-TERM DEBT					
2019 Direct placement revenue refunding bond	$ 32,775,000	$ -	$ 645,000	$ 32,130,000	$ 800,000
2019 Direct placement UTGO refunding bond	29,040,000		295,000	28,745,000	300,000
2012 UTGO refunding bonds	17,400,090	-	3,460,197	13,939,893	3,455,000
2013 Revenue and refunding bonds - series A	22,699,999	-	1,853,960	20,846,039	1,835,000
2016 Revenue and refunding bonds	63,584,401	-	2,020,667	61,563,734	1,775,000
Notes payable to individuals	787,168	-	155,135	632,033	166,827
Note payable to bank	112,279	-	112,279	-	-
Capital lease obligations	3,974,099		2,442,578	1,531,521	611,722
Total long-term debt	170,373,036	-	10,984,816	159,388,220	8,943,549
ESTIMATED PROFESSIONAL LIABILITY	5,212,761	1,207,951	-	6,420,712	-
Total noncurrent liabilities	$ 175,585,797	$ 1,207,951	$ 10,984,816	$ 165,808,932	$ 8,943,549

	Beginning Balance January 1, 2019	Additions	Reductions	Ending Balance December 31, 2019	Amounts Due Within One Year
LONG-TERM DEBT					
2019 Direct placement revenue refunding bond	$ -	$ 32,775,000	$ -	$ 32,775,000	$ 645,000
2019 Direct placement UTGO refunding bond	-	29,040,000	-	29,040,000	295,000
2010 Revenue bonds	31,250,469	-	31,250,469	-	-
2012 UTGO refunding bonds	48,227,115	-	30,827,025	17,400,090	3,140,000
2013 Revenue and refunding bonds - series A	24,468,959	-	1,768,960	22,699,999	1,750,000
2016 Revenue and refunding bonds	65,535,069	-	1,950,668	63,584,401	1,705,000
Notes payable to individuals	954,316	-	167,148	787,168	167,945
Note payable to bank	223,554	-	111,275	112,279	112,279
Capital lease obligations	5,584,564	796,118	2,406,583	3,974,099	2,442,579
Total long-term debt	176,244,046	62,611,118	68,482,128	170,373,036	10,257,803
ESTIMATED PROFESSIONAL LIABILITY	4,983,404	229,357	-	5,212,761	-
Total noncurrent liabilities	$ 181,227,450	$ 62,840,475	$ 68,482,128	$ 175,585,797	$ 10,257,803

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending December 31,	Bonds and Notes Payable			Direct Placement Bonds			Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	$ 7,231,827	$ 4,181,975	$ 11,413,802	$ 1,100,000	$ 1,642,116	$ 2,742,116	$ 611,722	$ 56,138	$ 667,860
2022	7,730,952	3,838,953	11,569,905	1,140,000	1,610,666	2,750,666	475,825	32,675	508,500
2023	8,268,820	3,471,483	11,740,303	1,290,000	1,459,898	2,749,898	339,005	13,201	352,206
2024	4,233,831	3,078,503	7,312,334	5,850,000	1,425,516	7,275,516	104,969	2,116	107,085
2025	4,285,000	2,912,269	7,197,269	6,155,000	1,306,467	7,461,467	-	-	-
2026–2030	24,410,000	11,557,332	35,967,332	22,435,000	4,652,158	27,087,158	-	-	-
2031–2035	13,645,000	5,717,718	19,362,718	22,905,000	2,664,970	25,569,970	-	-	-
2036–2037	17,681,603	1,337,250	19,018,853	-	-	-	-	-	-
Total	87,487,033	$ 36,095,483	$ 123,582,516	$ 60,875,000	$ 14,761,791	$ 75,636,791	$ 1,531,521	$ 104,130	$ 1,635,651
Net unamortized premiums and discounts	9,494,666								
	$ 96,981,699								

Annual debt service is calculated assuming conversion of the 2019 Direct placement UTGO refunding bond to a tax-exempt bond.

Note 8 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457(b), §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 9% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

Under the §401(a) plan, the District makes contributions on behalf of eligible employees based upon funding levels ranging from 4% to 9% of an employee's gross earnings plus an additional 1/10 of 1% for each year of the first 10 years of credited service. The District contributes up to 9% not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the §415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

Note 8 – Deferred Compensation and Pension Plans (continued)

The District has limited administrative involvement and does not perform the investing function for the plans. The District does not hold the assets of the plans in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the District employees' deferred compensation plans are not reported on the financial statements of the District.

The District's contributions to the employee benefit plans totaled approximately $9,488,000 and $8,834,000 in 2020 and 2019, respectively. Contributions made by employees to the benefit plans totaled approximately $11,306,000 and $10,168,000 a in 2020 and 2019, respectively. For more information on the retirement plans, contact the District's director of human resources.

Note 9 – Property Taxes

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

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

The District is permitted by law to levy up to $0.75 per $1,000 of assessed valuation for general district purposes. As the District has never established a regular tax levy, any future regular levy would require voter approval. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2020 and 2019, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2020 and 2019, the tax levy for bond service was $0.73 and $0.79 per $1,000 on a total assessed valuation of $5,765,812,508 and $5,299,175,803, for a total levy of $4,154,385 and $4,206,811, respectively. The District also receives revenue from timber taxes. Timber tax revenue in 2020 and 2019 was $105,800 and $370,688, respectively.

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

Note 10 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB), which is an agent multiple-employer defined benefit plan. The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits provided – The subsidies provided by PEBB and valued in this report include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy
- Premium reimbursement for those retired between ages 62 and 65

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy was increased to $168 per month, and as of January 1, 2020, the subsidy was increased to $183 per month. As of the valuation date, the retirees and spouses paid the premium minus $150 when the premium was over $300 per month and paid half the premium when the premium is lower than $300.

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

GASB 75 requires the projection of the total cost of benefit payments to be based on claims costs or age adjusted premiums approximating claims costs. Because claims costs are expected to vary by age and sex, we have used claims costs that vary by age and sex. The projection of retiree premiums is based on current amounts for the retirees' share of the premium, projected with the medical trend assumption. We also include implicit subsidies for dental coverage.

Employees covered by benefit terms – At December 31, 2020 and 2019, the following employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	97	97
Active plan members	2,067	2,067
	2,164	2,164

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Contributions – PEBB administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. Contributions are set each biennium as part of the Washington State's budget process. The benefits are funded on a pay-as you-go basis.

Other information – PEBB does issue a stand-alone financial report, but information about PEBB can be found at http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Total OPEB liability

The District's total OPEB liability was $30,730,533 and $22,960,006 as of the reporting date of December 31, 2020 and 2019, respectively. The corresponding measurement date was December 31, 2019 and 2018, respectively, and the actuarial valuation date was July 1, 2018. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs – The total OPEB liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50% = 0.75% real wage growth above inflation. The individual's salary growth is used for use in the actuarial cost method.
Healthcare cost trend rates	Pre-65 ranging from 6.80% to 4.30% and Post-65 ranging from 12.30% to 1.10%
Discount Rate (Liabilities)	2.74% and 4.10% as of December 31, 2020 and 2019, respectively

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2018 actuarial valuation for Washington State Public Employees' Retirement System (PERS), and modified for the District.

- The assumed rates of disability under PERS tier 2 and 3 from the 2018 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. An assumption of a 0% disability rate for all ages was used.

- For service retirement, the post-2013, plans 2 and 3, with less than 30 years of service assumptions from the 2018 actuarial valuation for Washington State PERS was used.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

- For mortality, the assumptions from the 2018 actuarial valuation for Washington State PERS (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using projection scale BB) was used.

- For other termination of employment, we used the assumptions from the 2018 actuarial valuation for Washington State PERS, but no less than 2% per year.

The actuarial assumptions used for the December 31, 2020, reporting were based on a census date of July 1, 2018.

Changes in the total OPEB liability

Balance at December 31, 2018	$ 23,464,988
Service cost	2,656,838
Interest	893,888
Effect of economic/demographic gains/(losses)	2,176,604
Effect of assumption changes or inputs	(5,956,536)
Benefit payments	(275,776)
Net Changes	(504,982)
Balance at December 31, 2019	22,960,006
Service cost	1,992,258
Interest	1,013,604
Effect of assumption changes or inputs	5,229,798
Benefit payments	(465,133)
Net Changes	7,770,527
Balance at December 31, 2020	$ 30,730,533

Changes of assumptions and other inputs reflect a change in the discount rate from 3.44% in 2018 to 4.10% in 2019 and 2.74% in 2020.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

2020	1% Decrease (1.74%)	Discount Rate (2.74%)	1% Increase (3.74%)
Total OPEB liability	$ 37,932,707	$ 30,730,533	$ 25,197,489

2019	1% Decrease (3.10%)	Discount Rate (4.10%)	1% Increase (5.10%)
Total OPEB liability	$ 28,035,815	$ 22,960,006	$ 19,034,200

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2020	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 23,999,777	$ 30,730,533	$ 40,075,384
2019			
Total OPEB liability	$ 18,380,023	$ 22,960,006	$ 29,192,932

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of 6.8% to 4.3% for pre-65 retirees and from a high of 7.5% to 3.6% for post-65 retirees. The dental cost trend assumptions generally increase over time and range from 1.1% to 4.0%.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the years ended December 31, 2020 and 2019, the District recognized OPEB expense of $3,210,336 and $3,284,047, respectively, which was included in Employee Benefits in the Statement of Revenues, Expenses, and Changes in Net Position. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of December 31:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Differences between expected and actual experience	$ 1,784,424	$ -
Changes of assumptions or other inputs	5,921,809	5,411,301
	$ 7,706,233	$ 5,411,301
2019		
Differences between expected and actual experience	$ 1,980,514	$ -
Changes of assumptions or other inputs	1,318,253	6,029,159
	$ 3,298,767	$ 6,029,159

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	$ 204,474
2022	204,474
2023	204,474
2024	204,474
2025	204,474
Thereafter	1,272,562
	$ 2,294,932

Note 11 – Professional Liability Insurance

The District has purchased professional liability insurance from Physicians Insurance (PI) on a claims-made basis in the amount of $1 million per occurrence, with a $5 million annual aggregate limit. The District has a retention of $100,000 per claim with an aggregate retention of $300,000. PI, together with MedPro and AIG, also provides excess coverage on a claims-made basis in the amount of $45 million per occurrence, with a $49 million annual aggregate limit. The District accrues an actuarial estimate of the expected value of losses and related expenses for unreported incidents and claims on an occurrence basis which was $6,421,000 and $5,213,000 at December 31, 2020 and 2019, respectively.

Note 12 – Joint Venture Transactions

The District provides services, including accounting, management, and ancillary services, to the joint ventures (Note 6). The District was reimbursed approximately $14,336,000 and $13,526,000 in expenses related to these services for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the District had a total of approximately $1,944,000 and $2,168,000, respectively, in accounts receivable from joint ventures.

The joint ventures provide various services to the District (Note 6). The District paid approximately $15,172,000 and $15,680,000 to the joint ventures for providing these services for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the District had a total of approximately $962,000 and $789,000, respectively, in accounts payable to joint ventures.

Note 13 – Concentrations of Credit Risk

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

	2020	2019
Medicare	35%	34%
Medicaid	13%	9%
Group Health	9%	7%
Patient and self-pay	0%	1%
Commercial	30%	34%
Other third-party payors	13%	15%
	100%	100%

Note 14 – Commitments and Contingencies

Operating leases – The District leases certain facilities and equipment under operating lease arrangements. The following is a schedule by year of future minimum lease payments as of December 31, 2020:

2021	$8,194,390
2022	6,764,454
2023	6,778,412
2024	6,756,363
2025	6,416,027
2026–2030	29,730,335
2031	3,071,973
	$ 67,711,954

Rent expense on operating leases for 2020 and 2019 was $9,524,000 and $8,949,000, respectively.

Litigation – The District is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 15 – Collective Bargaining Agreements

At December 31, 2020, the District had a total of approximately 2,642 employees. Of this total, 1,918 employees are covered by collective bargaining agreements. There are no employees under agreements that expired during 2020 and 546 employees under an agreement that expires during 2021. The District does not anticipate any significant interruptions as a result of negotiations surrounding the collective bargaining agreement.

Note 16 – COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. In February 2020, the Governor of the state of Washington declared a state of emergency instructing state agencies to use all resources necessary to prepare for and respond to the outbreak and, in March 2020, issued a "Stay Home, Stay Healthy" proclamation including an order to halt elective surgeries and dental services to reserve critical equipment for COVID-19 health care workers. Elective and non-urgent medical procedures were later resumed in May 2020. The global crisis resulting from the spread of COVID-19 had a substantial impact on the District's operations during the year ended December 31, 2020. Management cannot currently estimate the duration of the impact of the COVID-19 pandemic on the organization; neither are they able to predict how the pandemic will evolve nor how various government entities will respond to its evolution. Should the District's business be subject to reduced capacity or should closures occur, operations would be adversely affected. Even without government orders, patients may choose to postpone or decline elective care. Ongoing material adverse impacts from the COVID-19 pandemic could result in reduced revenue and cash flow.

In April 2020, the District applied for and received advances from the Medicare under the Medicare Accelerated and Advance Payment Program, administered by Centers for Medicare & Medicaid Services (CMS), of $44,059,888. This amount is treated as an advance liability bearing no interest, with a recoupment period that was originally scheduled to begin 120 days following receipt of the accelerated payments. On September 30, 2020, a new funding bill was enacted which delays recoupment of such funds. The finalized funding bill now gives hospitals one year before Medicare can claim payments to repay the advance payments. Additionally, the measure lowers the interest rate on outstanding payments after the 29-month period from 10.25% to 4%. The District refunded $8,811,977 in September 2020 and expects recoupment to begin on the remaining amount in September 2021. It will have 29 months from that point to fully repay the advance if it not already recouped by Medicare. While the recoupment period extends past December 31, 2021, because the District intends to repay the advance in 2021, the amount was classified as a current liability as of December 31, 2020.

The District applied for $2 million in expedited funding from the Federal Emergency Management Agency (FEMA) Public Assistance Program. The FEMA Public Assistance Program provides partial funding for costs related to emergency protective measures conducted as a result of the COVID-19 pandemic. In November 2020, the District received notice of project funding of $811,000, which represents expedited funding for estimated costs incurred by the District for the period from January through September 2020. The grant revenue is recorded as nonoperating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

During April, May, and June 2020, the District received funds under the CARES Act Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), of $19,562,059. The District has recognized the amounts received as nonoperating revenue. The District was required to agree to the terms and conditions associated with the funds. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for expenses or lost revenue attributable to COVID-19. Also, anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. HHS may issue more specific guidance in the future on how the lost revenue and expenses should be calculated, which may result in modification to management's estimates in future periods.

Note 17 – Termination of Participation in PEBB

Beginning January 1, 2021, the District no longer participates in the Public Employees Benefits Board (PEBB) Program for post-employment benefits. This resulted in a $28.1 million gain on reversal of the OPEB liability, $7.7 million decrease in deferred outflows of resources, and a $5.4 million decrease in deferred inflows of resources in January 2021.

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

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 14, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Everett, Washington
April 14, 2021

Required Supplementary Information

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios

	2020	2019	2018	2017
Total OPEB liability				
Service cost	$ 1,992,258	$ 2,656,838	$ 2,322,431	$ 2,377,362
Interest	1,013,604	893,888	800,469	688,677
Changes of benefit terms	-	-	-	-
Effect of economic/demographic gains/(losses)	-	2,176,604	-	-
Effect of assumption changes or inputs	5,229,798	(5,956,536)	1,628,431	(852,947)
Benefit payments	(465,133)	(275,776)	(278,124)	(266,904)
Net change in total OPEB liability	7,770,527	(504,982)	4,473,207	1,946,188
Total OPEB liability - beginning	22,960,006	23,464,988	18,991,781	17,045,593
Total OPEB liability - ending	$ 30,730,533	$ 22,960,006	$ 23,464,988	$ 18,991,781
Plan fiduciary net position	$ -	$ -	$ -	$ -
Net OPEB liability	$ 30,730,533	$ 22,960,006	$ 23,464,988	$ 18,991,781
Plan fiduciary net position as a percentage of total OPEB liability	0%	0%	0%	0%
Covered-employee payroll	$ 158,595,040	$ 154,175,746	$ 170,215,023	$ 150,792,481
Total OPEB liability as a percentage of covered-employee payroll	19.38%	14.89%	13.79%	12.59%

*This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10-year trend is compiled, the District will present information for available years.

Changes in benefit terms – There were no applicable changes during the period.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period. The discount rate changed from 3.78% in 2017 to 3.44% in 2018 to 4.10% in 2019 and 2.74% in 2020. Beginning with December 31, 2019, the Medicare contribution trend reflects the January 1, 2020, Medicare explicit subsidy increase to $183 per month. Beginning December 31, 2020, the value of excise tax for high cost or “Cadillac” health plans and the Health Insurer Fee from 2021 onwards are excluded due to the December 20, 2019, enactment of H.R. 1865. As this is a newly adopted standard, a full 10-year trend is not available.


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REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

PUBLIC HOSPITAL DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON

December 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 1 of Skagit County, Washington (the District) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 1 of Skagit County, Washington, as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 21 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on page 54 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
May 8, 2020

This discussion and analysis provides an overview of the financial position and financial activities of Public Hospital District No. 1 of Skagit County, Washington (the District). The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division, which is known as Skagit Regional Clinics (SRC), was acquired when Skagit Valley Hospital employed the physicians of the former Skagit Valley Medical Center (SVMC) and started operations. On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH and the SRC operations. On June 1, 2016, the District began leasing the facilities of Public Hospital District No. 3 of Snohomish County and providing hospital and clinic services under the name Cascade Valley Hospital and Clinics (CVH).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section.

The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position and changes in it. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Financial Highlights

- SRH's total operating revenue grew by 6.5%, or $26.1 million, from $398.6 million in 2018 to $424.8 million in 2019. Over the same period, total operating expenses grew by 7.4%, or $29.3 million, from $395.2 million in 2018 to $424.5 million in 2018.

- SRH ended 2019 with operating income of $0.3 million. This represents a $3.2 million decline over the 2018 operating income of $3.5 million. In 2019, SRH also added net nonoperating income of $6.7 million, a gain on transfer of assets of $2.3 million, and capital contributions of $2.3 million.

- In September 2019, the District carried out the advance refunding of a portion of the outstanding Unlimited Tax General Obligation Bonds, 2012 with the issuance of the issued the Unlimited Tax General Obligation Bond, 2019. The advance refunding will save the District's taxpayers a total of $3,126,813 and a net present value savings of $2,886,456 at the time of issuance.

- In December 2019, the District carried out the advance refunding of the outstanding Hospital Revenue Bonds, 2010 with the issuance of the Hospital Revenue Refunding Bond, 2019. The advance refunding will save the District $8,425,503 and a net present value savings of $6,611,503.

- The District expanded on a partnership with Skagit Radiology to open the Skagit Imaging Pavilion in September 2019 north of Skagit Valley Hospital in Mount Vernon and bring the first 3D mammography units to the community. The center also features the latest in several more diagnostic imaging modalities including Magnetic Resonance Imaging (MRI), ultrasound, Computed Tomography (CT) and stereotactic biopsy. The Skagit Valley Hospital Foundation raised $2 million to help equip the Women's Imaging Center where the 3D mammography units are located.

Financial Highlights (continued)

- The District Board voted unanimously, on Nov. 17, 2017, to select Brian Ivie, a highly experienced health care leader, as the new President, Chief Executive Officer (CEO), and Superintendent of SRH. His experience includes service as President and Chief Executive Officer of three facilities operated by Dignity Health including Mercy San Juan Medical Center, a 370-bed acute care facility in Carmichael, California; Methodist Hospital of Sacramento, a 162-bed acute care facility in Sacramento; and Bruceville Terrace, a 171-bed long-term care and skilled nursing facility in Sacramento. Mr. Ivie has additional experience in health care operations and finance at a variety of large health care systems. He is a graduate of California State University, Northridge and earned an MBA from Pepperdine University.

- Paul Ishizuka, MBA, CPA, joined the District in October 2017 as Chief Financial Officer (CFO). He brings 25 years of senior financial leadership in health care and corporate settings. Mr. Ishizuka's experience includes serving as Chief Financial Officer for Samaritan Healthcare, a public district hospital and clinics in Moses Lake, Washington. Prior to Samaritan, he served in a variety of roles for the University of Washington including Medical Center Financial Officer for UW Medicine and Chief Financial Officer for University of Washington Medical Center in Seattle.

- Danny Vera, PharmD, MBA, became the Chief Operating Officer of the District in November 2018. He previously served as Vice President of Operations with Dignity Health Mercy San Juan Medical Center in Carmichael, California, a 370-bed, Level II trauma facility with 2,500 employees. Mr. Vera holds an MBA from the California State University, Fresno Craig School of Business and a Doctor of Pharmacy from the University of California, San Francisco, School of Pharmacy.

- The District board approved the purchase of the $2 million da Vinci® Xi™ Surgical System, which began operating in September 2018. The system is used in a variety of minimally invasive surgeries and is shown to improve patient outcomes, reduce recovery time and shorten hospital stays. The da Vinci® Xi™ Surgical System was installed at the Skagit Valley Hospital in Mount Vernon and is the first robotic tool system offered by Skagit Regional Health to combine technology and services to improve outcomes for patients.

- The District is making a strategic investment of approximately $72 million for the five-year span of 2016–2020 to build a new Electronic Health Record (EHR) and selected Epic as the vendor in 2015. The new EHR is a powerful, state-of-the-art tool that provides system interoperability, connectivity with patients, access to information, and data sharing across the District's entire system, including SVH, SRC, and CVH. The EHR became operable across the system in October 2017.

