



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

September 17, 2020

Board of Commissioners  
Klickitat Valley Health  
Goldendale, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Klickitat Valley Health for the fiscal year ended December 31, 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

**Public Hospital District No. 1  
of Klickitat County  
doing business as  
Klickitat Valley Health**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2019 and 2018



**DINGUS | ZARECOR & ASSOCIATES<sup>PLLC</sup>**  
Certified Public Accountants

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Table of Contents**

	<b>Page</b>
<i>INDEPENDENT AUDITORS' REPORT</i>	1-2
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	3-4
Statements of revenues, expenses, and changes in net position	5
Statements of cash flows	6-7
Notes to basic financial statements	8-27
<i>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</i>	28-29
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	30



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Public Hospital District No. 1 of Klickitat County  
doing business as Klickitat Valley Health  
Goldendale, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (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 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

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

### ***Emphasis of Matter***

As discussed in Note 13 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 13. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 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. We issued a similar report for the year ended December 31, 2018, dated June 13, 2019, which has not been included with the 2019 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are 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.

***Dingus, Zarecor & Associates PLLC***

Spokane Valley, Washington  
May 13, 2020

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Statements of Net Position**  
**December 31, 2019 and 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,277,264	\$ 2,384,472
Receivables:		
Patient accounts	3,489,587	2,984,556
Collateralized patient accounts	92,895	114,675
Estimated third-party payor settlements	607,881	639,054
Taxes	27,774	34,686
Taxes restricted for debt service	19,887	25,623
Grants	109,250	-
Other	40,260	30,668
Cash and cash equivalents, restricted for debt service	237,231	216,079
Cash and cash equivalents, limited as to use for debt service	4,734	894
Inventories	166,945	224,932
Prepaid expenses	130,525	299,003
Total current assets	7,204,233	6,954,642
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	85,232	240,679
Collateralized patient accounts receivable	40,527	42,076
Capital grants receivable	-	75,520
Capital assets, net	10,373,422	10,704,004
Total noncurrent assets	10,499,181	11,062,279
<b>Total assets</b>	<b>\$ 17,703,414</b>	<b>\$ 18,016,921</b>

*See accompanying notes to basic financial statements.*

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Statements of Net Position (Continued)**  
**December 31, 2019 and 2018**

<b>LIABILITIES AND NET POSITION</b>	<b>2019</b>	<b>2018</b>
<i>Current liabilities</i>		
Accounts payable	\$ 787,095	\$ 901,826
Accrued compensation and related liabilities	412,328	360,901
Accrued vacation	848,499	684,509
Accrued interest payable	16,879	19,822
Estimated third-party payor settlements	446,305	1,177,709
Current maturities of long-term debt	1,005,950	994,547
Current portion of net pension liability	53,122	49,111
Total current liabilities	3,570,178	4,188,425
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	4,649,689	5,551,461
Net pension liability, less current portion	57,057	88,008
Total noncurrent liabilities	4,706,746	5,639,469
Total liabilities	8,276,924	9,827,894
<i>Net position</i>		
Net investment in capital assets	5,023,930	4,591,591
Restricted for debt service	257,118	241,702
Unrestricted	4,145,442	3,355,734
Total net position	9,426,490	8,189,027
<b>Total liabilities and net position</b>	<b>\$ 17,703,414</b>	<b>\$ 18,016,921</b>

*See accompanying notes to basic financial statements.*

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<i>Operating revenues</i>		
Net patient service revenue	\$ 24,649,981	\$ 21,899,351
Grants	1,271,693	425,079
Other	210,803	192,657
Total operating revenues	26,132,477	22,517,087
<i>Operating expenses</i>		
Salaries and wages	13,128,100	12,960,932
Employee benefits	3,231,507	2,953,879
Professional fees	2,984,333	1,930,567
Supplies	1,719,170	1,689,687
Utilities	309,685	295,941
Purchased services	2,182,678	2,357,918
Leases and rentals	443,296	395,144
Repairs and maintenance	58,886	46,630
Depreciation	1,246,802	1,206,088
Insurance	172,309	166,459
Other	722,476	646,158
Total operating expenses	26,199,242	24,649,403
<i>Operating loss</i>	(66,765)	(2,132,316)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	886,916	868,244
Taxation for bond principal and interest	603,351	611,474
Contributions	530	75
Gain on disposal of assets	463	550
Interest income	46,260	42,286
Interest expense	(233,292)	(282,347)
Total nonoperating revenues, net	1,304,228	1,240,282
Excess of revenues over expenses (expenses over revenues)		
before capital grants and contributions	1,237,463	(892,034)
<i>Capital grants and contributions</i>	-	75,520
Change in net position	1,237,463	(816,514)
<i>Net position, beginning of year</i>	8,189,027	9,005,541
<b>Net position, end of year</b>	<b>\$ 9,426,490</b>	<b>\$ 8,189,027</b>