Financial Highlights (continued)

- The District passed a resolution in November 2018 authorizing the sale of the outpatient kidney dialysis operations to Fresenius Medical Care Ventures, LLC. Fresenius offers outpatient dialysis services out of the space previously occupied by the Skagit Valley Kidney Center near Skagit Valley Hospital in Mount Vernon, WA. Fresenius leases the space from the District and has purchased some assets as part of the transaction. Fresenius has employed the majority of Skagit Regional Health's dialysis employees. Moving to a specialty vendor, such as Fresenius, to provide dialysis services is a trend in industry care models for dialysis across the United States. The District looks forward to collaborating with Fresenius, which has outstanding quality scores and is an industry leader offering wrap-around patient services. The sale closed December 17, 2018, with the District recognizing a gain on sale of operations of $9.2 million, net of associated costs. The District will continue to offer inpatient dialysis services at Skagit Valley Hospital.

- The District approved a letter of intent, dated April 6, 2015, with the University of Washington, acting through UW Medicine, and Public Hospital District No. 3 of Snohomish County (PHD No. 3), d/b/a Cascade Valley Hospital and Clinics in Arlington, Washington. The three parties (the Parties) approved the affiliation agreement (the Agreement) on May 29, 2015. The Agreement establishes the general principles and conditions that will guide the clinical integration between UW Medicine, SVH, and CVH. This Agreement is not a merger, acquisition, corporate restructure, or lease and does not constitute a change in governance or change in mission for any organization. This Agreement defines a process for joint efforts to seek clinical integration to increase efficiency in the delivery of patient care, monitor and utilize health care services to provide quality patient outcomes, and make care more affordable to the extent consistent with applicable law. The Parties are committed to working with each other to seek to increase their level of clinical integration, including but not limited to; standardized clinical protocols, patient safety programs, connectivity of electronic health information, cost and quality benchmarks, collection of quality and cost data, and a commitment to providing continuity of care for patients by remaining within the clinically integrated programs for their entire episode of care.

- Pursuant to this Agreement, UW Medicine will serve as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine will be available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

- The District and PHD No. 3 also entered into an Affiliation Agreement regarding the lease and operation of Cascade Valley Hospital and Clinics, dated December 4, 2015 (the Affiliation Agreement). Under the terms of the Affiliation Agreement and effective as of the closing date, June 1, 2016, the District began leasing and operating all of PHD No. 3's health care facilities, including its hospital and clinic facilities. Please see the "Affiliation Agreement with Snohomish County PHD No. 3" at the end of this Management Discussion and Analysis for further information on the Affiliation Agreement.

Financial Highlights (continued)

Following are key operating statistics for the years ended December 31, 2019, 2018, and 2017:

Statistical Volumes and Definitions [1]

VOLUME	2019	2018	2017
Skagit Valley Hospital			
Admissions *(excludes Newborns)*			
Medical/Surgical	6,711	6,736	6,043
Obstetrics	934	977	1,054
Behavioral Health	383	369	382
Total Admissions	8,028	8,082	7,479
Discharges *(excludes Newborns)*			
Medical/Surgical	6,653	6,739	6,026
Obstetrics	922	979	1,049
Behavioral Health	401	392	406
Total Discharges	7,976	8,110	7,481
Patient Days *(excludes Newborns)*			
Medical/Surgical	29,523	28,977	27,156
Obstetrics	1,671	1,797	1,942
Behavioral Health	3,722	4,156	3,836
Total Patient Days	34,916	34,930	32,934
Average Length of Stay *(excludes Newborns)*			
Medical/Surgical	4.44	4.30	4.51
Obstetrics	1.81	1.84	1.85
Behavioral Health	9.28	10.60	9.45
Total Overall Average Length of Stay	4.38	4.31	4.40
Occupancy *(excludes Newborns)*	69.8%	69.9%	65.9%
Surgical Cases			
Inpatient Cases	1,521	1,294	1,132
Outpatient Cases	4,576	4,239	3,956
Total Surgical Cases	6,097	5,533	5,088
Endoscopy Cases	6,652	4,700	5,650
Deliveries	864	927	983
Emergency Department Visits [2]	33,900	34,324	34,466
Oncology Visits			
Medical Visits	20,339	17,924	18,188
Radiation Therapy Visits	11,236	11,097	11,406
Total Oncology Visits	31,575	29,021	29,594
Diagnostic Imaging Procedures			
CT	20,931	20,688	20,053
MRI	8,841	9,367	8,567
X-Ray	67,708	69,673	69,119
Other Diagnostic Imaging	37,424	36,295	34,101
Total Diagnostic Imaging Procedures	134,904	136,023	131,840
Cath Lab Procedures	3,507	2,961	2,489

[1] Volumes include all patients unless otherwise noted.

[2] Includes those patients who are later admitted.

Financial Highlights (continued)

Statistical Volumes and Definitions [1]

VOLUME	2019	2018	2017
Cascade Valley Hospital			
Admissions *(excludes Newborns)*			
Medical/Surgical	1,248	1,268	1,130
Obstetrics	160	155	158
Total Admissions	1,408	1,423	1,288
Discharges *(excludes Newborns)*			
Medical/Surgical	1,241	1,270	1,108
Obstetrics	156	161	169
Total Discharges	1,397	1,431	1,277
Patient Days *(excludes Newborns)*			
Medical/Surgical	5,402	5,369	4,307
Obstetrics	276	290	263
Total Patient Days	5,678	5,659	4,570
Average Length of Stay *(excludes Newborns)*			
Medical/Surgical	4.35	4.23	3.89
Obstetrics	1.77	1.80	1.56
Total Overall Average Length of Stay	4.06	3.95	3.58
Occupancy *(excludes Newborns)*	32.4%	32.3%	26.1%
Surgical Cases			
Inpatient Cases	525	457	454
Outpatient Cases	983	784	1,613
Total Surgical Cases	1,508	1,241	2,067
Endoscopy Cases [3]	807	818	
Deliveries	143	135	158
Emergency Department Visits [2]	19,779	18,834	19,818
Diagnostic Imaging Procedures			
CT	6,961	5,730	5,252
MRI	1,242	1,096	1,117
X-Ray	13,458	12,461	12,797
Other Diagnostic Imaging	8,696	7,240	5,107
Total Diagnostic Imaging Procedures	30,357	26,527	24,273
Skagit Regional Health - Clinics			
Provider Clinic Visits			
Primary Care Clinic Visits	190,824	190,723	169,949
Specialty Care Clinic Visits	147,873	133,491	115,087
Total Provider Clinic Visits	338,697	324,214	285,036

[1] Volumes include all patients unless otherwise noted.

[2] Includes those patients who are later admitted.

[3] Cascade Valley Hospital Endoscopy Cases included in Surgical Cases prior to 2018.

Performance Overview

The following is a comparison of 2019 actual revenues, expenses, and changes in net position results to 2018 and 2017 results (in thousands):

	2019	2018	2017
Operating revenues			
Net patient service revenue	$ 396,212	$ 374,835	$ 349,024
Other operating revenues	28,544	23,813	24,447
Total operating revenues	424,756	398,648	373,471
Operating expenses			
Salaries and wages	191,088	176,382	170,653
Employee benefits	45,272	40,001	40,938
Professional fees	19,080	17,185	22,416
Supplies	69,485	58,817	51,203
Purchased services and other	75,453	80,218	83,120
Depreciation	17,754	16,557	14,289
Interest and amortization	6,321	6,038	5,435
Total operating expenses	424,453	395,198	388,054
Operating income (loss)	303	3,450	(14,583)
Net nonoperating income	6,721	5,343	3,333
Gain on disposal of operations	-	9,240	-
Gain on transfer of assets	2,274	2,011	7,827
Capital contributions	2,308	69	287
Increase (decrease) in net position	11,606	20,113	(3,136)
Net position, beginning of year	155,263	135,150	155,332
Cumulative effect of restatement	-	-	(17,046)
Net position, beginning of year, restated	155,263	135,150	138,286
Net position, end of year	$ 166,869	$ 155,263	$ 135,150

Health Care Outlook

Skagit Regional Health is committed to the delivery of safe, quality, and cost effective patient care consistent with the Triple Aim.

SRH believes the market will reward performance for those who effectively shift operations from volume to value. In 2019, SRH continued to partner with the University of Washington's Accountable Care Network (UWACN) while running Cascadia Care Network (CCN), SRH's Medicare Accountable Care Organization. Much of the year was spent enhancing the infrastructure required to support this vision, including an engagement focused on leveraging Epic's Healthy Planet Module to support the initiatives necessary for success.

SRH is shifting its focus away from the acute care hospital business to an ambulatory emphasis. This will allow the District to more efficiently manage the transition from volume to value and cover more lives. The core of that strategy is the expansion and effective operation of the Skagit Regional Clinics, including expansion of virtual care and telehealth capabilities.

Operating Revenue (in thousands)

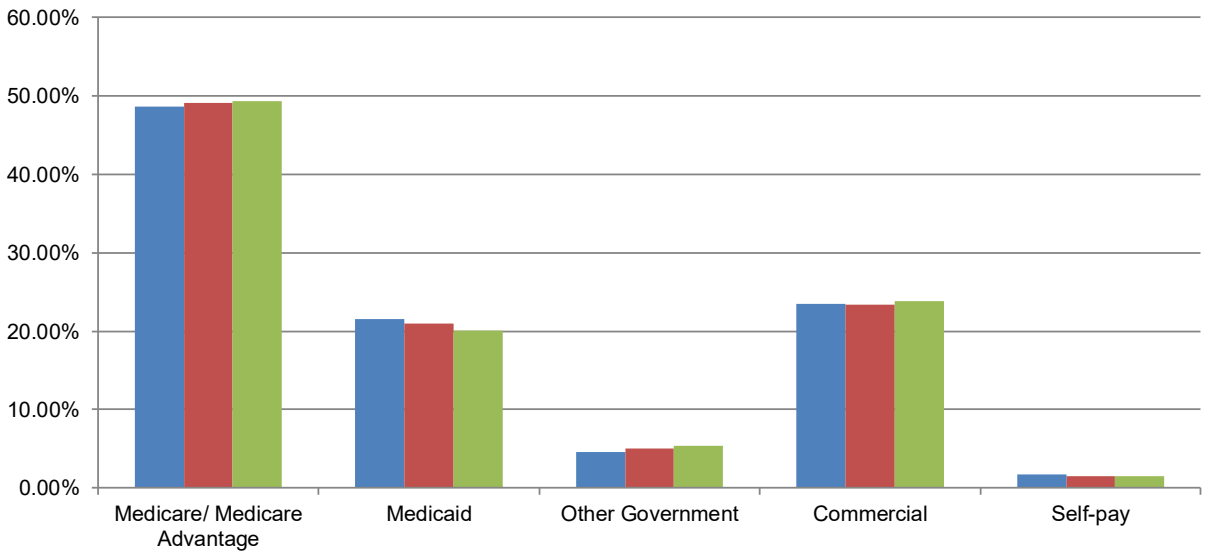
Net Patient Revenue

Net patient revenue consists of gross patient charges less contractual adjustments, charity care, and a provision for bad debt. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District has entered into agreements. In addition, the District provides care to patients, at no charge or reduced rates, who meet certain criteria under its charity care policies. The District also estimates the collectability of accounts receivable and records a provision for bad debt. The resulting net patient revenue is highly dependent on the District's payor mix.

Operating Revenue (in thousands) (continued)

The table and graph below illustrate the three-year trend in SRH's payor mix, based on gross patient charges, for the years ended December 31, 2017 through 2019.

	Years Ended December 31,		
	2017	2018	2019
Payor Mix			
Medicare	35.66%	33.85%	32.45%
Medicare Advantage	12.97%	15.21%	16.81%
Subtotal: Medicare	**48.63%**	**49.06%**	**49.26%**
Medicaid	21.51%	20.99%	20.01%
Other Government	4.63%	5.08%	5.35%
Commercial	23.49%	23.39%	23.86%
Self Pay	1.74%	1.48%	1.52%
	100.00%	**100.00%**	**100.00%**



Operating Revenue (in thousands) (continued)

The District continues to see the effects of the aging population in Skagit and northern Snohomish Counties through increased Medicare payor mix. Additionally, the prevalence of high-deductible consumer-directed health plans has increased the patient financial obligation for those with insurance. Management continues to measure and monitor these trends and evaluate the appropriate response and action to mitigate the financial impact while continuing to improve the health of the communities the District serves.

Net patient revenue at SRH grew by $21,377 from $374,835 in 2018 to $396,212 in 2019. Ramp up of recently recruited primary and specialty care providers drove growth in clinic visit volume of 4.5%. Strong growth in surgery, cardiac catheterization, oncology, and endoscopy was the primary drive of the increase in net patient revenue.

In 2018, net patient revenue at SRH grew by $25,811 from $349,024 in 2017. Successful recruitment of both primary and specialty care providers drove growth in clinic visit volume of 15%. Strong growth in surgical and special imaging volumes bolstered acute and ancillary services revenue throughout the system. This volume growth combined with rate increases offset volume reductions in oncology and endoscopy associated with provider departures.

Other Operating Revenue

Other operating revenue increased by $4,731, from $23,813 in 2018 to $28,544 in 2019 after seeing a decrease from $24,447 in 2017. The 340B contracted pharmacy program continued to expand driving revenue up in 2019. The decrease in 2018 is primarily due the closure of the District's three outpatient pharmacies.

Operating Expenses (in thousands)

Total operating expenses in 2019 increased by $29,255 or 7.4%, from $395,198 in 2018 to $424,453 in 2019. Total operating expenses increased by $7,144 in 2018 from $388,054 in 2017.

Excluding providers, the District employed 1,908 full time equivalents (FTEs) for the year ending December 31, 2019, which was an increase of 10 FTEs from the 1,898 FTEs employed in the same period in 2018, and a two-year increase of 66 FTEs from the 1,842 FTEs employed in the same period in 2017. This combined growth was partially offset by a reduction in force in early 2018. Overall growth from 2017 to 2019 is related to volume increases within CVH and SVH Hospitals, and Clinics. Provider staff support also increased proportionately with their growth, and leadership FTEs were added to support this growth. Additionally, laboratory services were insourced at the SVH campus in the fall of 2018, which contributed to FTE growth.

At year-end 2019, SRH employed 195 providers, comprised of 108 doctors, 30 residents, and 57 mid-level providers. This is an increase of 5 employed providers from year-end 2018, comprised of 4 doctors and 1 mid-level provider.

Operating Expenses (in thousands) (continued)

Salaries and benefits increased by $19,977 or 9.2%, from $216,383 in 2018 to $236,360 in 2019. Growth in salaries is related to the FTE increases mentioned above as well as union and non-union staff and provider wage increases. Newly acquired clinics offset by the sale of the outpatient kidney dialysis program in December 2018 account for the remainder of the change. Salaries and benefits increased by $4,792 or 2.3%, from $211,591 in 2017. FTE and wage growth were the drives of this increase. The salary and benefits dollar increases not associated with the added FTEs are accounted for by contracted union and non-contracted staff, and provider annual increases.

Professional fees increased by $1,895, from $17,185 in 2018 to $19,090 in 2019. Increased locums usage in gastroenterology program along with increased informational services professional costs related to upgrades to the Epic EHR and the District's Microsoft windows environment were the main drivers of this increase. Professional fees decreased by $5,231, from $22,416 in 2017. Restructuring of the outsourced ER physicians program that coincided with the implementation of the Epic EHR, lower usage of locum providers, and reduced usage of registry nurses and other outsourced personnel account for much of the remaining variance.

The District's supply expense has increased from $58,817 for the twelve months ended December 31, 2018 to $69,485 for the same period in 2019. Increased patient volume in oncology, which utilizes high-cost drugs coupled with higher drug prices nationally, has increased drug supply expense. Volume increases in service lines with high supplies costs including, cardiac catheterization, endoscopy, and robotic surgery increased patient-related supply expense. From 2017 to 2018, supply expense increased by $7,614, from $51,203 in 2017. This increase was associated with a rise in pharmaceutical spending at SVH related to higher oncology drug usage, inflation, and 340B purchases, and offset partially offset by reductions in retail pharmacy cost of goods sold expenses due to the closure of the Sedro-Woolley, Mount Vernon, and Riverbend retail pharmacies in early 2018.

Purchased services and other expense decreased $4,765, from $80,218 in 2018 to $75,453 in 2019. This decrease is primarily related to the insourcing of laboratory services at the SVH campus, which is partially offset by increased FTEs and salaries mentioned above. Additional variances include a decrease in usage of information technology and technical support services, and increases in software license fees, insurance premiums, and taxes. Purchased services and other expense decreased in 2018 by $2,902, from $83,120 in 2017. This variance was primarily attributed to savings in the SVH hospitalist program, and decreases in information systems purchased services related to the Epic EHR.

Depreciation expense of $17,754 in 2019 was $1,197 higher than the 2018 depreciation expense of $16,557. In 2018, depreciation expense increased $2,268 over the 2017 expense of $14,289. Major capital purchases in both 2018 and 2019 including the da Vinci® XiTM Surgical System, Drager patient monitoring system, replacement of inpatient beds across the system, and the addition of a third state of the art catheterization lab at Skagit Valley Hospital along with routine replacement and upgrades to major moveable equipment were the chief factor in the increase in depreciation expense. The increase in 2018 is primarily related to the depreciation of Epic EHR, which became operable in the 4th quarter of 2017.

Operating Expenses (in thousands) (continued)

Interest and amortization expense increased by $283 to $6,321 in 2019 from $6,038 in 2018. In 2018, interest and amortization expense increased by $603 from $5,435 in 2017. Closing costs related to refinancing of the 2010 Hospital Revenue Bonds, which closed in December of 2019, was the main driver for this increase. Interest on the 2016 Hospital Revenue and Refunding bonds was the main driver of the increase in 2018.

Net Nonoperating Income and Changes in Net Position (in thousands)

Net nonoperating income and other changes in net position decreased by $5,360, from $16,663 in 2018 to $11,303 in 2019 and increased in 2018 by $5,216, from $11,447. Improved investment returns drove the increase in nonoperating income in 2018 and 2019. Transfers of assets related to the affiliation agreement with PHD 3 has leveled off in 2018 and 2019 falling from $7,827 in 2017, down to $2,011 in 2018, and $2,274 in 2019. Additional information about this transfer can be found in the "Affiliation Agreement with Snohomish County PUD No. 3" section below. The sale of the outpatient KD operating in December 2018 added $9,240. Donations received for capital contributions were $2,308 in 2019, compared with $69 in 2018, an increase of $2,239. The majority of the donations were gifts from the hospital foundation for various projects including the Skagit Imaging Pavilion.

Statements of Net Position (in thousands)

The following is a presentation of certain financial information derived from the District's statement of net position (in thousands):

	2019	2018	2017
Current assets			
Cash and short-term investments	$ 49,669	$ 40,246	$ 19,112
Accounts receivable, net	57,800	56,207	58,040
Other current assets	19,675	16,820	16,299
Total current assets	127,144	113,273	93,451
Assets whose use is limited, net of current portion	131,444	127,829	126,288
Capital assets, net	149,780	151,991	153,742
Investments in joint ventures	13,031	12,212	12,707
Total assets	421,399	405,305	386,188
Deferred outflows of resources	10,383	5,491	4,434
Total assets and deferred outflows of resources	$ 431,782	$ 410,796	$ 390,622
Current liabilities	$ 70,596	$ 59,441	$ 55,943
Long-term debt, net of current portion	160,115	166,953	175,728
OPEB liability	22,960	23,465	18,992
Estimated professional liability	5,213	4,983	4,037
Total liabilities	258,884	254,842	254,700
Deferred inflows of resources	6,029	691	772
Net position			
Net investment in capital assets	17,407	11,073	5,388
Restricted for debt service	13,075	12,887	12,838
Unrestricted	136,387	131,303	116,924
Total net position	166,869	155,263	135,150
Total liabilities, deferred inflows of resources, and net position	$ 431,782	$ 410,796	$ 390,622

Statements of Net Position (in thousands) (continued)

Assets and Deferred Outflows of Resources

Total current assets of $127,144 at December 31, 2019, were $13,871 higher than at year-end 2018. This increase is comprised of a $9,423 increase in cash and short-term investments, an increase of $1,593 in net accounts receivable, and an increase of $2,855 in other current assets. The increase in cash and short-term assets in 2017 was related to the positive operating results during the year and improvements in AR collections.

Total current assets of $113,273 at December 31, 2018, were $19,822 higher than at year-end 2017. This increase is comprised of a $21,134 increase in cash and short-term investments, a decrease of $1,832 in net accounts receivable, and an increase of $521 in other current assets. The increase in cash and short-term assets were related to the positive operating margin, the improvement in AR days outstanding, and the proceeds from the sale of the outpatient kidney dialysis operations.

Net patient accounts receivable average days outstanding at year-end 2019 were 46.2, versus 49.6 days at year end 2018. Net patient accounts receivable average days outstanding at year-end 2017 were 51.6 days. This decrease is due to systematic improvements across the revenue cycle, including consolidation of revenue cycle leadership and consolidation of multiple billing platforms to the Epic EHR.

Assets whose use is limited increased from $127,829 in 2018 to $131,444 in 2019, an increase of $3,615, after increasing by $1,541 from $126,288 in 2017. Both the 2019 and 2018 increases were primarily related to investment returns and transfers of assets related to the affiliation agreement with PHD 3.

Net capital assets decreased in 2019 by $2,211, from $151,991 to $149,780. This decrease is made up of $15,543 of new capital assets, offset by $16,723 in retirements and a $17,754 increase in accumulated depreciation. Major capital projects in 2019 include the replacement of inpatient beds and IV pumps across the system, upgrade to the SVH operating room video system, as well as routine replacement of core information technology. Net capital assets decreased in 2018 by $1,751, from $153,742 in 2017. This decrease is made up of $14,806 of new capital assets, offset by $585 in retirements and a $15,973 increase in accumulated depreciation. Major capital projects in 2018 were the purchase of the da Vinci® Xi™ Surgical System, the addition of a third state of the art catheterization lab, a patient monitoring system upgrade, and purchases of land around the SVH campus.

Investments in joint ventures increased from $12,212 in 2018 to $13,031 in 2019, an increase of $819. From 2017 to 2018, joint venture investments decreased by $495. The increase in 2019 reflects the Districts contribution to the joint ventures that participated in the building of the Skagit Imaging Pavilion, offset by distributions from the joint ventures. Distributions from joint ventures accounted for the change in 2017.

Deferred outflows of resources increased from $4,434 in 2017 to $5,491 in 2018 and to $10,383 in 2019. Deferred losses on refunding the 2012 UTGO bonds and the 2010 Revenue bonds were the main driver of the increase in 2019. Increases in both 2018 and 2019 deferred OPEB outflows are related to changes in assumptions used in the actuarial analysis of the OPEB program.

Statements of Net Position (in thousands) (continued)

Liabilities and Deferred Inflows of Resources

Current liabilities increased $11,155, from $59,441 in 2018 to $70,596 in 2019. This increase is made up of an increase of $4,210 in payables and accrued salaries and wages, an increase of $6,201 in payments due to third-party payors, a decrease of $223 in accrued interest payable, and a decrease in the current portion of long-term debt of $967. Current liabilities in 2018 increased by $3,498 over 2017 current liabilities of $55,943, primarily related to an increase in payments due to third-party payors.

Long-term debt, net of current portion decreased by $6,838 in 2019 to $160,115 from $166,953 in 2018. In 2018, long-term debt, net of current portion decreased by $8,775 from $175,728 in 2017. Normal scheduled principal payments offset by the partial refinancing of the 2012 UTGO and full refinancing of the 2010 Revenue bonds account for the decrease in 2019. Scheduled principal payments account for the decrease in 2018.

The Governmental Accounting Standards Board (GASB) issued new standards in 2015 that define how other post-employment benefit (OPEB) liabilities were measured and reported. These standards, GASB 74 and GASB 75, came into effect for plan fiscal years beginning after June 15, 2017. GASB 75, requires a liability to be recognized for OPEB plans that are not pre-funded. Changes in the OPEB liability are recognized as expense in the Statements of Revenue, Expenses, and Changes in Net position or reported as deferred inflows/outflows of resources on the Statements of Net Position, depending on the nature of those changes. The District's OPEB liability was $18,992 in 2017 and increased to $23,465 in 2018. OPEB liability decreased to $22,960 in 2019. Further detail of the District's OPEB liability can be found in Note 10 to the financial statements.

Professional malpractice liability reserve increased by $230 in 2019, from $4,983 to $5,213. This increase is based on an actuarial estimate of the professional malpractice liability, based on historic claims and changes in volume. In 2018, professional liabilities reserves increased by $946, from $4,037 in 2017.

Affiliation Agreement with Snohomish County PUD No. 3

In accordance with the Affiliation Agreement, which was dated December 4, 2015, the District began operating Cascade Valley Hospital on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between Snohomish PHD No. 3 d/b/a Cascade Valley Hospital and Clinics and the District. Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 leased substantially all of its assets, including Cascade Valley Hospital, certain other clinic facilities, Snohomish PHD No. 3's interest as lessor in certain land leases, and intangible assets, to the District for a term of 30 years. The District will pay Snohomish PHD No. 3 an annual base rent of $10.00 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Financial Arrangement

Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 will transfer all of its cash and cash equivalents in excess of a retained amount to the District by June 2017. The retained amount is equal to Snohomish PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, Snohomish PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by Snohomish PHD No. 3. The Smokey Point LLC building is a two-story, 40,000-square-foot ambulatory center. Approximately one quarter of the space is leased to UW Medicine, which operates a primary care physician practice and a maternal fetal medicine clinic. The rest of the building is leased to the District, which operates an outpatient chemotherapy unit, an urgent care clinic, an occupational medicine clinic, and laboratory and imaging services. Snohomish PHD No. 3's excess property tax levy funds will be used solely for the purpose of paying the debt service on Snohomish PHD No. 3's outstanding unlimited tax general obligation bonds. The proceeds from the Snohomish PHD No. 3 regular property tax levy and the Smokey Point LLC lease will be used to pay Snohomish PHD No. 3's expenses, including the annual debt service on Snohomish PHD No. 3's outstanding limited tax general obligation bonds, and to fund the minimum cash balance of $1,000,000. To the extent the amount collected by Snohomish PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds Snohomish PHD No. 3's existing obligations in any year, and the Snohomish PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District.

In accordance with the Affiliation Agreement, the transferred funds will be deposited in Pool A of the "PHD No. 3 Support Fund." The funds in Pool A will be used by the District to: (1) support the provision of health care services rendered in Snohomish County; (2) pay for capital improvements and equipment located in Snohomish County; (3) pay for health information technology and other capital investments that may be located outside of Snohomish County if it serves both the District facilities and the Cascade Valley Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to Snohomish PHD No. 3's usage of the capital investment shall be allocated to Snohomish PHD No. 3; and (4) to cover any losses incurred by the District in the operation of Cascade Valley Hospital services.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

At the end of each fiscal year, the District will deposit into a special fund designated as Pool B of the "PHD No. 3 Support Fund" a portion of the District's net cash flow generated from the District's operations, calculated according to a formula set forth in the Affiliation Agreement but in no case less than 1.5% of the annual net revenue generated by the District's operation of the Cascade Valley Hospital services still in operation, which will be calculated based on a three-year rolling average. The funds in Pool B may generally be used and expended by the District in the following order of priority: (1) to cover any Cascade Valley Hospital operating losses, as defined in the Affiliation Agreement, to the extent the loss is not covered by any remaining funds in Pool A; (2) to reimburse the District for expenses incurred in prior years to cover such operating losses that were not reimbursed in prior years because there were insufficient funds in Pool A or Pool B; (3) to reimburse the District for expenses incurred by the District in prior years to fund capital improvements or equipment located at the Cascade Valley Hospital facilities or for health information technology or other capital investments located elsewhere to the extent it serves both the District and Cascade Valley Hospital facilities, but only for such portion that reasonably relate to Snohomish PHD No. 3's usage of the health information technology or other capital investment, to the extent that such expenses were not reimbursed in prior years because there were insufficient funds available in Pool A or Pool B; (4) to reimburse the District for expenses incurred by the District in the current year to fund Cascade Valley Hospital capital improvements, as defined by the Affiliation Agreement; and (5) subject to certain limitations, for other expenditures that support the provision of health care services in Snohomish County.

Required Services

The Affiliation Agreement obligates the District to provide certain required services in North Snohomish County (identified by zip codes 98223, 98241, 98292, 98271, 98270, 98258, and 98252) for five, 10, and 30-year periods. The District has the right to determine the appropriate level of required services to meet the needs of the residents of North Snohomish County, such as the number of medical/surgical beds, ICU beds, observation beds, emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and staffing levels, provided it does so reasonably after appropriate evaluation and analysis of any impact a reduction in level of service may have on the residents of North Snohomish County.

During the five-year period following affiliation (the Five-Year Period), the District must provide OB/GYN, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which the District reasonably believes will appropriately serve the needs of the residents of North Snohomish County. The District must, however, continue to provide or cause to be provided, primary care services at the Darrington and Granite Falls clinics during the Five-Year Period.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

During the 10-year period following the affiliation (the Ten-Year Period), the District must provide inpatient and outpatient surgery, general inpatient acute services, and orthopedic general surgeons in North Snohomish County. In order to satisfy the Ten-Year Period commitment, the District is required to continuously maintain and operate Cascade Valley Hospital as a general acute care hospital duly licensed by the state of Washington and certified under the Medicare and Medicaid programs, with at least the following services: general inpatient acute services, inpatient surgery, a 24-hour emergency department, observation unit, ancillary medical services to the extent required to maintain state acute care hospital licensure, and an organized medical staff consisting, at a minimum, of primary care physicians, orthopedic surgeons, and general surgeons. The District is granted the right during the Ten-Year Period to modify or reduce the level of service provided at Cascade Valley Hospital provided: (1) it continues to provide an appropriate level of such services in North Snohomish County to meet the needs of residents; and (2) it has given notice to Snohomish PHD No. 3 and allowed Snohomish PHD No. 3 to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if the District elects to discontinue outpatient surgery services at Cascade Valley Hospital during the Ten-Year Period, the District must provide such services during remainder of the Ten-Year Period at an alternative location within North Snohomish County at appropriate levels to meet the needs of residents.

During the Thirty-Year Period following the affiliation, the District must provide a 24-hour emergency department, observation unit, ancillary medical services, and primary care physicians in North Snohomish County. After the Ten-Year Period, the District is entitled to relocate the required services that were subject to the Ten-Year Period commitment and that continue to be subject to the Thirty-Year Period commitment to any location within North Snohomish County that it reasonably believes will appropriately meet the needs of the residents of North Snohomish County.

In the event that the District intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give Snohomish PHD No. 3 90 days' advance written notice of such intent (the Change Notice). The Change Notice must include a detailed statement of the reasons for the intended action and must be accompanied by an analysis prepared by a qualified independent health care consultant analyzing the potential impact on the accessibility and availability of health care services for residents of North Snohomish County. Snohomish PHD No. 3 is granted the right to determine, in its sole and absolute discretion, whether it will permit the District to proceed with the requested change. Snohomish PHD No. 3 must notify the District within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If Snohomish PHD No. 3 fails to respond in writing within 90 days of receipt of the Change Notice, Snohomish PHD No. 3 will be deemed to have approved the proposed service change.

Dispute Resolution

Subject to the parties' right to equitable relief, all controversies, claims, and disputes arising in connection with the Affiliation Agreement must be settled by mutual consultation between the parties, but failing amicable settlement must be settled finally by arbitration, conducted in Seattle, Washington, in accordance with the rules and procedures promulgated by Judicial Dispute Resolution before one arbitrator. The decision of the arbitrator is final and binding on the parties.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Termination and Unwinding

The Affiliation Agreement permits termination of the Affiliation Agreement and an unwinding of the affiliation upon the happening of certain conditions. The Affiliation Agreement may be terminated: (1) by mutual written consent of the District and Snohomish PHD No. 3; (2) by either the District or Snohomish PHD No. 3 in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by the District in the event that a catastrophic event occurs that was not caused by the District and makes it no longer viable to continue operating Cascade Valley Hospital services as originally contemplated; (4) by either the District or Snohomish PHD No. 3 if Snohomish PHD No. 3 requires the District to purchase the leased facilities and assets as set forth in a certain provision of the Affiliation Agreement governing damages to the facilities related to the District's negligence; and (5) after six years, by the District if the District has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Cascade Valley Hospital services.

To effect an unwind, the District will transfer all of the facilities and assets owned by Snohomish PHD No. 3 back to Snohomish PHD No. 3 following a process consistent with how they were originally transferred. In addition, the District will transfer to Snohomish PHD No. 3 any remaining cash balance in Pool A or Pool B and will assign in part or grant sublicenses under any electronic health records software license, maintenance, and support services agreements in effect at Cascade Valley Hospital facilities immediately prior to termination.

All of the commitments by Snohomish PHD No. 3 to provide any cash or similar support to the District will terminate after the date the District provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason, provided that Snohomish PHD No. 3 will remain obligated to provide any cash or similar support on a pro rata basis for the applicable period of time prior to the notice of termination. The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Unlimited Tax General Obligation Bond, 2019

In September 2019, the District issued a bond in the amount of $29,040,000 to carry out the advance refunding of a portion of the District's outstanding Unlimited Tax General Obligation Bonds, 2012. The 2019 bond is an unlimited tax general obligation of the District's taxpayers. The principal and interest on this bonds will be paid by a levy on taxable property in the District, authorized by a 2004 super majority vote on the property owners of the District. This advanced refunding issue had a total savings to the taxpayers of the District of $3,126,813 and a net present value savings of $2,886,456 at issuance.

Hospital Revenue Refunding Bond, 2019

In December 2019, the District issued a bond in the amount of $32,775,000 to carry out the advance refunding of the District's outstanding Hospital Revenue Bonds, 2010. The advance refunding will save the District $8,425,503 over the sixteen-year term of the bond with a net present value savings of $6,611,503.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Skagit Regional Health's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's financial management at Skagit Regional Health Business Center, 1415 East Kincaid Street, Mount Vernon, Washington 98273.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2019	December 31, 2018
CURRENT ASSETS		
Cash	$ 1,787,525	$ 873,722
Short-term investments	47,881,458	39,371,984
Patient accounts receivable, less allowance for uncollectible accounts of $11,530,743 and $11,227,726	50,167,058	50,928,913
Other receivables	7,632,775	5,278,577
Assets limited as to use, required for current liabilities	7,967,435	7,320,318
Supplies inventory	5,719,533	4,791,940
Prepaid expenses and other assets	5,121,283	4,120,505
Interest receivable	866,812	587,311
Total current assets	127,143,879	113,273,270
ASSETS LIMITED AS TO USE		
Board-designated for capital improvements	109,082,481	106,601,397
Board-designated for professional liability	1,666,216	1,653,490
Restricted for CVH project funds A & B	15,587,012	14,007,579
Restricted bond reserve funds held by trustee	9,599,080	9,548,782
Restricted for bond redemption fund	3,476,260	3,337,916
	139,411,049	135,149,164
Less amounts required for current liabilities	(7,967,435)	(7,320,318)
	131,443,614	127,828,846
CAPITAL ASSETS		
Land	11,712,330	11,712,330
Construction in progress	681,273	2,278,516
Depreciable capital assets, net of accumulated depreciation	137,386,658	138,000,500
	149,780,261	151,991,346
INVESTMENTS IN JOINT VENTURES	13,031,379	12,211,850
Total assets	421,399,133	405,305,312
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB outflows	3,298,767	1,473,342
Deferred losses on refundings	7,084,730	4,017,164
	10,383,497	5,490,506
Total assets and deferred outflows of resources	$ 431,782,630	$ 410,795,818

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31, 2019	December 31, 2018
CURRENT LIABILITIES		
Accounts payable	$ 20,010,344	$ 18,385,854
Accrued salaries, wages, and employee benefits	24,038,386	21,452,512
Estimated third-party payor settlements	15,862,321	9,661,148
Accrued interest payable	427,435	650,318
Current portion of long-term debt	10,257,803	9,290,692
Total current liabilities	70,596,289	59,440,524
LONG-TERM DEBT, net of current portion	160,115,233	166,953,354
OPEB LIABILITY	22,960,006	23,464,988
ESTIMATED PROFESSIONAL LIABILITY	5,212,761	4,983,404
Total liabilities	258,884,289	254,842,270
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB inflows	6,029,159	690,481
NET POSITION		
Net investment in capital assets	17,406,902	11,072,864
Restricted for debt service	13,075,340	12,886,698
Unrestricted	136,386,940	131,303,505
Total net position	166,869,182	155,263,067
Total liabilities, deferred inflows of resources, and net position	$ 431,782,630	$ 410,795,818

Public Hospital District No. 1 of Skagit County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2019	2018
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $18,722,444 and $21,677,341)	$ 396,212,369	$ 374,835,432
Other operating revenues	28,543,982	23,812,302
Total operating revenues	424,756,351	398,647,734
OPERATING EXPENSES		
Salaries and wages	191,088,222	176,381,740
Employee benefits	45,271,792	40,000,808
Professional fees	19,079,925	17,185,235
Supplies	69,484,832	58,816,600
Purchased services	45,683,614	55,246,793
Other	29,769,872	24,971,709
Depreciation and amortization	17,753,617	16,557,366
Interest and amortization	6,320,991	6,038,007
Total operating expenses	424,452,865	395,198,258
Operating income	303,486	3,449,476
NONOPERATING INCOME, net		
Investment income	4,099,725	2,910,619
Revenues from tax levies for general obligation bonds	4,577,499	4,512,981
Interest and amortization expense	(1,824,716)	(2,103,781)
Other income (expense)	(131,560)	22,642
Nonoperating income, net	6,720,948	5,342,461
Excess of revenues over expenses before capital contributions and transfers	7,024,434	8,791,937
CAPITAL CONTRIBUTIONS	2,307,606	69,153
GAIN ON DISPOSAL OF OPERATIONS	-	9,240,364
GAIN ON TRANSFER OF ASSETS	2,274,075	2,011,331
INCREASE IN NET POSITION	11,606,115	20,112,785
NET POSITION, beginning of year	155,263,067	135,150,282
NET POSITION, end of year	$ 166,869,182	$ 155,263,067

See accompanying notes.

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 403,175,397	$ 376,444,052
Cash paid to suppliers	(164,092,767)	(154,525,884)
Cash paid to employees	(230,765,869)	(212,934,938)
Other cash receipts	23,169,342	23,113,573
Net cash from operating activities	31,486,103	32,096,803
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(14,746,414)	(13,328,607)
Principal payments on long-term debt	(9,355,006)	(10,091,286)
Escrow payment for refunding of 2012 UTGO and refunding bonds	(29,554,720)	-
Escrow payment for refunding of 2010 revenue bonds	(32,335,093)	-
Interest paid on long-term debt	(7,974,723)	(8,588,025)
Proceeds from issuance of long-term debt	61,815,000	-
Cash paid for financing costs	(698,742)	-
Cash received from tax revenues for general obligation bonds	4,584,310	4,509,087
Cash received from disposal of operations	-	9,240,364
Cash received from transfer of assets	2,274,075	2,011,331
Cash received from capital contributions	2,307,606	69,153
Other	(131,560)	22,642
Net cash from capital and related financing activities	(23,815,267)	(16,155,341)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributions to joint ventures	(2,074,425)	-
Cash distributions from joint ventures	3,734,569	3,849,612
Net change in investments and assets limited as to use	(13,244,602)	(32,313,849)
Investment income	4,877,930	3,383,300
Net cash from investing activities	(6,706,528)	(25,080,937)
NET CHANGE IN CASH AND CASH EQUIVALENTS	964,308	(9,139,475)
CASH AND CASH EQUIVALENTS, beginning of year	3,057,756	12,197,231
CASH AND CASH EQUIVALENTS, end of year	$ 4,022,064	$ 3,057,756
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	$ 1,787,525	$ 873,722
Cash and cash equivalents in assets limited as to use	2,234,539	2,184,034
	$ 4,022,064	$ 3,057,756

See accompanying notes.

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2019	Years Ended December 31, 2018
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 303,486	$ 3,449,476
Adjustments to reconcile operating income to net cash from operating activities		
Net change in OPEB liability	3,008,271	2,918,632
Investment income considered an investing activity	(540,769)	(679,424)
Interest expense considered a capital financing activity	6,320,991	6,038,007
Depreciation and amortization	17,753,617	16,557,366
Income recognized from joint ventures	(2,479,673)	(3,354,824)
Changes in operating assets and liabilities		
Accounts receivable, net	761,855	(754,726)
Other receivables	(2,354,198)	3,335,519
Supplies inventory	(927,593)	519,780
Prepaid expenses	(1,000,778)	(330,082)
Accounts payable	1,624,490	558,139
Accrued salaries, wages, and employee benefits	2,585,874	528,978
Estimated third-party payor settlements	6,201,173	2,363,346
Reserve for professional liability costs	229,357	946,616
Net cash from operating activities	$ 31,486,103	$ 32,096,803
DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Capital assets financed with capital lease obligation	$ 796,118	$ 1,477,648

See accompanying notes.

Note 1 – Organization

Organization – Public Hospital District No. 1 of Skagit County, Washington (the District), is organized as a municipal corporation pursuant to the laws of the state of Washington. The District is governed by an elected seven (7)-member board. The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division is known as Skagit Regional Clinics (SRC). On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH's and SRC's operations. SVH is a licensed 137-bed acute care hospital in Mount Vernon, Washington. The District also operates Camano Rural Health Clinic on Camano Island, Washington.

UW Medicine and Public Hospital District No. 3 of Snohomish County (PHD No. 3), which operated Cascade Valley Hospital and Clinics (CVH) in Arlington, Washington, entered into a long-term alliance with UW Medicine with respect to clinical and other ventures and a lease by the District of PHD No. 3's health care facilities (UW Affiliation Agreement).

Pursuant to the UW Affiliation Agreement, UW Medicine serves as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine is available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

The District and PHD No. 3 also entered into an Affiliation Agreement Regarding the Lease and Operation of CVH, (the Affiliation Agreement). CVH is a 48-bed facility that is approximately 20 miles southeast of SVH's main campus. In accordance with Affiliation Agreement, the District began operating CVH on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between PHD No. 3 and the District. PHD No. 3 leased substantially all of its assets, certain other clinic facilities, PHD No. 3's interest as lessor in certain leases, and intangible assets to the District for a term of 30 years. The District will pay PHD No. 3 an annual base rent of $10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, PHD No. 3 transferred all of its cash and cash equivalents of a retained amount to the District in 2017. The retained amount is equal to PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by PHD No. 3. The proceeds from PHD No. 3's regular property tax levy and the Smokey Point LLC lease will be used to pay PHD No. 3's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of $1,000,000. To the extent the amount collected by PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds PHD No. 3's existing obligations in any year, and the PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District. Cash transferred by PHD No. 3 to the District resulted in a gain on transfer of assets of $2,247,075 and $2,011,331 in 2019 and 2018, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Note 2 – Summary of Significant Accounting Policies

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

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

Cash and cash equivalents – Cash and cash equivalents include demand and interest-bearing deposits with an original maturity of three months or less.