See accompanying notes to basic financial statements.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 23,162,295	\$ 20,891,146
Cash received from grants	1,162,443	425,079
Cash received from other revenue	201,211	268,322
Cash paid to and on behalf of employees	(16,171,130)	(15,796,294)
Cash paid to suppliers and contractors	(8,481,099)	(7,594,341)
Net cash used in operating activities	(126,280)	(1,806,088)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	893,828	870,467
Proceeds from recourse financing	276,596	322,382
Contributions received	530	75
Net cash provided by noncapital financing activities	1,170,954	1,192,924
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	609,087	613,638
Interest paid	(245,098)	(292,003)
Proceeds from the issuance of long-term debt	-	1,366,683
Principal payments on long-term debt	(852,349)	(1,806,784)
Payments for purchase of capital assets	(915,757)	(923,961)
Proceeds from capital grants	75,520	313,612
Proceeds from insurance settlement	-	267,605
Net cash used in capital and related financing activities	(1,328,597)	(461,210)
<i>Cash flows from investing activities</i>		
Interest received	46,260	42,286
Net decrease in cash and cash equivalents	(237,663)	(1,032,088)
Cash and cash equivalents, beginning of year	2,842,124	3,874,212
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,604,461</b>	<b>\$ 2,842,124</b>

*See accompanying notes to basic financial statements.*

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 2,277,264	\$ 2,384,472
Cash and cash equivalents, restricted for debt service	237,231	216,079
Cash and cash equivalents, limited as to use for debt service	4,734	894
Cash and cash equivalents, limited as to use for capital acquisitions	85,232	240,679
<b>Total cash and cash equivalents</b>	<b>\$ 2,604,461</b>	<b>\$ 2,842,124</b>
<b><i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</i></b>		
Operating loss	\$ (66,765)	\$ (2,132,316)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation	1,246,802	1,206,088
Provision for bad debts	1,431,633	864,784
(Increase) decrease in current assets:		
Receivables:		
Patient accounts	(2,219,088)	(985,594)
Estimated third-party payor settlements	31,173	(244,054)
Grants	(109,250)	-
Other	(9,592)	75,665
Inventories	57,987	19,475
Prepaid expenses	168,478	29,144
Increase (decrease) in current liabilities:		
Accounts payable	(114,731)	(114,456)
Accrued compensation and related liabilities	51,427	55,022
Accrued vacation	163,990	129,523
Estimated third-party payor settlements	(731,404)	(643,341)
Net pension liability	(26,940)	(66,028)
<b>Net cash used in operating activities</b>	<b>\$ (126,280)</b>	<b>\$ (1,806,088)</b>

***Noncash Investing, Capital, and Financing Activities***

The District's recourse financing obligation was reduced by patient payments made to a third-party service organization in the amount of \$211,640 and \$281,170 in 2019 and 2018, respectively.

*See accompanying notes to basic financial statements.*

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2019 and 2018**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity:**

Public Hospital District No. 1 of Klickitat County owns and operates Klickitat Valley Health (the District), a licensed 25-bed critical access hospital and rural health clinic in Goldendale, Washington. The District provides healthcare services to patients in Goldendale, Washington, and the surrounding areas. The services provided include acute care hospital, emergency room, rural health clinic, home health, hospice, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms. The District has no material component units.

**b. Summary of Significant Accounting Policies:**

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

*Enterprise fund accounting* – The District's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Klickitat County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

*Inventories* – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the District's operation.

*Assets restricted and limited as to use* – Assets limited as to use include assets under bond indenture agreements for bond reserve fund and assets set aside by the Board of Commissioners for specific purposes over which the Board retains control and could subsequently use for other purposes.