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

Supplies inventory – Supplies inventory, consisting of medicine and medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value.

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is $1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Note 2 – Summary of Significant Accounting Policies (continued)

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	3 – 40 years
Buildings	26 – 40 years
Fixed equipment	3 – 25 years
Major movable and minor equipment	3 – 20 years

Interest on borrowed funds less any interest earned on temporarily invested funds is capitalized on construction projects as a cost of the related project from the date of borrowing until the construction period ends and the related asset is placed in service. Capitalized interest is depreciated over the estimated useful life of the related asset.

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

Assets limited as to use and short-term investments – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements and self-insurance reserves. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. Pool A and Pool B funds are restricted for capital improvements and operations of CVH as defined in the Affiliation Agreement. These funds are invested in bankers' acceptances, obligations of the United States Government, the State Treasurer's Investment Pool, and certificates of deposit with financial institutions in accordance with state guidelines.

All District investments are carried at market value. Investment income earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Realized and unrealized investment income or losses on other investments are reported as nonoperating gains and losses.

Investments in joint ventures – The District has investments in several different joint ventures providing health care services and accounts for these investments using the equity method, under which the District's share of net income is reported in other operating revenues.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District pays certain workers' compensation claims on a self-insured basis. The District has purchased stop-loss insurance to cover workers' compensation claims that exceed stated limits and has recorded an estimated reserve for incurred but not reported claims based on an actuarial estimate, which was $3,003,000 and $2,839,000 at December 31, 2019 and 2018, respectively. These amounts are recorded in accrued salaries, wages, and employee benefits on the statements of net position. The District also pays certain professional liability claims on a self-insured basis (Note 11).

Note 2 – Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other Than Pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates (Note 10).

Net position – Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing health care services—the District’s primary business. Nonexchange revenues, such as revenues for tax levies and contributions for other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs related to general obligation bonds. Tax levy income and debt service related to general obligation bonds and peripheral or incidental transactions are reported as nonoperating gains and losses.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

Charity care – The District provides care to patients who meet certain criteria under its charity care policies. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during 2019 and 2018 measured by the District’s standard charges was $9,999,472 and $8,171,661, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

New accounting pronouncements – In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, to improve the information that is disclosed in notes to government financial statements related to debt. This statement is effective for financial statements for fiscal years beginning after June 15, 2018. Adoption of this statement has added additional debt disclosures to the District's financial statements.

Reclassifications – Certain reclassifications were made to the 2018 Statement of Net Position amounts to make the presentation consistent with the current year.

Subsequent events – Subsequent events are events or transactions that occur after the statements of net position date but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of net position but arose after the statements of net position date and before the financial statements are available to be issued.

The District has evaluated subsequent events through May 8, 2020, which is the date the financial statements are available to be issued.

Note 3 – Net Patient Service Revenue

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

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of Medicare severity diagnosis-related groups (MS-DRGs). Each MS-DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that MS-DRG. The District's classification of MS-DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2015. Net revenue billed under Medicare totaled approximately $169,972,000 and $154,489,000 for 2019 and 2018, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2019 and 2018, were approximately $16,478,000 and $16,500,000, respectively.

Note 3 – Net Patient Service Revenue (continued)

Medicaid – Beginning July 1, 2005, a new inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals was implemented called "Certified Public Expenditures." Under this program, the District is paid for inpatient Medicaid services based on certain costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under this program, the District will be reimbursed the higher of the cost of service or "baseline" reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District's allowable operating expenses to total allowable revenue. The District has finalized the Medicaid CPE cost reports through 2014. Net revenue billed under the Medicaid program totaled approximately $52,803,000 and $64,791,000 for 2019 and 2018, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2019 and 2018, were approximately $4,355,000 and $4,911,000, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid through 2019 have been recorded in the accompanying statements of net position. 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. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

The following are the components of net patient service revenue for the District for the years ended December 31, 2019 and 2018:

	2019	2018
Gross patient service revenue	$ 1,476,577,763	$ 1,372,603,213
Less adjustments to gross patient service revenue		
Contractual adjustments	1,051,643,478	967,918,779
Provision for bad debts	18,722,444	21,677,341
Charity care	9,999,472	8,171,661
Total adjustments to gross patient service charges	1,080,365,394	997,767,781
Net patient service revenue	$ 396,212,369	$ 374,835,432

Note 4 – Deposits, Investments, and Assets Limited as to Use

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool (LGIP), eligible bankers' acceptances, and repurchase agreements.

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

At December 31, 2019 and 2018, all deposits and investments of the District are categorized as Category 1 and consist of the following:

	2019	2018
Unrestricted cash	$ 1,787,525	$ 873,722
Short-term investments		
Government agency securities	14,996,173	-
Investment in State Treasurer's Investment Pool	32,885,285	39,371,984
	47,881,458	39,371,984
Assets limited as to use		
Cash and cash equivalents	2,234,539	2,184,034
Government agency securities	105,549,219	68,938,429
Investment in State Treasurer's Investment Pool	31,627,291	64,026,701
	139,411,049	135,149,164
Total deposits and investments	$ 189,080,032	$ 175,394,870

The composition of investments, reported at fair value by investment type at December 31, 2019, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of $68,534,640, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	$ 120,545,392	100%

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

The composition of investments, reported at fair value by investment type at December 31, 2018, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of $106,456,441, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	$ 68,938,429	100%

The District's deposits and investments had the following maturities as of December 31, 2019:

		Investment Maturities (in Years)	
Deposit/Investment Type	Fair Value	Less Than 1	1–5
Demand deposit	$ 1,787,525	$ -	$ -
Money market	2,234,539	-	-
Government agency securities	120,545,392	79,295,392	41,250,000
Investment in State Treasurer's Investment Pool	64,512,576	-	-
	$ 189,080,032	$ 79,295,392	$ 41,250,000

The District participates in the LGIP. The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (WPDPC).

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

In addition to interest and investment income included in nonoperating income, interest income included in other operating revenues totaled $540,769 and $679,287 for the years ended December 31, 2019 and 2018, respectively.

Note 5 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2019 and 2018, were as follows:

	Beginning Balance January 1, 2019	Additions	Retirements	Account Transfers	Ending Balance December 31, 2019
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 11,712,330	$ -	$ -	$ -	$ 11,712,330
Construction in progress	2,278,516	3,726,030	-	(5,323,273)	681,273
Total nondepreciable capital assets	13,990,846	3,726,030	-	(5,323,273)	12,393,603
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	-	-	-	7,340,456
Buildings and leasehold improvements	140,007,942	1,060,866	-	4,721,337	145,790,145
Fixed equipment	23,143,017	308,541	-	50,062	23,501,620
Movable equipment	145,223,106	10,447,095	(16,722,741)	551,874	139,499,334
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,715,709)	(264,288)	-	-	(3,979,997)
Buildings and leasehold improvements	(66,858,189)	(5,552,047)	-	-	(72,410,236)
Fixed equipment	(19,120,592)	(594,589)	-	-	(19,715,181)
Movable equipment	(88,019,531)	(11,342,693)	16,722,741	-	(82,639,483)
Depreciable capital assets, net	138,000,500	(5,937,115)	-	5,323,273	137,386,658
	$ 151,991,346	$ (2,211,085)	$ -	$ -	$ 149,780,261

Note 5 – Capital Assets (continued)

	Beginning Balance January 1, 2018	Additions	Retirements	Account Transfers	Ending Balance December 31, 2018
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 10,066,771	$ 1,645,559	$ -	$ -	$ 11,712,330
Construction in progress	108,520	3,634,068	-	(1,464,072)	2,278,516
Total nondepreciable capital assets	10,175,291	5,279,627	-	(1,464,072)	13,990,846
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	-	-	-	7,340,456
Buildings and leasehold improvements	139,327,221	568,287	(4,999)	117,433	140,007,942
Fixed equipment	22,957,049	172,235	(37,142)	50,875	23,143,017
Movable equipment	135,683,676	8,786,106	(542,440)	1,295,764	145,223,106
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,451,122)	(264,587)	-	-	(3,715,709)
Buildings and leasehold improvements	(61,539,887)	(5,323,301)	4,999	-	(66,858,189)
Fixed equipment	(18,557,315)	(600,419)	37,142	-	(19,120,592)
Movable equipment	(78,192,912)	(10,369,059)	542,440	-	(88,019,531)
Depreciable capital assets, net	143,567,166	(7,030,738)	-	1,464,072	138,000,500
	$ 153,742,457	$ (1,751,111)	$ -	$ -	$ 151,991,346

The District has included equipment under capital lease obligations with a cost of $9,122,585 and $8,326,467 in capital assets at December 31, 2019 and 2018, respectively. Amortization expense of $2,456,683 and $2,266,436 related to this equipment was recorded in depreciation and amortization expense for the years ended 2019 and 2018, respectively. Accumulated amortization for equipment under capital lease was $5,458,476 and $2,992,793 at December 31, 2019 and 2018, respectively.

Depreciation and amortization expense of operating assets for the years ended December 31, 2019 and 2018, was $17,753,617 and $16,557,366, respectively.

Note 6 – Investments in Joint Ventures

Cascade Imaging Associates, LLC – Together with a local radiology group, the District formed Cascade Imaging Associates, LLC (CIA), a limited liability company, to provide magnetic resonance imaging and computer-assisted tomography services to the residents of the community. The District has a 50% interest in CIA at December 31, 2019. During the years ended December 31, 2019 and 2018, the District recognized operating income of $1,565,814 and $2,450,235, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was $347,013 and $418,134 at December 31, 2019 and 2018, respectively.

Note 6 – Investments in Joint Ventures (continued)

Medical Information Network – North Sound, Inc. – Together with area hospitals, the District joined Medical Information Network – North Sound, Inc. (MIN – NS), a Washington nonprofit corporation, to electronically connect patients, providers, and others to a regional electronic health record to improve quality and efficiency of health care services in North Sound communities. The District had a 50% interest in MIN – NS until March 2019. During the years ended December 31, 2019 and 2018, the District recognized operating loss of $51,123 and $26,888, respectively, for its share of net loss realized by MIN – NS. The District's recorded investment in MIN – NS was $0 and $51,124 at December 31, 2019 and 2018, respectively.

Skagit Digital Imaging, LLC – Together with a local radiology group, the District formed Skagit Digital Imaging, LLC (SDI), a limited liability company, to provide mammography and stereotactic biopsy services to the residents of the community. The District has a 50% interest in SDI at December 31, 2019. During the years ended December 31, 2019 and 2018, the District recognized operating income of $63,596 and $21,632, respectively, for its share of the net income realized by SDI. The District's recorded investment in SDI was $1,736,407 and $186,451 at December 31, 2019 and 2018, respectively.

Skagit Hospice Services, LLC – Together with Public Hospital District No. 304 of Skagit County, Washington, the District formed Skagit Hospice Services, LLC, dba Hospice of the Northwest (Hospice), a limited liability company, to provide hospice services to the residents of the community. The District has a 50% interest in Hospice at December 31, 2019. During the years ended December 31, 2019 and 2018, the District recognized operating income of $112,918 and $211,662, respectively, for its share of the net income realized by Hospice. The District's recorded investment in Hospice was $1,283,812 and $1,570,893 at December 31, 2019 and 2018, respectively.

Skagit Valley Real Estate Partnership – As part of the closing of the integration with SRC in 2013, the District purchased a membership interest in Skagit Valley Real Estate Partnership (SVREP), a partnership that invests in and develops real property located mainly in Skagit and Snohomish Counties, Washington. The District has a 30% interest in SVREP at December 31, 2019. During the years ended December 31, 2019 and 2018, the District recognized operating income of $402,808 and $275,000, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was $4,806,537 and $4,848,478 at December 31, 2019 and 2018, respectively.

Smokey Point Medical Center, LLC – Together with PHD No. 3, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns the building, land, and equipment leased to the District and PHD no. 3 to operate the Smokey Point clinics. The District has a 50% interest in SPMC at December 31, 2019. During the years ended December 31, 2019 and 2018, the District recognized operating income of $395,841 and $375,072, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was $4,857,610 and $5,136,770 at December 31, 2019 and 2018, respectively.

Note 6 – Investments in Joint Ventures (continued)

Aggregated financial information for all of the District's joint ventures is summarized below:

	2019	2018
Current assets	$ 6,323,075	$ 7,462,071
Noncurrent assets, net	29,594,519	25,178,315
	$ 35,917,594	$ 32,640,386
Current liabilities	$ 2,709,702	$ 1,996,367
Long-term liabilities	12,424,668	11,279,552
Equity	20,783,224	19,364,467
	$ 35,917,594	$ 32,640,386
Revenue	$ 29,804,450	$ 29,714,151
Expenses	23,711,638	21,991,864
Net income	$ 6,092,812	$ 7,722,287

For more information on these joint ventures, including financial statements for the individual joint ventures, please contact the Business Services office of the District.

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2019 and 2018, for the District consisted of the following:

	2019	2018
Direct placement revenue refunding bond, 2019, 3.08% to 3.78%, due serially on December 1, in amounts from $645,000 in 2020 to $7,105,000 in 2035, maturing in 2035.	$ 32,775,000	$ -
Direct placement unlimited tax general obligation refunding bond, 2019, 1.85% to 2.27%, due serially on December 1, in amounts from $295,000 in 2020 to $6,130,000 in 2028 maturing in 2028.	29,040,000	-
Revenue and refunding bonds, 2016, 4.00% to 5.00%, due serially on December 1, in amounts from $1,705,000 in 2020 to $5,875,000 in 2032, maturing in 2037, net of unamortized premium of $5,629,401 and $5,945,069 in 2019 and 2018, respectively.	63,584,401	65,535,069
Unlimited tax general obligation refunding bonds, 2012, 5.00%, due serially on December 1, in amounts from $3,140,000 in 2020 to $4,155,000 in 2023, net of unamortized premium of $2,855,090 and $4,202,115 in 2019 and 2018, respectively.	17,400,090	48,227,115
Revenue and refunding bonds, 2013A series, 4.00% to 5.00%, due serially on December 1, in amounts from $1,750,000 in 2020 to $7,895,000 in 2036, maturing in 2037, net of unamortized premium of $1,749,999 and $1,853,959 in 2019 and 2018, respectively.	22,699,999	24,468,959
Note payable to individuals, due in monthly installments from $4,700 to $12,400, including interest of 4.50% maturing in 2024.	787,168	954,316
Note payable to bank, due in monthly installments of $9,900, including interest at 4.25% through January 2021.	112,279	223,554
Capital lease obligations, stated at present value of future minimum lease payments.	3,974,099	5,584,564
Bonds refunded in 2019	-	31,250,469
	170,373,036	176,244,046
Less current portion	(10,257,803)	(9,290,692)
	$ 160,115,233	$ 166,953,354

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Under the terms of the revenue and refunding bonds, the District has agreed to maintain certain financial ratios and meet certain covenants. Management is not aware of any violations with its debt covenants.

During 2016, the District issued the 2016 revenue bonds to carry out a tax-exempt refunding of the 2005 and 2007 revenue and refunding bonds. The refunding resulted in the recognition of an accounting loss of $703,391, which will be deferred and amortized over the life of the 2007 bond, which was set to mature in 2032 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by $8,527,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $6,663,000.

During 2019, the District issued the 2019 direct placement revenue bonds to carry out a taxable refunding of the 2010 revenue bonds. The refunding resulted in the recognition of an accounting loss of $1,593,000, which will be deferred and amortized over the life of the 2010 bond, which was set to mature in 2035 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by $8,426,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $6,612,000. If certain conditions are met, on December 1, 2020, the revenue bond, a taxable bond, will convert to a tax-exempt bond bearing an interest at a tax-exempt rate of 3.08% per annum. If conditions are not met, the taxable bond remains outstanding and the interest rate will reset to a fixed-rate of 3.84% until such time that the conversion occurs or until maturity thereof.

During 2019, the District issued the 2019 direct placement unlimited tax general obligation refunding bond to carry out a taxable refunding of a portion of the 2012 unlimited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of $3,731,700, which will be deferred and amortized over the life of the 2012 bond, which was set to mature in 2028 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by $3,127,000 over the next 9 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2,886,000. If certain conditions are met, on December 1, 2022, the UTGO bond, a taxable bond, will convert to a tax-exempt bond with an interest rate of 1.85%. If conditions are not met, the taxable bond remains outstanding, with an interest rate of 2.27% until such time that the conversion occurs or until maturity thereof.

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Changes in the District's noncurrent liabilities during the years ended December 31, 2019 and 2018, are summarized below:

	Beginning Balance January 1, 2019	Additions	Reductions	Ending Balance December 31, 2019	Amounts Due Within One Year
LONG-TERM DEBT					
2019 Direct placement revenue refunding bond	$ -	$ 32,775,000	$ -	$ 32,775,000	$ 645,000
2019 Direct placement UTGO refunding bond	-	29,040,000	-	29,040,000	295,000
2010 Revenue bonds	31,250,469	-	31,250,469	-	-
2012 UTGO refunding bonds	48,227,115	-	30,827,025	17,400,090	3,140,000
2013 Revenue and refunding bonds - series A	24,468,959	-	1,768,960	22,699,999	1,750,000
2016 Revenue and refunding bonds	65,535,069	-	1,950,668	63,584,401	1,705,000
Notes payable to individuals	954,316	-	167,148	787,168	167,945
Note payable to bank	223,554	-	111,275	112,279	112,279
Capital lease obligations	5,584,564	796,118	2,406,583	3,974,099	2,442,579
Total long-term debt	176,244,046	62,611,118	68,482,128	170,373,036	10,257,803
ESTIMATED PROFESSIONAL LIABILITY	4,983,404	229,357	-	5,212,761	-
Total noncurrent liabilities	$ 181,227,450	$ 62,840,475	$ 68,482,128	$ 175,585,797	$ 10,257,803

	Beginning Balance January 1, 2018	Additions	Reductions	Ending Balance December 31, 2018	Amounts Due Within One Year
LONG-TERM DEBT					
2010 Revenue bonds	$ 31,733,863	$ -	$ 483,394	$ 31,250,469	$ 525,000
2012 UTGO refunding bonds	51,240,857	-	3,013,742	48,227,115	2,845,000
2013 Revenue and refunding bonds - series A	26,157,920	-	1,688,961	24,468,959	1,665,000
2016 Revenue and refunding bonds	67,425,736	-	1,890,667	65,535,069	1,635,000
Notes payable to individuals	1,362,926	-	408,610	954,316	157,394
Note payable to bank	330,399	-	106,845	223,554	111,088
Note payable to Epic	1,136,739	-	1,136,739	-	-
Capital lease obligations	6,296,008	1,477,648	2,189,092	5,584,564	2,352,210
Total long-term debt	185,684,448	1,477,648	10,918,050	176,244,046	9,290,692
ESTIMATED PROFESSIONAL LIABILITY	4,036,788	946,616	-	4,983,404	-
Total noncurrent liabilities	$ 189,721,236	$ 2,424,264	$ 10,918,050	$ 181,227,450	$ 9,290,692

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending December 31,	Bonds and Notes Payable			Direct Placement Bonds			Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	$ 6,875,224	$ 6,303,504	$ 13,178,728	$ 940,000	$ 1,798,303	$ 2,738,303	$ 2,442,579	$ 84,002	$ 2,526,581
2021	7,228,430	6,068,506	13,296,936	1,100,000	1,642,116	2,742,116	611,722	56,138	667,860
2022	7,730,952	5,687,840	13,418,792	1,140,000	1,610,666	2,750,666	475,825	32,675	508,500
2023	8,268,820	5,163,181	13,432,001	1,290,000	1,459,898	2,749,898	339,004	13,201	352,205
2024	4,232,820	4,729,321	8,962,141	5,850,000	1,425,516	7,275,516	104,969	2,116	107,085
2025–2029	23,335,000	18,878,918	42,213,918	27,540,000	5,220,811	32,760,811	-	-	-
2030–2034	18,265,000	10,600,724	28,865,724	16,850,000	3,183,950	20,033,950	-	-	-
2035–2037	18,413,201	2,531,332	20,944,533	7,105,000	218,834	7,323,834	-	-	-
Total	94,349,447	$ 59,963,326	$ 154,312,773	$ 61,815,000	$ 16,560,094	$ 78,375,094	$ 3,974,099	$ 188,132	$ 4,162,231
Net unamortized premiums and discounts	10,234,490								
	$ 104,583,937								

Annual debt service is calculated assuming conversion of the 2019 Direct placement revenue refunding bond and the 2019 Direct placement UTGO refunding bond to tax-exempt bonds.

Note 8 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457(b), §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 9% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

Under the §401(a) plan, the District makes contributions on behalf of eligible employees based upon funding levels ranging from 4% to 9% of an employee's gross earnings plus an additional 1/10 of 1% for each year of the first 10 years of credited service. The District contributes up to 9% not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the §415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

Note 8 – Deferred Compensation and Pension Plans (continued)

The District has limited administrative involvement and does not perform the investing function for the plans. The District does not hold the assets of the plans in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the District employees' deferred compensation plans are not reported on the financial statements of the District.

The District's contributions to the employee benefit plans totaled approximately $8,834,000 and $7,872,000 in 2019 and 2018, respectively. Contributions made by employees to the benefit plans totaled approximately $10,168,000 and $9,402,000 in 2019 and 2018, respectively. For more information on the retirement plans, contact the District's director of human resources.

Note 9 – Property Taxes

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

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

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

For 2019 and 2018, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2019 and 2018, the tax levy for bond service was $0.79 and $0.86 per $1,000 on a total assessed valuation of $5,299,175,803 and $4,724,722,380, for a total levy of $4,206,811 and $4,076,981, respectively. The District also receives revenue from timber taxes. Timber tax revenue in 2019 and 2018 was $370,688 and $436,000, respectively.

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

Note 10 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB), which is an agent multiple-employer defined benefit plan. The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits provided – The subsidies provided by PEBB and valued in this report include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy
- Premium reimbursement for those retired between ages 62 and 65

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy was increased to $168 per month, and as of January 1, 2020, the subsidy will be increased to $183 per month. The retirees and spouses currently pay the premium minus $150 when the premium is over $300 per month and pay half the premium when the premium is lower than $300.

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

GASB 75 requires the projection of the total cost of benefit payments to be based on claims costs or age adjusted premiums approximating claims costs. Because claims costs are expected to vary by age and sex, we have used claims costs that vary by age and sex. The projection of retiree premiums is based on current amounts for the retirees' share of the premium, projected with the medical trend assumption. We also include implicit subsidies for dental coverage.

Employees covered by benefit terms – At December 31, 2019 and 2018, the following employees were covered by the benefit terms:

	2019	2018
Inactive employees or beneficiaries currently receiving benefit payments	97	77
Active plan members	2,067	1,681
	2,164	1,758

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Contributions – PEBB administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. Contributions are set each biennium as part of the Washington State's budget process. The benefits are funded on a pay-as you-go basis.

Other information – PEBB does issue a stand-alone financial report, but information about PEBB can be found at http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Total OPEB liability

The District's total OPEB liability was $22,960,006 and $23,464,988 as of the reporting date of December 31, 2019 and 2018, respectively. The corresponding measurement date was December 31, 2018 and 2017, respectively, and the actuarial valuation date was July 1, 2018 and January 1, 2017, respectively. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs – The total OPEB liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3. 5% = 0.75% real wage growth above inflation. The individual's salary growth is used for use in the actuarial cost method.
Healthcare cost trend rates	Pre-65 ranging from 6.8% to 4.5% and Post-65 ranging from 7.6% to 4.6%
Discount Rate (Liabilities)	4.10% and 3.44% as of December 31, 2019 and 2018, respectively

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2018 actuarial valuation for Washington State Public Employees' Retirement System (PERS), and modified for the District.

- The assumed rates of disability under PERS tier 2 and 3 from the 2018 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. An assumption of a 0% disability rate for all ages was used.

- For service retirement, the post-2013, plans 2 and 3, with less than 30 years of service assumptions from the 2018 actuarial valuation for Washington State PERS was used.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

- For mortality, the assumptions from the 2018 actuarial valuation for Washington State PERS (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using projection scale BB) was used.

- For other termination of employment, we used the assumptions from the 2018 actuarial valuation for Washington State PERS, but no less than 2% per year.

The actuarial assumptions used for the December 31, 2019, reporting were based on a census date of July 1, 2018.

Changes in the total OPEB liability

Balance at January 1, 2018	$ 18,991,781
Service cost	2,322,431
Interest	800,469
Changes of benefit terms	-
Effects of economic/demographic gains or losses	-
Changes of assumptions or other inputs	1,628,431
Benefit payments	(278,124)
Net Changes	4,473,207
Balance at December 31, 2018	23,464,988
Service cost	2,656,838
Interest	893,888
Changes of benefit terms	-
Effects of economic/demographic gains or losses	2,176,604
Changes of assumptions or other inputs	(5,956,536)
Benefit payments	(275,776)
Net Changes	(504,982)
Balance at December 31, 2019	$ 22,960,006

Changes of assumptions and other inputs reflect a change in the discount rate from 3.78% in 2017 to 3.44% in 2018 and 4.10% in 2019.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

2019	1% Decrease (3.10%)	Discount Rate (4.10%)	1% Increase (5.10%)
Total OPEB liability	$ 28,035,815	$ 22,960,006	$ 19,034,200

2018	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB liability	$ 29,229,663	$ 23,464,988	$ 19,067,110

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2019	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 18,380,023	$ 22,960,006	$ 29,192,932
2018			
Total OPEB liability	$ 18,276,510	$ 23,464,988	$ 30,675,901

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of 6.8% to 4.5% for pre-65 retirees and from a high of 7.6% to 4.6% for post-65 retirees. The dental cost trend assumptions generally increase over time and range from 1.1% to 4.0%.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the years ended December 31, 2019 and 2018, the District recognized OPEB expense of $3,284,047 and $2,918,632, respectively, which was included in Employee Benefits in the Statement of Revenues, Expenses, and Changes in Net Position. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of December 31:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2019		
Differences between expected and actual experience	$ 1,980,514	$ -
Changes of assumptions or other inputs	1,318,253	6,029,159
	$ 3,298,767	$ 6,029,159
2018		
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	1,473,342	690,481
	$ 1,473,342	$ 690,481

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2020	$ 266,679
2021	266,679
2022	266,679
2023	266,679
2024	266,679
Thereafter	1,396,997
	$ 2,730,392

Note 11 – Professional Liability Insurance

The District has purchased professional liability insurance from Physicians Insurance (PI) on a claims-made basis in the amount of $1 million per occurrence, with a $5 million annual aggregate limit. The District has a retention of $100,000 per claim with an aggregate retention of $300,000. PI, together with MedPro and AIG, also provides excess coverage on a claims-made basis in the amount of $45 million per occurrence, with a $49 million annual aggregate limit. The District accrues an actuarial estimate of the expected value of losses and related expenses for unreported incidents and claims on an occurrence basis, discounted at 4%, which was $5,213,000 and $4,983,000 at December 31, 2019 and 2018, respectively.

Note 12 – Joint Venture Transactions

The District provides services, including accounting, management, and ancillary services, to the joint ventures (Note 6). The District was reimbursed approximately $5,397,000 and $12,278,000 in expenses related to these services for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the District had a total of approximately $2,168,000 and $677,000, respectively, in accounts receivable from joint ventures.

The joint ventures provide various services to the District (Note 6). The District paid approximately $15,680,000 and $16,584,000 to the joint ventures for providing these services for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the District had a total of approximately $789,000 and $922,000, respectively, in accounts payable to joint ventures.

Note 13 – Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2019 and 2018, was as follows:

	2019	2018
Medicare	34%	33%
Medicaid	9%	10%
Group Health	7%	9%
Patient and self-pay	1%	1%
Commercial	34%	36%
Other third-party payors	15%	11%
	100%	100%

Note 14 – Commitments and Contingencies

Operating leases – The District leases certain facilities and equipment under operating lease arrangements. The following is a schedule by year of future minimum lease payments as of December 31, 2019:

2020	$ 7,603,068
2021	7,233,919
2022	5,997,275
2023	6,004,329
2024	3,378,322
2025–2029	13,643,588
2030–2031	2,573,080
	$ 46,433,581

Rent expense on operating leases for 2019 and 2018 was $8,949,000 and $8,945,000, respectively.

Litigation – The District is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 15 – Collective Bargaining Agreements

At December 31, 2019, the District had a total of approximately 2,597 employees. Of this total, 1,884 employees are covered by collective bargaining agreements. There are no employees under agreements that expire during 2020 and 176 employees under agreements that expired during 2019 and are under negotiation. The District does not anticipate any significant interruptions as a result of negotiations surrounding the collective bargaining agreement.

Note 16 – Subsequent Event

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. In March 2020, the Governor of the State of Washington, issued a “Stay Home, Stay Healthy” proclamation including an order to halt elective surgeries and dental services to reserve critical equipment for COVID-19 health care workers. As a result of the mandated delay in elective procedures and the “Stay Home, Stay Healthy” proclamation, the District has seen a significant decline in patient volumes at both hospital and clinic locations. Just prior to the end of the first quarter, Congress passed and President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provided funds to be distributed to healthcare providers to address the economic impact of the stoppage of elective procedures as well as the cost incurred in caring for COVID-19 patients. The distribution of these funds began in April. As of April 30, 2020, Skagit Regional Health had received approximately $7 million. It is not yet known what Skagit Regional Health will receive of the remaining CARES Act funds or any other funding that is or will be made available from federal and/or state sources.

The total financial impact of the pandemic cannot be reasonably estimated at this time, but it is expected to have a material negative impact on the District’s financial performance through the end of the year. Management continues to monitor, evaluate, and adjust to the dynamic situation and intends to take appropriate steps to mitigate the financial impact of the crisis and begin the District’s recovery.

MOSSADAMS

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

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 8, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Everett, Washington
May 8, 2020

Required Supplementary Information

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios

	2019	2018	2017
Total OPEB liability			
Service cost	$ 2,656,838	$ 2,322,431	$ 2,377,362
Interest	893,888	800,469	688,677
Changes of benefit terms	-	-	-
Differences between expected and actual experience	2,176,604	-	-
Changes of assumptions or other inputs	(5,956,536)	1,628,431	(852,947)
Benefit payments	(275,776)	(278,124)	(266,904)
Net change in total OPEB liability	(504,982)	4,473,207	1,946,188
Total OPEB liability - beginning	23,464,988	18,991,781	17,045,593
Total OPEB liability - ending	$ 22,960,006	$ 23,464,988	$ 18,991,781
Plan fiduciary net position	$ -	$ -	$ -
Net OPEB liability	$ 22,960,006	$ 23,464,988	$ 18,991,781
Plan fiduciary net position as a percentage of total OPEB liability	0%	0%	0%
Covered-employee payroll	$ 154,175,746	$ 170,215,023	$ 150,792,481
Total OPEB liability as a percentage of covered-employee payroll	14.89%	13.79%	12.59%

*This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10-year trend is compiled, the District will present information for available years.

Changes in benefit terms – There were no applicable changes during the period.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate changed from 3.78% in 2017 to 3.44% in 2018 and 4.10% in 2019. As this is a newly adopted standard, a full 10-year trend is not available.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REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

PUBLIC HOSPITAL DISTRICT NO. 1 OF SKAGIT COUNTY, WASHINGTON

December 31, 2018 and 2017

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Report of Independent Auditors

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 1 of Skagit County, Washington (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 1 of Skagit County, Washington, as of December 31, 2018 and 2017, and the results of its operations 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 Notes 2 and 10 to the financial statements, in 2018 the District adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 19 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
April 18, 2019

This discussion and analysis provides an overview of the financial position and financial activities of Public Hospital District No. 1 of Skagit County, Washington (the District). The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division, which is known as Skagit Regional Clinics (SRC), was acquired when Skagit Valley Hospital employed the physicians of the former Skagit Valley Medical Center (SVMC) and started operations. On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH and the SRC operations. On June 1, 2016, the District began leasing the facilities of Public Hospital District No. 3 of Snohomish County and providing hospital and clinic services under the name Cascade Valley Hospital and Clinics (CVH).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section.

The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position and changes in it. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Financial Highlights

- SRH's total operating revenue grew by 6.7%, or $25.2 million, from $373.5 million in 2017 to $398.6 million in 2018. Over the same period, total operating expenses grew by 1.8%, or $7.1 million, from $388.1 million in 2017 to $395.2 million in 2018.

- SRH ended 2018 with operating income of $3.4 million. This represents a $18.0 million improvement over the 2017 operating loss of $14.6 million. SHR also added net nonoperating income of $5.3 million, a gain on sale of the outpatient kidney dialysis operations of $9.2 million, a gain on transfer of assets of $2.0 million, and capital contributions of $69 thousand.

- The District issued $62.7 million of series 2016 revenue and refunding bonds in November 2016. Approximately $42.7 million of the proceeds of the bonds were used to carry out the refunding of the District's 2005 and 2007 series hospital revenue bonds. The remaining $20.0 million in bond proceeds has been used to pay or reimburse costs to acquire, construct, remodel, renovate, equip, and furnish the District's health facilities in conformance with the District's 2016–2018 capital budgets.

- The District is making a strategic investment of approximately $72 million for the five-year span of 2016–2020 to build a new Electronic Health Record (EHR) and selected Epic as the vendor in 2015. The new EHR is a powerful, state-of-the-art tool that provides system interoperability, connectivity with patients, access to information, and data sharing across the District's entire system, including SVH, SRC, and CVH. The EHR became operable across the system in October 2017.

Financial Highlights (continued)

- The District Board voted unanimously, on Nov. 17, 2017, to select Brian Ivie, a highly experienced health care leader, as the new President, Chief Executive Officer (CEO), and Superintendent of SRH. Former President and CEO Mike Liepman retired in December 2017 after more than five years of service with the District and a 41-year career in health care. Mr. Ivie most recently served as President and CEO of three health care facilities operated by Dignity Health in the Sacramento, California area.

- Paul Ishizuka, MBA, CPA, joined the District in October 2017 as Chief Financial Officer (CFO). Ishizuka takes on the role held by CFO Tom Litaker who retired at the end of October 2017 after serving the District for 23 years. Mr. Ishizuka most recently served as CFO for Samaritan Healthcare in Moses Lake, Washington, since 2015. Prior to Samaritan, he served in a variety of senior executive roles for the University of Washington, including Medical Center Financial Officer for UW Medicine and CFO for University of Washington Medical Center in Seattle.

- Danny Vera, PharmD, MBA, became the Chief Operating Officer of the District in November 2018. Danny is an accomplished healthcare executive with 17 years of leadership and operational management experience. He most recently served as Vice President of Operations with Dignity Health Mercy San Juan Medical Center in Carmichael, California, a 370-bed, Level II trauma facility with 2,500 employees where he has worked since 2015. Mr. Vera holds an MBA from the California State University, Fresno Craig School of Business and a Doctor of Pharmacy from the University of California, San Francisco, School of Pharmacy. He started his healthcare career in pharmacy and moved into operations in 2012.

- The District board approved the purchase of the $2 million da Vinci® Xi™ Surgical System, which began operating in September 2018. The system is used in a variety of minimally invasive surgeries and is shown to improve patient outcomes, reduce recovery time and shorten hospital stays. The da Vinci® Xi™ Surgical System was installed at the Skagit Valley Hospital in Mount Vernon and is the first robotic tool system offered by Skagit Regional Health to combine technology and services to improve outcomes for patients.

- The District passed a resolution in November 2018 authorizing the sale of the outpatient kidney dialysis operations to Fresenius Medical Care Ventures, LLC. Fresenius offers outpatient dialysis services out of the space previously occupied by the Skagit Valley Kidney Center near Skagit Valley Hospital in Mount Vernon, WA. Fresenius leases the space from the District and has purchased some assets as part of the transaction. Fresenius has employed the majority of Skagit Regional Health's dialysis employees. Moving to a specialty vendor, such as Fresenius, to provide dialysis services is a trend in industry care models for dialysis across the United States. The District looks forward to collaborating with Fresenius, which has outstanding quality scores and is an industry leader offering wrap-around patient services. The sale closed December 17, 2018, with the District recognizing a gain on sale of operations of $9.2 million, net of associated costs. The District will continue to offer inpatient dialysis services at Skagit Valley Hospital.

Financial Highlights (continued)

- The District approved a letter of intent, dated April 6, 2015, with the University of Washington, acting through UW Medicine, and Public Hospital District No. 3 of Snohomish County (PHD No. 3), d/b/a Cascade Valley Hospital and Clinics in Arlington, Washington. The three parties (the Parties) approved the affiliation agreement (the Agreement) on May 29, 2015. The Agreement establishes the general principles and conditions that will guide the clinical integration between UW Medicine, SVH, and CVH. This Agreement is not a merger, acquisition, corporate restructure, or lease and does not constitute a change in governance or change in mission for any organization. This Agreement defines a process for joint efforts to seek clinical integration to increase efficiency in the delivery of patient care, monitor and utilize health care services to provide quality patient outcomes, and make care more affordable to the extent consistent with applicable law. The Parties are committed to working with each other to seek to increase their level of clinical integration, including but not limited to; standardized clinical protocols, patient safety programs, connectivity of electronic health information, cost and quality benchmarks, collection of quality and cost data, and a commitment to providing continuity of care for patients by remaining within the clinically integrated programs for their entire episode of care.

- Pursuant to this Agreement, UW Medicine will serve as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine will be available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

- The District and PHD No. 3 also entered into an Affiliation Agreement regarding the lease and operation of Cascade Valley Hospital and Clinics, dated December 4, 2015 (the Affiliation Agreement). Under the terms of the Affiliation Agreement and effective as of the closing date, June 1, 2016, the District began leasing and operating all of PHD No. 3's health care facilities, including its hospital and clinic facilities. Please see the "Affiliation Agreement with Snohomish County PHD No. 3" at the end of this Management Discussion and Analysis for further information on the Affiliation Agreement.

Financial Highlights (continued)

Following are key operating statistics for the years ended December 31, 2018, 2017, and 2016:

	Comments	2018	2017	2016
Utilization Statistics				
Skagit Valley Hospital				
Admissions - Acute Care		6,736	6,043	5,249
Admissions - Behavioral Health		369	382	338
Admissions - Obstetrics		977	1,054	1,188
Average Length of Stay		4.31	4.40	4.56
Patient Days - Acute		28,977	27,156	25,890
Patient Days - Behavioral Health		4,156	3,836	2,890
Patient Days - Obstetrics		1,797	1,942	2,108
Occupancy		69.9%	65.9%	61.6%
Emergency Room Visits	(1)	34,324	34,571	34,514
Billable Clinic Visits	(2)	303,646	260,904	297,720
Cascade Valley Hospital and Clinics	(3)			
Admissions - Acute Care		1,268	937	553
Admissions - Obstetrics		155	170	113
Average Length of Stay		3.95	4	4
Patient Days - Acute		5,369	4,277	2,718
Patient Days - Obstetrics		290	290	178
Occupancy		32.3%	26.1%	28.2%
Emergency Room Visits	(1)	18,834	19,822	10,911
Billable Clinic Visits	(2)	20,568	20,814	13,454

(1) Includes those patients who are later admitted
(2) Office visits resulting in a charge
(3) Skagit Regional Health began operating Cascade Valley Hospital on June 1st of 2016, volume represents only those months operated by SRH

Financial Highlights (continued)

	Comments	2018	2017	2016
Select Patient Volumes - Skagit Valley Hospital	(4)			
Skagit Valley Hospital				
Family Birth Center - Deliveries		927	989	1,106
Surgery - Total Minutes		571,389	520,494	544,973
Surgery - Cases		5,533	5,086	5,430
Surgery - Inpatient Cases		1,294	1,131	1,184
Surgery - Outpatient Cases		4,239	3,955	4,246
Emergency Room - Visits	(5)	26,347	27,454	28,124
Special Imaging - Procedures		2,961	2,489	2,593
CT Scan - Procedures		20,688	20,053	18,230
Radiology - Procedures		69,673	69,119	68,127
MRI - Procedures		9,367	8,567	7,198
Nuclear Medicine - Procedures		2,625	2,815	2,632
Physical Therapy - Visits		15,678	14,664	15,279
Occupational Therapy - Visits		4,543	4,626	5,295
Speech Therapy - Visits		8,512	8,083	7,860
Wound Care - Visits		8,577	8,153	8,409
Endoscopy - Cases		4,700	5,646	4,703
Kidney Dialysis - Outpatient Procedures	(7)	13,421	13,643	15,054
Peritoneal Dialysis - Procedures		5,029	4,538	5,602
Oncology Medical - Visits		15,197	16,919	15,895
Oncology Medical - Visits - Arlington		2,727	2,614	2,662
Oncology Radiation - Visits		11,097	12,075	11,586
Sleep Therapy - Studies		1,087	1,140	880
Skagit Regional Clinics				
Urgent Care Clinic - Billable Clinic Visits		59,750	61,417	62,356
Cardiology - Billable Clinic Visits		27,941	16,263	19,354
Family Practice Clinic - Billable Clinic Visits		66,514	57,380	56,417
Pediatrics Clinic - Billable Clinic Visits		16,748	19,879	15,497
Residency Clinic - Billable Clinic Visits		21,106	18,488	10,834
Cascade Valley Hospital and Clinics				
Family Birth Center - Deliveries		135	158	97
Surgery - Total Minutes	(6)	125,991	113,272	69,688
Surgery - Cases		2,059	1,666	905
Surgery - Inpatient Cases		543	455	236
Surgery - Outpatient Cases		1,516	1,211	669
Emergency Room - Visits	(5)	17,270	18,236	10,669

(4) Volumes include all patients unless otherwise noted
(5) Excludes those patients who are later admitted
(6) Does not include minutes in the ambulatory surgical center
(7) Outpatient kidney dialysis operations sold to Fresenius Medical Care Ventures, LLC in December 2018

Performance Overview

The following is a comparison of 2018 actual revenues, expenses, and changes in net position results to 2017 and 2016 results (in thousands):

	2018	2017	2016
Operating revenues			
Net patient service revenue	$ 374,835	$ 349,024	$ 329,786
Other operating revenues	20,457	22,193	18,600
Income from joint ventures	3,356	2,254	2,205
Total operating revenues	398,648	373,471	350,591
Operating expenses			
Wages and benefits	216,383	211,591	182,460
Professional fees	17,185	22,416	21,001
Supplies	58,817	51,203	51,063
Purchased services, maintenance, and other	73,209	77,676	72,161
Insurance and taxes	7,009	5,444	6,131
Depreciation	16,557	14,289	15,034
Interest and amortization	6,038	5,435	6,801
Total operating expenses	395,198	388,054	354,651
Operating income (loss)	3,450	(14,583)	(4,060)
Net nonoperating income	5,343	3,333	2,792
Gain on disposal of operations	9,240	-	-
Gain on transfer of assets	2,011	7,827	15,531
Capital contributions	69	287	758
Increase (decrease) in net position	20,113	(3,136)	15,021
Net position, beginning of year	135,150	155,332	140,311
Cumulative effect of restatement	-	(17,046)	-
Net position, beginning of year, restated	135,150	138,286	140,311
Net position, end of year	$ 155,263	$ 135,150	$ 155,332

Health Care Outlook

In keeping with industry trends, Skagit Regional Health continues along the journey to achieving the Triple Aim. We have continued our participation with the UW Medicine Accountable Care Network (UWACN) and now participate in three commercial products where focus on cost containment, clinical quality, and patient satisfaction is paramount. In 2017, the UWACN and its members renegotiated the terms of the Boeing agreement, which now extends through December 2021. The Washington State Health Care Authority entered Skagit County in 2017, and we experienced small gains in associated patient volumes. SRH continues to participate in the Premera agreement as well, which has not yet incurred volumes that generate risk for the organization.