*Bond premiums and discounts* – The straight-line method is used to amortize the bond premiums and discounts over the period the related obligation is outstanding, which approximates the effective interest method.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued):**

**Capital assets** – The District capitalizes assets whose costs exceed \$5,000 and with estimated useful lives of at least one year; lesser amounts are expensed. The capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

**Compensated absences** – The District’s policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum range of 416 to 656 hours, depending on their years of service. The District also permits employees to accumulate earned paid sick leave up to 40 hours. All paid time off and paid sick leave are accrued and expensed when earned.

**Net position** – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

**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 result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

**Restricted resources** – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

**Grants and contributions** – From time to time, the District receives grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects, or purposes related to the District’s operating activities, are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued):**

*Upcoming accounting standard pronouncements* – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The statement is effective for the District's year ending December 31, 2021, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District's year ending December 31, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

*Subsequent events* – Subsequent events have been reviewed through May 13, 2020, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Investments:**

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be returned to it.

All cash, cash equivalents, and cash investments held by the County Treasurer are insured by the State of Washington Public Deposit Protection Commission (PDPC), as provided by Chapter 39.58 of *The Revised Code of Washington* and are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. Qualified public depositories, including Umpqua Bank and Riverview Community Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington.

*The Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2019 and 2018, were approximately \$1,580,000 and \$850,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the District analyzes its past history and identifies trends for each of its patient payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (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 uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

The District utilizes HealthFirst Financial (HealthFirst) as a resource for patient financing options. HealthFirst funds discounted patient accounts to the District upon approval of a financial application and payment plan. The District no longer accepts payment plans directly with patients for more than 120 days.

Patient accounts receivable reported as current assets by the District consisted of the following amounts:

	<b>2019</b>	<b>2018</b>
Receivables from patients and their insurance carriers	\$ 2,929,495	\$ 2,138,467
Receivables from Medicare	1,385,079	1,208,309
Receivables from Medicaid	808,947	899,714
Total patient accounts receivable	5,123,521	4,246,490
Less allowance for uncollectible accounts	1,633,934	1,261,934
<b>Patient accounts receivable, net</b>	<b>\$ 3,489,587</b>	<b>\$ 2,984,556</b>

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**4. Property Taxes:**

The Klickitat 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 assessed as of the same date and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Klickitat County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

Taxes are due in two equal amounts by April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after 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. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

The District has two levies: maintenance and operations (M&O) levy and 2007 bond and timber assessed value levy.

The District's tax levies are comprised of the following:

<b>2019</b>						
	<b>Levy Rate</b>	<b>Assessed Value</b>			<b>Total</b>	
		<b>Regular</b>	<b>Bond</b>	<b>Timber</b>	<b>Levy Amount</b>	
2007 Bond and timber levy	0.4322	\$ -	\$ 1,321,007,832	\$ 56,231,082	\$ <b>595,175</b>	
M&O levy	0.6153	\$ 1,335,848,562	\$ -	\$ -	\$ <b>821,926</b>	

  

<b>2018</b>						
	<b>Levy Rate</b>	<b>Assessed Value</b>			<b>Total</b>	
		<b>Regular</b>	<b>Bond</b>	<b>Timber</b>	<b>Levy Amount</b>	
2007 Bond and timber levy	0.4423	\$ -	\$ 1,317,285,573	\$ 38,928,327	\$ <b>599,817</b>	
M&O levy	0.6058	\$ 1,331,118,633	\$ -	\$ -	\$ <b>806,427</b>	

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**5. Capital Assets:**

All capital assets other than land are depreciated using the straight-line method of depreciation over these asset lives:

Land improvements	3 to 40 years
Buildings and building improvements	5 to 40 years
Equipment	3 to 26 years