Skagit Regional Health believes part of our future success depends on performing well in value-based agreements. As such, the organization applied for, and was accepted into, the Medicare Accountable Care Organization (ACO) program for participation beginning in 2018. The ACO, named Cascadia Care Network (CCN), begins its operations with a focus on employed providers. As the CCN infrastructure is built, we anticipate opening up the ACO to other independent practices. Through 2020, SRH will participate in the Medicare Track 1 Medicare Shared Savings Program (MSSP) with no downside risk. SRH services approximately 6,400 lives in its ACO.

SRH is acutely aware of the change from volume to value in the healthcare marketplace. We continue to enter into Value Based Payment arrangements with our payer community while at the same time investing in the infrastructure required to successfully make this shift.

Operating Revenue (in thousands)

Net Patient Revenue

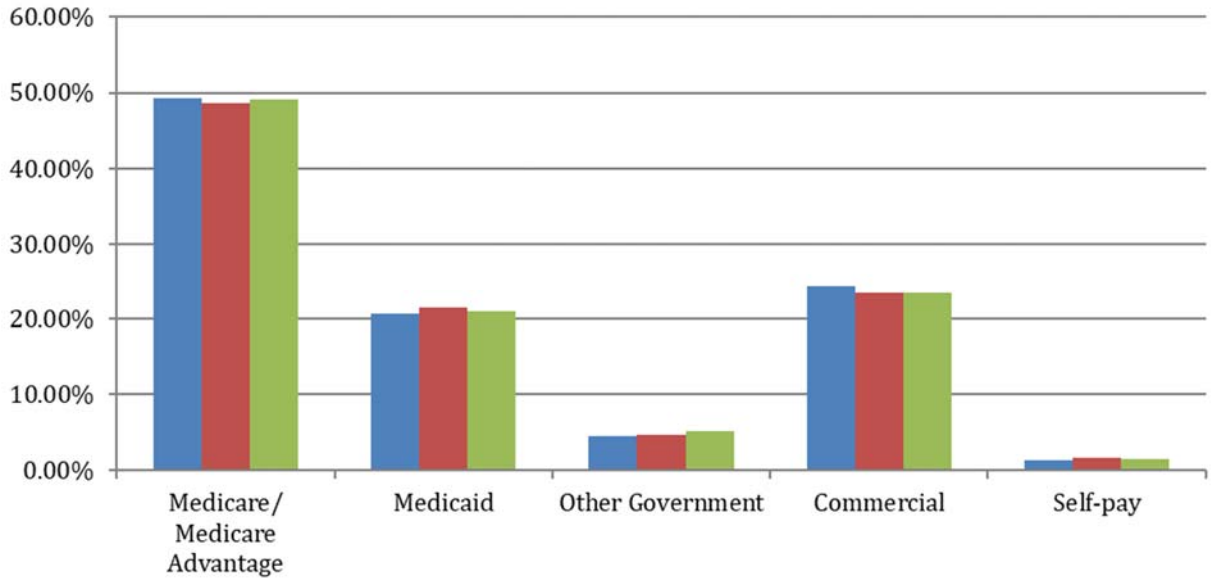
Net patient revenue consists of gross patient charges less contractual adjustments, charity care, and a provision for bad debt. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District has entered into agreements. In addition, the District provides care to patients, at no charge or reduced rates, who meet certain criteria under its charity care policies. The District also estimates the collectability of accounts receivable and records a provision for bad debt. The resulting net patient revenue is highly dependent on the District's payor mix.

Operating Revenue (in thousands) (continued)

The table and graph below illustrate the three-year trend in SRH's payor mix, based on gross patient charges, for the years ended December 31, 2016 through 2018.

Payor Mix Trend

	Years Ended December 31,		
	2016	2017	2018
Payor Mix			
Medicare	36.24%	35.66%	33.85%
Medicare Advantage	12.97%	12.97%	15.21%
Subtotal: Medicare	**49.22%**	**48.63%**	**49.06%**
Medicaid	20.56%	21.51%	20.99%
Other Government	4.49%	4.63%	5.08%
Commercial	24.40%	23.49%	23.39%
Self Pay	1.33%	1.74%	1.48%
	100.00%	**100.00%**	**100.00%**



Operating Revenue (in thousands) (continued)

Reduction in uninsured associated with the individual mandate provision in the Affordable Care Act (ACA) has leveled off and the uninsured self-pay payors have increased after a low of 1.25% in 2015. The District expects this trend to accelerate into 2019 as the impact of the repeal of the individual mandate provision takes effect. Additionally, the prevalence of high-deductible consumer-directed health plans has increased the patient financial obligation for those with insurance. The District continues to see the effects of the aging population in Skagit and northern Snohomish Counties through increased Medicare and lower commercial payor mix. Management continues to measure and monitor these trends and evaluate the appropriate response and action to mitigate the financial impact while continuing to improve the health of the communities the District serves.

Net patient revenue at SRH grew by $25,811 from $349,024 in 2017 to $374,835 in 2018. Successful recruitment of both primary and specialty care providers drove growth in clinic visit volume of 15%. Strong growth in surgical and special imaging volumes bolstered acute and ancillary services revenue throughout the system. This volume growth combined with rate increases offset volume reductions in oncology and endoscopy associated with provider departures.

2017 saw net patient revenue at SRH grow by $19,238 from $329,786 in 2016. A full year of operations at CVH accounted for approximately $16,138 of this increase. Volume and rate increases at SVH partially offset increased revenue adjustments related to the deteriorating payor mix, adding $2,461 in 2017. At SRC, growth in the orthopedic, urgent care, family medicine, and gastroenterology practices offset decreases in internal medicine and dermatology.

Other Operating Revenue

Other operating revenue decreased by $1,736 or 7.8%, from $22,193 in 2017 to $20,457 in 2018. Sales at the three retail pharmacies, which closed in the first quarter of 2018, decreased by $3,002. The 340B contracted pharmacy program continued to expand increasing revenue from the program by $3,340 in 2018 over 2017. Revenue from the 340B contract program totaled $10,518 in 2018. Investment income increased $519 in 2018 related to higher cash and short-term investment balances and improved returns.

Other operating revenue increased by $3,593, or 19.3%, in 2017 from $18,600 in 2016, related primarily to the addition of several specialty pharmacies to the 340B contracted pharmacy program.

Income generated for the District from its ownership in several joint ventures increased by $1,102, from $2,254 in 2017 to $3,356 in 2018. In 2017, income from joint ventures increased by $49, from $2,205 in 2016.

Total operating revenue for 2018 was $398,648, an increase of $25,177, or 6.7%, over the 2017 total operating revenue of $373,471. The increase in 2017 over the 2016 total of $350,591 is $22,880, or 6.5%.

Operating Expenses (in thousands)

Total operating expenses in 2018 increased by $7,144 or 1.8%, from $388,054 in 2017 to $395,198 in 2018. Total operating expenses increased by $33,403 in 2017 from $354,651 in 2016.

SRH wages and benefits increased by $29,131, or 16%, from $182,460 in 2016 to $211,591 in 2017, and by $4,792, or 2.3%, to $216,383 in 2018. Excluding providers, the District employed 1,898 full time equivalents (FTEs) in 2018, an increase of 56 from the 1,842 FTEs employed in 2017 and a two-year increase of 229 from 1,669 FTEs employed in 2016. Growth from 2016 to 2018 is related to volume increases within CVH and SVH Hospitals, and Clinics. Provider staff support also increased proportionately with their growth. This combined growth was offset, in early 2018, by a reduction in force.

At year-end 2018, SRH employed 160 providers, comprised of 104 doctors and 56 mid-level providers. This is an increase of 38 employed providers from year-end 2017, comprised of 26 doctors and 12 mid-level providers.

The salary and benefits dollar increases not associated with the added FTEs are accounted for by contracted union and non-contracted staff, and provider annual increases.

Professional fees decreased by $5,231, from $22,416 in 2017 to $17,185 in 2018. Restructuring of the outsourced ER physicians program that coincided with the implementation of the Epic EHR, accounted for $3,520 of this reduction. Lower usage of locum providers further reduced professional fees by $446. Oncology professional fees decreased $128, due to the departure of two providers during the year. Reduced usage of registry nurses and other outsourced personnel account for much of the remaining variance.

Professional fees increased by $1,415, from $21,001 in 2016 to $22,416 in 2017. Nurse registry, outsourced medical, and non-medical support staff increased by $1,708. The outsourcing of the CVH Anesthesia program and a staffing shortage, backfilled with registry personnel in Case Management, were the largest drivers of this increase. Consulting, legal, and audit fees decreased from $2,293 in 2016 to $2,160 in 2017. SRH physician fees decreased by $165 to $14,762 in 2017 from $14,927 in 2016. Increases in Orthopedic, Pulmonary, and Women's Health locum's expenses were offset by reductions in Mental Health and Gastroenterology, and restructuring of the outsourced ER physicians program.

Patient supply expense, including pharmaceutical, medical devices and medical supplies, increased by $7,532, from $47,224 in 2017 to $54,756 in 2018. From 2016 to 2017, supply expense increased by $400, from $46,824 in 2016. Pharmaceutical expense increased by $4,522 in 2018, from $24,305 to $28,827, associated with increased spending on pharmaceuticals at SVH related to higher oncology drug usage, inflation, and 340B purchases, and offset by reductions in retail pharmacy cost of goods sold expenses due to the closure of the Sedro-Woolley, Mount Vernon, and Riverbend retail pharmacies in early 2018. Medical device and supply expense related to direct patient care increased by $3,010, from $22,919 in 2017 to $25,929 in 2018. The addition of a surgical robot and the insourcing of lab services at SVH at the end of the third quarter 2018 accounted for much of the increase.

Other supply expense, which includes minor equipment, cleaning, food, and office expenses, decreased from $4,239 in 2016 to $3,979 in 2017 and increased to $4,060 in 2018. The decrease in 2017 was due to a reduction in minor equipment expense after a buildup in 2016 related to the upgrade of information technology infrastructure. In 2018, SRH saw a slight increase in minor equipment related to the purchase of the surgical robot at SVH OR and new instruments sets for CVH operating room. Information technology minor equipment expense continued its downward trend in 2018 after the buildup in 2016.

Operating Expenses (in thousands) (continued)

Purchased services, maintenance, rental and lease, utilities, and other expense decreased $4,467, from $77,676 in 2017 to $73,209 in 2018. This variance and reduction in expenses was primarily attributed to savings in the SVH hospitalist program, reduction in information systems purchased services and license fees and the insourcing of the SVH Lab. Purchased services, maintenance, rental and lease, utilities, and other expense increased $5,515 in 2017, from $72,161 in 2016. The increase in 2017 was related to a mix of one-time go-live support and ongoing maintenance, licensing, and hosting expenses related to for the Epic EHR, as well as additional increases related to backfill support for legacy systems and the impact of operating CVH for a full year.

Insurance and tax expense was $7,009 in 2018, an increase of $1,565 from $5,444 in 2017. This is attributable to an increase of professional liability loss reserves of $963. The reserves, developed by an actuary based on historical loss runs, are reviewed and updated yearly. The remaining increase is related to higher insurance premiums, including the purchase of a tail liability policy for an acquired practice. In 2017, insurance and tax expense decreased by $687 from $6,131 in 2016. This was primarily related to reductions on reserves.

Depreciation expense of $16,557 was $2,268 higher than the 2017 expense of $14,289. Depreciation related to the Epic EHR increased $2,523 from $1,110 in 2017 to $3,633 in 2018 related to a full year's depreciation compared to only three months in 2017. Depreciation expense in 2017 was $745 lower than the 2016 expense of $15,034. The increase related to Epic was offset by several of the movable equipment assets that were acquired in the 2007 hospital expansion along with additional assets acquired in the final closing of the Skagit Valley Medical Center acquisition reaching full depreciation in 2016 and early 2017.

Interest and amortization expense increased by $603 to $6,038 in 2018 from $5,435 in 2017 after a decrease of $1,366 from $6,801 in 2016. The increase is primarily related to interest on the 2016 Revenue and Refunding bonds. Interest from these bonds related to the Epic EHR project was capitalized during the build of Epic in 2017. The one-time costs associated with the issuance of the 2016 Revenue and Refunding bonds, recognized in 2016, account for the decrease from 2016 to 2017.

Net Nonoperating Income and Changes in Net Position (in thousands)

Net nonoperating income and other changes in net position increased by $5,216, from $11,447 in 2017 to $16,663 in 2018 and decreased in 2017 by $7,634, from $19,081 in 2016. Improved returns on restricted fund investments increased nonoperating revenue in 2018 by $1,497, while the remaining increase came from improved tax collections and a gain on sale of assets. Transfers of assets related to the affiliation agreement with PHD 3 has continued to wind down, falling $5,816 from $7,827 in 2017 down to $2,011 in 2018. Transfers of assets fell $7,704 from $15,531 in 2016. Additional information about this transfer can be found in the "Affiliation Agreement with Snohomish County PUD No. 3" section below. The sale of the outpatient KD operating in December 2018 added $9,240. Donations received for capital contributions were $69 in 2018, compared with $287 in 2017, a decrease of $217. The majority of the donations were gifts from the hospital foundation for various projects.

Statements of Net Position (in thousands)

The following is a presentation of certain financial information derived from the District's statement of net position (in thousands):

	2018	2017	2016
Current assets			
Cash and short-term investments	$ 40,246	$ 19,112	$ 23,622
Accounts receivable, net	54,708	57,289	62,503
Other current assets	16,820	16,299	16,737
Total current assets	111,774	92,700	102,862
Assets whose use is limited, net of current portion	127,829	126,288	136,166
Capital assets, net	151,991	153,742	134,317
Investments in joint ventures	12,212	12,707	13,305
Total assets	403,806	385,437	386,650
Deferred outflows of resources	5,491	4,434	4,851
Total assets and deferred outflows of resources	$ 409,297	$ 389,871	$ 391,501
Current liabilities	$ 57,942	$ 55,193	$ 52,585
Long-term debt, net of current portion	166,953	175,728	179,581
OPEB liability	23,465	18,992	-
Estimated professional liability	4,983	4,037	4,003
Total liabilities	253,343	253,950	236,169
Deferred inflows of resources	691	772	-
Net position			
Net investment in capital assets	11,073	5,388	2,451
Restricted for debt service	12,887	12,838	13,192
Unrestricted	131,303	116,924	139,689
Total net position	155,263	135,150	155,332
Total liabilities, deferred inflows of resources, and net position	$ 409,297	$ 389,871	$ 391,501

Statements of Net Position (in thousands) (continued)

Assets

Total current assets of $111,774 at December 31, 2018, were $19,074 higher than at year-end 2017. This increase is comprised of a $21,134 increase in cash and short-term investments, a decrease of $2,581 in net accounts receivable, and an increase of $521 in other current assets. The increase in cash and short-term assets were related to the positive operating margin, the improvement in AR days outstanding, and the proceeds from the sale of the outpatient kidney dialysis operations.

Net patient accounts receivable average days outstanding at year-end 2018 were 48.1, versus 50.8 days in 2017. The decrease in 2018 is due to systematic improvements across the revenue cycle, including consolidation of revenue cycle leadership and consolidation of multiple billing platforms to the Epic EHR. Net patient accounts receivable average days outstanding at year-end 2016 were 62.2 days. The decrease in 2017 is due to improvements in payments associated with CVH. CVH experienced an initial delay in 2016 associated with the change in ownership that increased average days outstanding at year-end 2016. Additionally, an effort to reduce AR from legacy billing systems prior to the commencement of the Epic EHR contributed to the reduced days outstanding in 2017.

Assets whose use is limited increased from $126,288 in 2017 to $127,829 in 2018, an increase of $1,541, after decreasing by $9,878 from $136,166 in 2016. The 2017 decrease relates to the project fund portion of the 2016 Revenue and Refunding Bonds and use of those funds for various capital projects including the Epic EHR. The increase in 2018 relates to transfers into funds designated by the board for capital improvements.

Net capital assets decreased in 2018 by $1,751, from $153,742 to $151,991. This decrease is made up of $14,806 of new capital assets, offset by $585 in retirements and a $15,973 increase in accumulated depreciation. Major capital projects in 2018 were the purchase of the da Vinci® Xi™ Surgical System, the addition of a third state of the art catheterization lab, a patient monitoring system upgrade, and purchases of land around the SVH campus. Net capital assets increased in 2017 by $19,425, from $134,317 in 2016. This increase is made up of $33,713 of new capital assets, offset by $1,065 in retirements and a $13,223 increase in accumulated depreciation. Of the new capital assets, $25,301 is related to the Epic EHR.

Investments in joint ventures declined from $12,707 in 2017 to $12,212 in 2018, a decrease of $495. From 2016 to 2017, joint venture investments decreased by $598. Distributions from the joint ventures accounted for the change in all years examined.

Liabilities

Current liabilities increased $2,749, from $55,193 in 2017 to $57,942 in 2018. This increase is made up of an increase of $493 in payables, an increase of $2,363 in payments due to third-party payors, and a decrease in the current portion of long-term debt of $666. Current liabilities in 2017 increased by $2,608 over 2016. Financing of the Epic EHR License as well go-live support is the main driver for the increase in current portion of long-term debt.

Long-term debt, net of current portion decreased by $8,775 in 2018 to $166,953 from $175,728 in 2017. In 2017, long-term debt, net of current portion decreased by $3,853 from $179,581 in 2016. Normal scheduled principal payments account for the decrease in both years. Increased debt related to the Epic EHR accounted for the higher principal payment in 2018.

Statements of Net Position (in thousands) (continued)

The Governmental Accounting Standards Board (GASB) issued new standards in 2015 that define how other post-employment benefit (OPEB) liabilities were measured and reported. These standards, GASB 74 and GASB 75, came into effect for plan fiscal years beginning after June 15, 2017. GASB 75, requires a liability to be recognized for OPEB plans that are not pre-funded. Changes in the OPEB liability are recognized as expense in the Statements of Revenue, Expenses, and Changes in Net position or reported as deferred inflows/outflows of resources on the Statements of Net Position, depending on the nature of those changes. The District's OPEB liability was $18,992 in 2017 and $23,465 in 2018. Further detail of the Districts OPEB liability can be found in Note 10 to the financial statements.

Professional malpractice liability reserve increased by $946 in 2018, from $4,037 to $4,983. This increase is based on an actuarial estimate of the professional malpractice liability, based on historic claims and changes in volume. In 2017, professional liabilities reserves increased by $34, from $4,003 in 2016.

Affiliation Agreement with Snohomish County PUD No. 3

In accordance with the Affiliation Agreement, which was dated December 4, 2015, the District began operating Cascade Valley Hospital on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between Snohomish PHD No. 3 d/b/a Cascade Valley Hospital and Clinics and the District. Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 leased substantially all of its assets, including Cascade Valley Hospital, certain other clinic facilities, Snohomish PHD No. 3's interest as lessor in certain land leases, and intangible assets, to the District for a term of 30 years. The District will pay Snohomish PHD No. 3 an annual base rent of $10.00 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Financial Arrangement

Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 will transfer all of its cash and cash equivalents in excess of a retained amount to the District by June 2017. The retained amount is equal to Snohomish PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, Snohomish PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by Snohomish PHD No. 3. The Smokey Point LLC building is a two-story, 40,000-square-foot ambulatory center. Approximately one quarter of the space is leased to UW Medicine, which operates a primary care physician practice and a maternal fetal medicine clinic. The rest of the building is leased to the District, which operates an outpatient chemotherapy unit, an urgent care clinic, an occupational medicine clinic, and laboratory and imaging services. Snohomish PHD No. 3's excess property tax levy funds will be used solely for the purpose of paying the debt service on Snohomish PHD No. 3's outstanding unlimited tax general obligation bonds. The proceeds from the Snohomish PHD No. 3 regular property tax levy and the Smokey Point LLC lease will be used to pay Snohomish PHD No. 3's expenses, including the annual debt service on Snohomish PHD No. 3's outstanding limited tax general obligation bonds, and to fund the minimum cash balance of $1,000,000. To the extent the amount collected by Snohomish PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds Snohomish PHD No. 3's existing obligations in any year, and the Snohomish PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

In accordance with the Affiliation Agreement, the transferred funds will be deposited in Pool A of the "PHD No. 3 Support Fund." The funds in Pool A will be used by the District to: (1) support the provision of health care services rendered in Snohomish County; (2) pay for capital improvements and equipment located in Snohomish County; (3) pay for health information technology and other capital investments that may be located outside of Snohomish County if it serves both the District facilities and the Cascade Valley Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to Snohomish PHD No. 3's usage of the capital investment shall be allocated to Snohomish PHD No. 3; and (4) to cover any losses incurred by the District in the operation of Cascade Valley Hospital services.

At the end of each fiscal year, the District will deposit into a special fund designated as Pool B of the "PHD No. 3 Support Fund" a portion of the District's net cash flow generated from the District's operations, calculated according to a formula set forth in the Affiliation Agreement but in no case less than 1.5% of the annual net revenue generated by the District's operation of the Cascade Valley Hospital services still in operation, which will be calculated based on a three-year rolling average. The funds in Pool B may generally be used and expended by the District in the following order of priority: (1) to cover any Cascade Valley Hospital operating losses, as defined in the Affiliation Agreement, to the extent the loss is not covered by any remaining funds in Pool A; (2) to reimburse the District for expenses incurred in prior years to cover such operating losses that were not reimbursed in prior years because there were insufficient funds in Pool A or Pool B; (3) to reimburse the District for expenses incurred by the District in prior years to fund capital improvements or equipment located at the Cascade Valley Hospital facilities or for health information technology or other capital investments located elsewhere to the extent it serves both the District and Cascade Valley Hospital facilities, but only for such portion that reasonably relate to Snohomish PHD No. 3's usage of the health information technology or other capital investment, to the extent that such expenses were not reimbursed in prior years because there were insufficient funds available in Pool A or Pool B; (4) to reimburse the District for expenses incurred by the District in the current year to fund Cascade Valley Hospital capital improvements, as defined by the Affiliation Agreement; and (5) subject to certain limitations, for other expenditures that support the provision of health care services in Snohomish County.

Required Services

The Affiliation Agreement obligates the District to provide certain required services in North Snohomish County (identified by zip codes 98223, 98241, 98292, 98271, 98270, 98258, and 98252) for five, 10, and 30-year periods. The District has the right to determine the appropriate level of required services to meet the needs of the residents of North Snohomish County, such as the number of medical/surgical beds, ICU beds, observation beds, emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and staffing levels, provided it does so reasonably after appropriate evaluation and analysis of any impact a reduction in level of service may have on the residents of North Snohomish County.

During the five-year period following affiliation (the Five-Year Period), the District must provide OB/GYN, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which the District reasonably believes will appropriately serve the needs of the residents of North Snohomish County. The District must, however, continue to provide or cause to be provided primary care services at the Darrington and Granite Falls clinics during the Five-Year Period.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

During the 10-year period following the affiliation (the Ten-Year Period), the District must provide inpatient and outpatient surgery, general inpatient acute services, and orthopedic general surgeons in North Snohomish County. In order to satisfy the Ten-Year Period commitment, the District is required to continuously maintain and operate Cascade Valley Hospital as a general acute care hospital duly licensed by the state of Washington and certified under the Medicare and Medicaid programs, with at least the following services: general inpatient acute services, inpatient surgery, a 24-hour emergency department, observation unit, ancillary medical services to the extent required to maintain state acute care hospital licensure, and an organized medical staff consisting, at a minimum, of primary care physicians, orthopedic surgeons, and general surgeons. The District is granted the right during the Ten-Year Period to modify or reduce the level of service provided at Cascade Valley Hospital provided: (1) it continues to provide an appropriate level of such services in North Snohomish County to meet the needs of residents; and (2) it has given notice to Snohomish PHD No. 3 and allowed Snohomish PHD No. 3 to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if the District elects to discontinue outpatient surgery services at Cascade Valley Hospital during the Ten-Year Period, the District must provide such services during remainder of the Ten-Year Period at an alternative location within North Snohomish County at appropriate levels to meet the needs of residents.

During the Thirty-Year Period following the affiliation, the District must provide a 24-hour emergency department, observation unit, ancillary medical services, and primary care physicians in North Snohomish County. After the Ten-Year Period, the District is entitled to relocate the required services that were subject to the Ten-Year Period commitment and that continue to be subject to the Thirty-Year Period commitment to any location within North Snohomish County that it reasonably believes will appropriately meet the needs of the residents of North Snohomish County.

In the event that the District intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give Snohomish PHD No. 3 90 days' advance written notice of such intent (the Change Notice). The Change Notice must include a detailed statement of the reasons for the intended action and must be accompanied by an analysis prepared by a qualified independent health care consultant analyzing the potential impact on the accessibility and availability of health care services for residents of North Snohomish County. Snohomish PHD No. 3 is granted the right to determine, in its sole and absolute discretion, whether it will permit the District to proceed with the requested change. Snohomish PHD No. 3 must notify the District within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If Snohomish PHD No. 3 fails to respond in writing within 90 days of receipt of the Change Notice, Snohomish PHD No. 3 will be deemed to have approved the proposed service change.

Dispute Resolution

Subject to the parties' right to equitable relief, all controversies, claims, and disputes arising in connection with the Affiliation Agreement must be settled by mutual consultation between the parties, but failing amicable settlement must be settled finally by arbitration, conducted in Seattle, Washington, in accordance with the rules and procedures promulgated by Judicial Dispute Resolution before one arbitrator. The decision of the arbitrator is final and binding on the parties.

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Termination and Unwinding

The Affiliation Agreement permits termination of the Affiliation Agreement and an unwinding of the affiliation upon the happening of certain conditions. The Affiliation Agreement may be terminated: (1) by mutual written consent of the District and Snohomish PHD No. 3; (2) by either the District or Snohomish PHD No. 3 in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by the District in the event that a catastrophic event occurs that was not caused by the District and makes it no longer viable to continue operating Cascade Valley Hospital services as originally contemplated; (4) by either the District or Snohomish PHD No. 3 if Snohomish PHD No. 3 requires the District to purchase the leased facilities and assets as set forth in a certain provision of the Affiliation Agreement governing damages to the facilities related to the District's negligence; and (5) after six years, by the District if the District has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Cascade Valley Hospital services.

To effect an unwind, the District will transfer all of the facilities and assets owned by Snohomish PHD No. 3 back to Snohomish PHD No. 3 following a process consistent with how they were originally transferred. In addition, the District will transfer to Snohomish PHD No. 3 any remaining cash balance in Pool A or Pool B and will assign in part or grant sublicenses under any electronic health records software license, maintenance, and support services agreements in effect at Cascade Valley Hospital facilities immediately prior to termination.

All of the commitments by Snohomish PHD No. 3 to provide any cash or similar support to the District will terminate after the date the District provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason, provided that Snohomish PHD No. 3 will remain obligated to provide any cash or similar support on a pro rata basis for the applicable period of time prior to the notice of termination. The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

2016 Hospital Revenue Improvement and Refunding Bonds

In November 2016, the District issued $62,730,000 in Revenue Improvement and Refunding Bonds. Approximately $42,730,000 of these proceeds were used to carry out the advanced refunding of the District's 2005 and 2007 hospital revenue bonds. The remaining $20,000,000 in bond proceeds was used to pay or reimburse costs to acquire, construct, remodel, renovate, equip, and furnish the District's health facilities in conformance with the District's 2016–2018 capital budgets, including the Epic Electronic Health Record System.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Skagit Regional Health's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's financial management at Skagit Regional Health Business Center, 1415 East Kincaid Street, Mount Vernon, Washington 98273.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2018	December 31, 2017 (Restated)
CURRENT ASSETS		
Cash	$ 873,722	$ 1,142,196
Short-term investments	39,371,984	17,970,128
Patient accounts receivable, less allowance for uncollectible accounts of $11,227,726 and $9,044,158	49,340,624	48,585,898
Other receivables	5,367,826	8,703,345
Assets limited as to use, required for current liabilities	7,320,318	6,936,466
Supplies inventory	4,791,940	5,311,720
Prepaid expenses and other assets	4,120,505	3,790,423
Interest receivable	587,311	260,031
Total current assets	111,774,230	92,700,207
ASSETS LIMITED AS TO USE		
Board-designated for capital improvements	106,598,565	104,646,170
Board-designated for professional liability	1,653,490	1,644,447
Restricted for CVH project funds A & B	14,007,579	14,093,301
Restricted bond reserve funds held by trustee	9,548,782	9,499,263
Restricted for construction project fund	2,832	2,784
Restricted for bond redemption fund	3,337,916	3,338,850
	135,149,164	133,224,815
Less amounts required for current liabilities	(7,320,318)	(6,936,466)
	127,828,846	126,288,349
CAPITAL ASSETS		
Land	11,712,330	10,066,771
Construction in progress	2,278,516	108,520
Depreciable capital assets, net of accumulated depreciation	138,000,500	143,567,166
	151,991,346	153,742,457
INVESTMENTS IN JOINT VENTURES	12,211,850	12,706,638
Total assets	403,806,272	385,437,651
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB outflows	1,473,342	-
Deferred losses on refundings	4,017,164	4,433,839
	5,490,506	4,433,839
Total assets and deferred outflows of resources	$ 409,296,778	$ 389,871,490

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31, 2018	December 31, 2017 (Restated)
CURRENT LIABILITIES		
Accounts payable	$ 18,385,854	$ 17,827,715
Accrued salaries, wages, and employee benefits	21,452,512	20,923,534
Estimated third-party payor settlements	8,162,108	5,798,762
Accrued interest payable	650,318	686,466
Current portion of long-term debt	9,290,692	9,956,836
Total current liabilities	57,941,484	55,193,313
LONG-TERM DEBT, net of current portion	166,953,354	175,727,612
OPEB LIABILITY	23,464,988	18,991,781
ESTIMATED PROFESSIONAL LIABILITY	4,983,404	4,036,788
Total liabilities	253,343,230	253,949,494
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB inflows	690,481	771,714
NET POSITION		
Net investment in capital assets	11,072,864	5,388,222
Restricted for debt service	12,886,698	12,838,113
Unrestricted	131,303,505	116,923,947
Total net position	155,263,067	135,150,282
Total liabilities, deferred inflows of resources, and net position	$ 409,296,778	$ 389,871,490

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2018	2017 (Restated)
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $21,677,341 and $21,720,708)	$ 374,835,432	$ 349,023,832
Other operating revenues	23,812,302	24,447,464
Total operating revenues	398,647,734	373,471,296
OPERATING EXPENSES		
Salaries and wages	176,381,740	170,653,757
Employee benefits	40,000,808	40,937,694
Professional fees	17,185,235	22,416,239
Supplies	58,816,600	51,202,622
Purchased services	55,246,793	57,401,198
Other	24,971,709	25,719,542
Depreciation and amortization	16,557,366	14,288,610
Interest and amortization	6,038,007	5,434,898
Total operating expenses	395,198,258	388,054,560
Operating income (loss)	3,449,476	(14,583,264)
NONOPERATING INCOME, net		
Investment income	2,910,619	1,413,277
Revenues from tax levies for general obligation bonds	4,512,981	4,174,538
Interest and amortization expense	(2,103,781)	(2,198,698)
Other income (expense)	22,642	(56,083)
Nonoperating income, net	5,342,461	3,333,034
Excess (deficiency) of revenues over expenses before capital contributions and transfers	8,791,937	(11,250,230)
CAPITAL CONTRIBUTIONS	69,153	287,196
GAIN ON DISPOSAL OF OPERATIONS	9,240,364	-
GAIN ON TRANSFER OF ASSETS	2,011,331	7,826,554
INCREASE (DECREASE) IN NET POSITION	20,112,785	(3,136,480)
NET POSITION, beginning of year	135,150,282	155,332,355
CUMULATIVE EFFECT OF RESTATEMENT	-	(17,045,593)
NET POSITION, beginning of year, restated	135,150,282	138,286,762
NET POSITION, end of year	$ 155,263,067	$ 135,150,282

See accompanying notes.

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2018	2017 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 376,444,052	$ 355,547,195
Cash paid to suppliers	(154,525,884)	(159,204,529)
Cash paid to employees	(212,934,938)	(205,364,693)
Other cash receipts	23,113,573	19,753,503
Net cash from operating activities	32,096,803	10,731,476
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(13,328,607)	(25,754,878)
Principal payments on long-term debt	(10,091,286)	(7,572,474)
Interest paid on long-term debt	(8,588,025)	(8,062,348)
Cash received from tax revenues for general obligation bonds	4,509,087	4,191,233
Cash received from disposal of operations	9,240,364	-
Cash received from transfer of assets	2,011,331	7,826,554
Other	91,795	231,113
Net cash from capital and related financing activities	(16,155,341)	(29,140,800)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash distributions from joint ventures	3,849,612	2,851,893
Net change in investments and assets limited as to use	(32,313,849)	23,226,552
Investment income	3,383,300	1,653,457
Net cash from investing activities	(25,080,937)	27,731,902
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,139,475)	9,322,578
CASH AND CASH EQUIVALENTS, beginning of year	12,197,231	2,874,653
CASH AND CASH EQUIVALENTS, end of year	$ 3,057,756	$ 12,197,231
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	$ 873,722	$ 1,142,196
Cash and cash equivalents in assets limited as to use	2,184,034	11,055,035
	$ 3,057,756	$ 12,197,231

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31, 2018	2017 (Restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	$ 3,449,476	$ (14,583,264)
Adjustments to reconcile operating income to net cash from operating activities		
Net change in OPEB liability	2,918,632	2,717,902
Investment income considered an investing activity	(679,424)	(160,291)
Interest expense considered a capital financing activity	6,038,007	5,434,898
Depreciation and amortization	16,557,366	14,288,610
Income recognized from joint ventures	(3,354,824)	(2,253,933)
Changes in operating assets and liabilities		
Accounts receivable, net	(754,726)	7,493,889
Other receivables	3,335,519	(2,279,737)
Supplies inventory	519,780	(27,208)
Prepaid expenses	(330,082)	852,393
Accounts payable	558,139	(3,323,656)
Accrued salaries, wages, and employee benefits	528,978	3,508,856
Estimated third-party payor settlements	2,363,346	(970,526)
Reserve for professional liability costs	946,616	33,543
Net cash from operating activities	$ 32,096,803	$ 10,731,476
DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Capital assets financed with capital lease obligation	$ 1,477,648	$ 6,154,087
Capital assets financed through vendor	$ -	$ 1,804,739

See accompanying notes.

Note 1 – Organization

Organization – Public Hospital District No. 1 of Skagit County, Washington (the District), is organized as a municipal corporation pursuant to the laws of the state of Washington. The District is governed by an elected five-member board. The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division is known as Skagit Regional Clinics (SRC). On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH's and SRC's operations. SVH is a licensed 137-bed acute care hospital in Mount Vernon, Washington. The District also operates Camano Rural Health Clinic on Camano Island, Washington.

UW Medicine and Public Hospital District No. 3 of Snohomish County (PHD No. 3), which operated Cascade Valley Hospital and Clinics (CVH) in Arlington, Washington, entered into a long-term alliance with UW Medicine with respect to clinical and other ventures and a lease by the District of PHD No. 3's health care facilities (UW Affiliation Agreement).

Pursuant to the UW Affiliation Agreement, UW Medicine serves as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine is available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

The District and PHD No. 3 also entered into an Affiliation Agreement Regarding the Lease and Operation of CVH, (the Affiliation Agreement). CVH is a 48-bed facility that is approximately 20 miles southeast of SVH's main campus. In accordance with Affiliation Agreement, the District began operating CVH on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between PHD No. 3 and the District. PHD No. 3 leased substantially all of its assets, certain other clinic facilities, PHD No. 3's interest as lessor in certain leases, and intangible assets to the District for a term of 30 years. The District will pay PHD No. 3 an annual base rent of $10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, PHD No. 3 transferred all of its cash and cash equivalents of a retained amount to the District in 2017. The retained amount is equal to PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by PHD No. 3. The proceeds from PHD No. 3's regular property tax levy and the Smokey Point LLC lease will be used to pay PHD No. 3's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of $1,000,000. To the extent the amount collected by PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds PHD No. 3's existing obligations in any year, and the PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District. Cash transferred by PHD No. 3 to the District was $2,011,331 and $7,826,554 in 2018 and 2017. This resulted in a gain on transfer of assets of $2,011,331 and $7,826,554 in 2018 and 2017, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Note 2 – Summary of Significant Accounting Policies

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

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

Change in accounting principle – During 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). For plans that are not prefunded, GASB 75 requires a liability for OPEB obligations, known as the total OPEB liability, to be recognized on the statement of net position of participating employers. The District adopted and retroactively applied GASB 75 to all years presented. The changes in the District's statements of net position and statements of revenue, expenses and changes in net position as a result of the retroactive application of GASB 75 are as follows:

	As Previously Reported	Effect of Change	As Adjusted
Statement of Net Position			
Total liabilities	$ 234,957,713	$ 18,991,781	$ 253,949,494
Deferred inflows of resources	-	771,714	771,714
Net position	154,913,777	(19,763,495)	135,150,282
Statement of Revenues, Expenses and Changes in Net Position			
Total operating expense	385,336,658	2,717,902	388,054,560

Cash and cash equivalents – Cash and cash equivalents include demand and interest-bearing deposits with an original maturity of three months or less.

Note 2 – Summary of Significant Accounting Policies (continued)

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

Supplies inventory – Supplies inventory, consisting of medicine and medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value.

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is $1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	3 – 40 years
Buildings	26 – 40 years
Fixed equipment	3 – 25 years
Major movable and minor equipment	3 – 20 years

Interest on borrowed funds less any interest earned on temporarily invested funds is capitalized on construction projects as a cost of the related project from the date of borrowing until the construction period ends and the related asset is placed in service. Capitalized interest is depreciated over the estimated useful life of the related asset.

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

Note 2 – Summary of Significant Accounting Policies (continued)

Assets limited as to use and short-term investments – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements and self-insurance reserves. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. Pool A and Pool B funds are restricted for capital improvements and operations of CVH as defined in the Affiliation Agreement. These funds are invested in bankers' acceptances, obligations of the United States Government, the State Treasurer's Investment Pool, and certificates of deposit with financial institutions in accordance with state guidelines.

All District investments are carried at market value. Investment income earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Realized and unrealized investment income or losses on other investments are reported as nonoperating gains and losses.

Investments in joint ventures – The District has investments in several different joint ventures providing health care services and accounts for these investments using the equity method, under which the District's share of net income is reported in other operating revenues.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District pays certain workers' compensation claims on a self-insured basis. The District has purchased stop-loss insurance to cover workers' compensation claims that exceed stated limits and has recorded an estimated reserve for incurred but not reported claims based on an actuarial estimate, which was $2,839,000 and $3,093,000 at December 31, 2018 and 2017, respectively. These amounts are recorded in accrued salaries, wages, and employee benefits on the statements of net position. The District also pays certain professional liability claims on a self-insured basis (Note 11).

Postemployment Benefits Other Than Pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates (Note 10).

Net position – Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Note 2 – Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing health care services—the District's primary business. Nonexchange revenues, such as revenues for tax levies and contributions for other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs related to general obligation bonds. Tax levy income and debt service related to general obligation bonds and peripheral or incidental transactions are reported as nonoperating gains and losses.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

Charity care – The District provides care to patients who meet certain criteria under its charity care policies. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during 2018 and 2017 measured by the District's standard charges was $8,171,661 and $4,141,519, respectively.

Subsequent events – Subsequent events are events or transactions that occur after the statements of net position date but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of net position but arose after the statements of net position date and before the financial statements are available to be issued.

The District has evaluated subsequent events through April 18, 2019, which is the date the financial statements are available to be issued.

Note 3 – Net Patient Service Revenue

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

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of Medicare severity diagnosis-related groups (MS-DRGs). Each MS-DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that MS-DRG. The District's classification of MS-DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2015. Net revenue billed under Medicare totaled approximately $154,489,000 and $138,613,000 for 2018 and 2017, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2018 and 2017, were approximately $16,500,000 and $17,074,000, respectively.

Medicaid – Beginning July 1, 2005, a new inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals was implemented called "Certified Public Expenditures." Under this program, the District is paid for inpatient Medicaid services based on certain costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under this program, the District will be reimbursed the higher of the cost of service or "baseline" reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District's allowable operating expenses to total allowable revenue. The District has finalized the Medicaid CPE cost reports through 2011. Net revenue billed under the Medicaid program totaled approximately $64,791,000 and $58,028,000 for 2018 and 2017, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2018 and 2017, were approximately $4,911,000 and $7,116,000, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid through 2018 have been recorded in the accompanying statements of net position. 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. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

Note 3 – Net Patient Service Revenue (continued)

The following are the components of net patient service revenue for the District for the years ended December 31, 2018 and 2017:

	2018	2017
Gross patient service revenue	$ 1,372,603,213	$ 1,221,719,792
Less adjustments to gross patient service revenue		
Contractual adjustments	967,918,779	846,833,733
Provision for bad debts	21,677,341	21,720,708
Charity care	8,171,661	4,141,519
Total adjustments to gross patient service charges	997,767,781	872,695,960
Net patient service revenue	$ 374,835,432	$ 349,023,832

Note 4 – Deposits, Investments, and Assets Limited as to Use

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool (LGIP), eligible bankers' acceptances, and repurchase agreements.

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

At December 31, 2018 and 2017, all deposits and investments of the District are categorized as Category 1 and consist of the following:

	2018	2017
Unrestricted cash	$ 873,722	$ 1,142,196
Short-term investments		
Investment in State Treasurer's Investment Pool	39,371,984	17,970,128
Assets limited as to use		
Cash and cash equivalents	2,184,034	11,055,035
Certificates of deposit	-	677,886
Government agency securities	68,938,429	44,848,373
Investment in State Treasurer's Investment Pool	64,026,701	76,643,521
	135,149,164	133,224,815
Total deposits and investments	$ 175,394,870	$ 152,337,139

The composition of investments, reported at fair value by investment type at December 31, 2018, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of $106,456,441, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	$ 68,938,429	100%

The composition of investments, reported at fair value by investment type at December 31, 2017, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of $107,588,766, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	$ 44,848,373	100%

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

The District's deposits and investments had the following maturities as of December 31, 2018:

Deposit/Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1–5
Demand deposit	$ 873,722	$ -	$ -
Money market	2,184,034	-	-
Government agency securities	68,938,429	68,938,429	-
Investment in State Treasurer's Investment Pool	103,398,685	-	-
	$ 175,394,870	$ 68,938,429	$ -

The District participates in the LGIP. The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (WPDPC).

Custodial credit risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

In addition to interest and investment income included in nonoperating income, interest income included in other operating revenues totaled $679,287 and $160,291 for the years ended December 31, 2018 and 2017, respectively.

Note 5 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2018 and 2017, were as follows:

	Beginning Balance January 1, 2018	Additions	Retirements	Account Transfers	Ending Balance December 31, 2018
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 10,066,771	$ 1,645,559	$ -	$ -	$ 11,712,330
Construction in progress	108,520	3,634,068	-	(1,464,072)	2,278,516
Total nondepreciable capital assets	10,175,291	5,279,627	-	(1,464,072)	13,990,846
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	-	-	-	7,340,456
Buildings and leasehold improvements	139,327,221	568,287	(4,999)	117,433	140,007,942
Fixed equipment	22,957,049	172,235	(37,142)	50,875	23,143,017
Movable equipment	135,683,676	8,786,106	(542,440)	1,295,764	145,223,106
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,451,122)	(264,587)	-	-	(3,715,709)
Buildings and leasehold improvements	(61,539,887)	(5,323,301)	4,999	-	(66,858,189)
Fixed equipment	(18,557,315)	(600,419)	37,142	-	(19,120,592)
Movable equipment	(78,192,912)	(10,369,059)	542,440	-	(88,019,531)
Depreciable capital assets, net	143,567,166	(7,030,738)	-	1,464,072	138,000,500
	$ 153,742,457	$ (1,751,111)	$ -	$ -	$ 151,991,346

Note 5 – Capital Assets (continued)

	Beginning Balance January 1, 2017	Additions	Retirements	Account Transfers	Ending Balance December 31, 2017
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 10,066,771	$ -	$ -	$ -	$ 10,066,771
Construction in progress	11,790,900	210,426	-	(11,892,806)	108,520
Total nondepreciable capital assets	21,857,671	210,426	-	(11,892,806)	10,175,291
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	-	-	-	7,340,456
Buildings and leasehold improvements	138,510,996	816,225	-	-	139,327,221
Fixed equipment	22,749,345	105,162	(7,883)	110,425	22,957,049
Movable equipment	92,376,908	32,581,891	(1,057,504)	11,782,381	135,683,676
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,142,150)	(308,972)	-	-	(3,451,122)
Buildings and leasehold improvements	(56,207,642)	(5,332,245)	-	-	(61,539,887)
Fixed equipment	(17,966,962)	(598,236)	7,883	-	(18,557,315)
Movable equipment	(71,201,259)	(8,049,157)	1,057,504	-	(78,192,912)
Depreciable capital assets, net	112,459,692	19,214,668	-	11,892,806	143,567,166
	$ 134,317,363	$ 19,425,094	$ -	$ -	$ 153,742,457

The District has included equipment under capital lease obligations with a cost of $8,326,467 and $6,848,819 in capital assets at December 31, 2018 and 2017. Amortization expense of $2,266,436 and $495,619 related to this equipment was recorded in depreciation and amortization expense for 2018 and 2017, respectively. Accumulated amortization for equipment under capital lease was $2,992,793 and $726,357 at December 31, 2018 and 2017, respectively.

Depreciation and amortization expense of operating assets for the years ended December 31, 2018 and 2017, was $16,557,366 and $14,288,610, respectively.

Note 6 – Investments in Joint Ventures

Cascade Imaging Associates, LLC – Together with a local radiology group, the District formed Cascade Imaging Associates, LLC (CIA), a limited liability company, to provide magnetic resonance imaging and computer-assisted tomography services to the residents of the community. The District has a 50% interest in CIA at December 31, 2018. During the years ended December 31, 2018 and 2017, the District recognized operating income of $2,450,235 and $1,889,141, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was $418,134 and $532,899 at December 31, 2018 and 2017, respectively.

Medical Information Network – North Sound, Inc. – Together with area hospitals, the District joined Medical Information Network – North Sound, Inc. (MIN – NS), a Washington nonprofit corporation, to electronically connect patients, providers, and others to a regional electronic health record to improve quality and efficiency of health care services in North Sound communities. The District has a 50% interest in MIN – NS at December 31, 2018. During the years ended December 31, 2018 and 2017, the District recognized operating loss of $26,888 and $154,405, respectively, for its share of net loss realized by MIN – NS. The District's recorded investment in MIN – NS was $51,124 and $78,012 at December 31, 2018 and 2017, respectively.

Skagit Digital Imaging, LLC – Together with a local radiology group, the District formed Skagit Digital Imaging, LLC (SDI), a limited liability company, to provide mammography and stereotactic biopsy services to the residents of the community. The District has a 50% interest in SDI at December 31, 2018. During the years ended December 31, 2018 and 2017, the District recognized operating income of $21,632 and operating loss of $92,783, respectively, for its share of the net income or loss realized by SDI. The District's recorded investment in SDI was $186,451 and $164,819 at December 31, 2018 and 2017, respectively.

Skagit Hospice Services, LLC – Together with Public Hospital District No. 304 of Skagit County, Washington, the District formed Skagit Hospice Services, LLC, dba Hospice of the Northwest (Hospice), a limited liability company, to provide hospice services to the residents of the community. The District has a 50% interest in Hospice at December 31, 2018. During the years ended December 31, 2018 and 2017, the District recognized operating income of $211,662 and operating loss of $48,749, respectively, for its share of the net income or loss realized by Hospice. The District's recorded investment in Hospice was $1,570,893 and $1,359,231 at December 31, 2018 and 2017, respectively.

Skagit Valley Real Estate Partnership – As part of the closing of the integration with SRC in 2013, the District purchased a membership interest in Skagit Valley Real Estate Partnership (SVREP), a partnership that invests in and develops real property located mainly in Skagit and Snohomish Counties, Washington. The District has a 30% interest in SVREP at December 31, 2018. During the years ended December 31, 2018 and 2017, the District recognized operating income of $275,000 and $347,100, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was $4,848,478 and $5,009,979 at December 31, 2018 and 2017, respectively.

Smokey Point Medical Center, LLC – Together with PHD No. 3, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns the building, land, and equipment leased to the District and PHD no. 3 to operate the Smokey Point clinics. The District has a 50% interest in SPMC at December 31, 2018. During the years ended December 31, 2018 and 2017, the District recognized operating income of $375,072 and $341,436, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was $5,136,770 and $5,561,698 at December 31, 2018 and 2017, respectively.

Note 6 – Investments in Joint Ventures (continued)

Aggregated financial information for all of the District's joint ventures is summarized below:

	2018	2017
Current assets	$ 7,462,071	$ 7,403,206
Noncurrent assets, net	25,178,315	26,257,925
	$ 32,640,386	$ 33,661,131
Current liabilities	$ 1,996,367	$ 1,974,916
Long-term liabilities	11,279,552	11,770,231
Equity	19,364,467	19,915,984
	$ 32,640,386	$ 33,661,131
Revenue	$ 29,714,151	$ 27,156,951
Expenses	21,991,864	21,764,051
Net income	$ 7,722,287	$ 5,392,900

For more information on these joint ventures, including financial statements for the individual joint ventures, please contact the Business Services office of the District.

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2018 and 2017, for the District consisted of the following:

	2018	2017
Revenue and refunding bonds, 2016 series, 4.00% to 5.00%, due serially on December 1, in amounts from $1,635,000 in 2019 to $5,875,000 in 2032, maturing in 2037, net of unamortized premium of $5,945,069 and $6,260,736 in 2018 and 2017, respectively.	$ 65,535,069	$ 67,425,736
Revenue bonds, 2010 series, 4.25% to 6.00%, due serially on December 1, in amounts from $525,000 in 2019 to $7,425,000 in 2035, net of unamortized discount of $279,531 and $296,137 in 2018 and 2017, respectively.	31,250,469	31,733,863
General obligation and refunding bonds, 2012 series, 3.13% to 5.00%, due serially on December 1, in amounts from $2,845,000 in 2019 to $6,225,000 in 2028, net of unamortized premium of $4,202,115 and $4,625,857 in 2018 and 2017, respectively.	48,227,115	51,240,857
Revenue and refunding bonds, 2013A series, 4.00% to 5.00%, due serially on December 1, in amounts from $1,665,000 in 2019 to $7,895,000 in 2036, maturing in 2037, net of unamortized premium of $1,853,959 and $1,957,920 in 2018 and 2017, respectively.	24,468,959	26,157,920
Notes payable to individuals, due in monthly installments from $15,700 to $23,200, including interest from 4.50% to 5.00% with various maturities through July 2024.	954,316	1,362,926
Note payable to bank, due in monthly installments of $9,900, including interest at 4.25% through January 2021.	223,554	330,399
Note payable paid in full during 2018.	-	1,136,739
Capital lease obligations, stated at present value of future minimum lease payments.	5,584,564	6,296,008
	176,244,046	185,684,448
Less current portion	(9,290,692)	(9,956,836)
	$ 166,953,354	$ 175,727,612

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Under the terms of the revenue and refunding bonds, the District has agreed to maintain certain financial ratios and meet certain covenants. Management is not aware of any violations with its debt covenants.

During 2016, the District issued the 2016 revenue bonds to carry out a tax-exempt refunding of the 2005 and 2007 revenue and refunding bonds. The refunding resulted in the recognition of an accounting loss of $703,391, which will be deferred and amortized over the life of the 2007 bond, which was set to mature in 2032 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by $8,527,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $6,663,000.

Changes in the District's noncurrent liabilities during the years ended December 31, 2018 and 2017, are summarized below:

	Beginning Balance January 1, 2018	Additions	Reductions	Ending Balance December 31, 2018	Amounts Due Within One Year
LONG-TERM DEBT					
2010 Revenue bonds	$ 31,733,863	$ -	$ 483,394	$ 31,250,469	$ 525,000
2012 GO and refunding bonds	51,240,857	-	3,013,742	48,227,115	2,845,000
2013 Revenue and refunding bonds	26,157,920	-	1,688,961	24,468,959	1,665,000
2016 Revenue and refunding bonds	67,425,736	-	1,890,667	65,535,069	1,635,000
Notes payable to individuals	1,362,926	-	408,610	954,316	157,394
Note payable to bank	330,399	-	106,845	223,554	111,088
Note payable to Epic	1,136,739	-	1,136,739	-	-
Capital lease obligations	6,296,008	1,477,648	2,189,092	5,584,564	2,352,210
Total long-term debt	185,684,448	1,477,648	10,918,050	176,244,046	9,290,692
ESTIMATED PROFESSIONAL LIABILITY	4,036,788	946,616	-	4,983,404	-
Total noncurrent liabilities	$ 189,721,236	$ 2,424,264	$ 10,918,050	$ 181,227,450	$ 9,290,692

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

	Beginning Balance January 1, 2017	Additions	Reductions	Ending Balance December 31, 2017	Amounts Due Within One Year
LONG-TERM DEBT					
2010 Revenue bonds	$ 32,197,258	$ -	$ 463,395	$ 31,733,863	$ 500,000
2012 GO and refunding bonds	54,009,600	-	2,768,743	51,240,857	2,590,000
2013 Revenue and refunding bonds	27,786,880	-	1,628,960	26,157,920	1,585,000
2016 Revenue and refunding bonds	69,276,403	-	1,850,667	67,425,736	1,575,000
Notes payable to individuals	1,754,859	-	391,933	1,362,926	413,010
Note payable to bank	433,212	-	102,813	330,399	90,115
Note payable to Epic	-	1,804,739	668,000	1,136,739	1,136,739
Capital lease obligations	666,649	6,154,087	524,728	6,296,008	2,066,972
Total long-term debt	186,124,861	7,958,826	8,399,239	185,684,448	9,956,836
ESTIMATED PROFESSIONAL LIABILITY	4,003,245	33,543	-	4,036,788	-
Total noncurrent liabilities	$ 190,128,106	$ 7,992,369	$ 8,399,239	$ 189,721,236	$ 9,956,836

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending December 31,	Bonds and Notes Payable			Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total
2019	$ 6,938,482	$ 7,849,807	$ 14,788,289	$ 2,352,210	$ 75,607	$ 2,427,817
2020	7,406,312	7,524,910	14,931,222	2,295,000	51,628	2,346,628
2021	7,798,430	7,175,025	14,973,455	457,468	30,979	488,447
2022	8,335,952	6,802,078	15,138,030	314,002	15,086	329,088
2023	8,903,820	6,402,845	15,306,665	165,884	3,554	169,438
2024-2028	52,812,468	25,618,106	78,430,574	-	-	-
2029-2033	33,155,000	14,401,495	47,556,495	-	-	-
2034-2038	33,587,406	4,472,563	38,059,969	-	-	-
Total	158,937,870	$ 80,246,829	$ 239,184,699	$ 5,584,564	$ 176,854	$ 5,761,418
Net unamortized premiums and discounts	11,721,612					
	$ 170,659,482					

Note 8 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457(b), §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 9% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

Under the §401(a) plan, the District makes contributions on behalf of eligible employees based upon funding levels ranging from 4% to 9% of an employee's gross earnings plus an additional 1/10 of 1% for each year of the first 10 years of credited service. The District contributes up to 9% not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the §415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

The District has limited administrative involvement and does not perform the investing function for the plans. The District does not hold the assets of the plans in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the District employees' deferred compensation plans are not reported on the financial statements of the District.

The District's contributions to the employee benefit plans totaled approximately $7,872,000 and $7,259,000 in 2018 and 2017, respectively. Contributions made by employees to the benefit plans totaled approximately $9,402,000 and $8,351,000 in 2018 and 2017, respectively. For more information on the retirement plans, contact the District's director of human resources.

Note 9 – Property Taxes

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

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

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

For 2018 and 2017, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2018 and 2017, the tax levy for bond service was $0.86 and $0.88 per $1,000 on a total assessed valuation of $4,724,722,380 and $4,291,075,086, for a total levy of $4,076,981 and $3,771,898, respectively. The District also receives revenue from timber taxes. Timber tax revenue in 2018 and 2017 was $436,000 and $402,640, respectively.

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

Note 10 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB), which is an agent multiple-employer defined benefit plan. The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits provided – The subsidies provided by PEBB and valued in this report include the following:

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

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy will be increased to $168 per month. The retirees and spouses currently pay the premium minus $150 when the premium is over $300 per month and pay half the premium when the premium is lower than $300.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

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

Employees covered by benefit terms – At December 31, 2018 and 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	77
Active plan members	1,681
	1,758

Contributions – PEBB administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. Contributions are set each biennium as part of the Washington State's budget process. The benefits are funded on a pay-as you-go basis.

Other information – PEBB does issue a stand-alone financial report, but information about PEBB can be found at http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Total OPEB liability

The District's total OPEB liability was $23,464,988 and $18,991,781 as of the reporting date of December 31, 2018 and 2017, respectively. The corresponding measurement date was December 31, 2017 and 2017, respectively, and the actuarial valuation date was January 1, 2017. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs – The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
Salary increases	3.75% = 0.75% real wage growth above inflation. The individual's salary growth is used for use in the actuarial cost method.
Healthcare cost trend rates	Pre-65 ranging from 7.0% to 4.8% and Post-65 ranging from 7.4% to 4.9%
Discount Rate (Liabilities)	3.44% and 3.78% as of December 31, 2018 and 2017, respectively

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2018 actuarial valuation for Washington State Public Employees' Retirement System (PERS), and modified for the District.

- The assumed rates of disability under PERS tier 2 and 3 from the 2018 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. An assumption of a 0% disability rate for all ages was used.

- For service retirement, the post-2013, plans 2 and 3, with less than 30 years of service assumptions from the 2018 actuarial valuation for Washington State PERS was used.

- For mortality, the assumptions from the 2017 actuarial valuation for Washington State PERS (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using projection scale BB) was used.

The actuarial assumptions used for the December 31, 2018 reporting were based on a census date of January 1, 2017.

Changes in the total OPEB liability

Balance at January 1, 2017	$ 17,045,593
Service cost	2,377,362
Interest	688,677
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(852,947)
Benefit payments	(266,904)
Net Changes	1,946,188
Balance at December 31, 2017	$ 18,991,781
Service cost	2,322,431
Interest	800,469
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	1,628,431
Benefit payments	(278,124)
Net Changes	4,473,207
Balance at December 31, 2018	$ 23,464,988

Changes of assumptions and other inputs reflect a change in the discount rate from 3.57% in 2016 to 3.78% in 2017 and 3.44% in 2018.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

2018	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB liability	$ 29,229,663	$ 23,464,988	$ 19,067,110

2017	1% Decrease (2.78%)	Discount Rate (3.78%)	1% Increase (4.78%)
Total OPEB liability	$ 23,532,391	$ 18,991,781	$ 15,519,808

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2018	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 18,276,510	$ 23,464,988	$ 30,675,901
2017			
Total OPEB liability	$ 15,057,789	$ 18,991,781	$ 24,381,072

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of 7.0% to 4.8% for pre-65 retirees and from a high of 7.4% to 4.9% for post-65 retirees. The dental cost trend assumptions generally increase over time and range from 3.48% to 4.0%.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended December 31, 2018 and 2017, the District recognized OPEB expense of $2,918,632 and $2,717,902, respectively, which was included in Employee Benefits in the Statement of Revenues, Expenses, and Changes in Net Position. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of December 31:

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	1,473,342	690,481
	$ 1,473,342	$ 690,481
2017		
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	-	771,714
	$ -	$ 771,714

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	$ 73,856
2020	73,856
2021	73,856
2022	73,856
2023	73,856
Thereafter	413,581

Note 11 – Professional Liability Insurance

The District has purchased professional liability insurance from Physicians Insurance (PI) on a claims-made basis in the amount of $1 million per occurrence, with a $5 million annual aggregate limit. The District has a retention of $100,000 per claim with an aggregate retention of $300,000. PI, together with MedPro and AIG, also provides excess coverage on a claims-made basis in the amount of $45 million per occurrence, with a $49 million annual aggregate limit. The District accrues an actuarial estimate of the expected value of losses and related expenses for unreported incidents and claims on an occurrence basis, discounted at 4%, which was $4,983,000 and $4,037,000 at December 31, 2018 and 2017, respectively.

Note 12 – Joint Venture Transactions

The District provides services, including accounting, management, and ancillary services, to the joint ventures (Note 6). The District was reimbursed approximately $12,278,000 and $11,964,000 in expenses related to these services for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the District had a total of approximately $677,000 and $694,000, respectively, in accounts receivable from joint ventures.

The joint ventures provide various services to the District (Note 6). The District paid approximately $16,584,000 and $15,930,000 to the joint ventures for providing these services for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the District had a total of approximately $922,000 and $982,000, respectively, in accounts payable to joint ventures.

Note 13 – Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2018 and 2017, was as follows:

	2018	2017
Medicare	33%	35%
Medicaid	10%	15%
Group Health	9%	8%
Patient and self-pay	1%	1%
Commercial	36%	30%
Other third-party payors	11%	11%
	100%	100%

Note 14 – Commitments and Contingencies

Operating leases – The District leases certain facilities and equipment under operating lease arrangements. The following is a schedule by year of future minimum lease payments as of December 31, 2018:

2019	$ 7,377,789
2020	6,945,796
2021	6,947,661
2022	5,245,694
2023	5,283,499
2024-2028	9,031,687
2029-2032	3,995,017
	$ 44,827,143

Rent expense on operating leases for 2018 and 2017 was $8,945,000 and $9,784,000, respectively.

Litigation – The District is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 15 – Collective Bargaining Agreements

At December 31, 2018, the District had a total of approximately 2,437 employees. Of this total, 1,746 employees are covered by collective bargaining agreements. There are 1,248 employees under agreements that expire during 2019 and 498 employees under agreements that expired during 2018 and is under negotiation. The District does not anticipate any significant interruptions as a result of negotiations surrounding the collective bargaining agreement.

MOSSADAMS

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

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 18, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Everett, Washington
April 18, 2019

Required Supplementary Information

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios

	2018	2017
Total OPEB liability		
Service cost	$ 2,322,431	$ 2,377,362
Interest	800,469	688,677
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions or other inputs	1,628,431	(852,947)
Benefit payments	(278,124)	(266,904)
Net change in total OPEB liability	4,473,207	1,946,188
Total OPEB liability - beginning	18,991,781	17,045,593
Total OPEB liability - ending	$ 23,464,988	$ 18,991,781
Plan fiduciary net position	$ -	$ -
Net OPEB liability	$ 23,464,988	$ 18,991,781
Plan fiduciary net position as a percentage of total OPEB liability	0%	0%
Covered-employee payroll	$ 170,215,023	$ 150,792,481
Total OPEB liability as a percentage of covered-employee payroll	13.79%	12.59%

*This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10-year trend is compiled, the District will present information for available years.

Changes in benefit terms – There were no applicable changes during the period.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate changed from 3.57% in 2016 to 3.78% in 2017 and 3.44% in 2018. As this is a newly adopted standard, a full 10-year trend is not available.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