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	176,694	169,113	-	(134,297)	211,510
Total capital assets not being depreciated	380,400	169,113	-	(134,297)	415,216
<i>Capital assets being depreciated</i>					
Buildings and improvements	20,127,454	221,678	-	134,297	20,483,429
Land improvements	1,735,411	47,285	-	-	1,782,696
Equipment	6,998,250	478,144	-	-	7,476,394
Total capital assets being depreciated	28,861,115	747,107	-	134,297	29,742,519
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(11,319,622)	(774,753)	-	-	(12,094,375)
Land improvements	(1,236,578)	(102,919)	-	-	(1,339,497)
Equipment	(5,981,311)	(369,130)	-	-	(6,350,441)
Total accumulated depreciation	(18,537,511)	(1,246,802)	-	-	(19,784,313)
Total capital assets being depreciated, net	10,323,604	(499,695)	-	134,297	9,958,206
<b>Capital assets, net</b>	<b>\$ 10,704,004</b>	<b>\$ (330,582)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,373,422</b>

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**5. Capital Assets (continued):**

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	358,995	720,395	-	(902,696)	176,694
Total capital assets not being depreciated	562,701	720,395	-	(902,696)	380,400
<i>Capital assets being depreciated</i>					
Buildings and improvements	19,222,219	11,803	-	893,432	20,127,454
Land improvements	1,731,953	3,458	-	-	1,735,411
Equipment	6,800,131	188,855	-	9,264	6,998,250
Total capital assets being depreciated	27,754,303	204,116	-	902,696	28,861,115
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(10,618,573)	(701,049)	-	-	(11,319,622)
Land improvements	(1,131,320)	(105,258)	-	-	(1,236,578)
Equipment	(5,581,530)	(399,781)	-	-	(5,981,311)
Total accumulated depreciation	(17,331,423)	(1,206,088)	-	-	(18,537,511)
Total capital assets being depreciated, net	10,422,880	(1,001,972)	-	902,696	10,323,604
<b>Capital assets, net</b>	<b>\$ 10,985,581</b>	<b>\$ (281,577)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,704,004</b>

Construction in progress as of December 31, 2019, consisted of the following:

- The Bold Vision 20/20 project, which includes a new inpatient wing and surgery unit, repurposing the current inpatient unit for long-term care, and increasing specialty and outpatient services. The project is still in the preliminary stages.

**Public Hospital District No. 1 of Klickitat County  
doing business as Klickitat Valley Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**6. Defined Contribution Retirement Plan:**

The District contributes to the Klickitat Valley Hospital Retirement Plan II (the 403(b) Plan), a defined contribution pension plan, for its employees who have completed 12 months of service (1,000 hours in the preceding 12-month period) and have attained age 21. This employer-sponsored 403(b) Plan is administered by VALIC. Benefit terms, including contribution requirements, for the 403(b) Plan are established and may be amended by the District. The District has approved for all employees who are members of a recognized bargaining unit a 2.5 percent contribution on all eligible compensation until further notice. For employees who do not belong to a recognized bargaining unit, the District will match up to 4 percent of an employee's compensation. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2019 and 2018, employee contributions were approximately \$518,000 and \$587,000, respectively, and the District's contributions to the 403(b) Plan were approximately \$306,000 and \$308,000, respectively.

All contributions to the 403(b) Plan are 100 percent vested at all times. The District had no material liability to the 403(b) Plan at December 31, 2019 and 2018.

**7. Defined Benefit Retirement Plan:**

**Plan description** – The Klickitat Valley Hospital Retirement Plan and Trust (the Plan) was a single-employer defined benefit retirement plan administered by Morgan Stanley Smith Barney for employees of the District. Required contributions and benefit provisions were established and can be amended by the Board of Commissioners.

The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

**Benefits provided** – Until January 1, 1989, the District provided the defined benefit noncontributory pension plan for all full-time employees who had one year of service and reached age 25. Benefits were based on years of service and career compensation. The District's general policy was to fund the minimum contribution that would have been required if the District had been subject to Internal Revenue Service regulations.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**7. Defined Benefit Retirement Plan (continued):**

***Benefits provided (continued)*** – At December 31, 2019 and 2018, the following employees were covered by the Plan:

	<b>2019</b>	<b>2018</b>
Active employees	-	-
Inactive employees or beneficiaries currently receiving benefits	5	5
Inactive employees entitled to but not yet receiving benefits	-	-
	<b>5</b>	<b>5</b>

***Contributions*** – The Plan has not been terminated or settled as defined by generally accepted accounting principles because the Plan participants have received neither lump sum nor annuity contracts in exchange for their rights to receive pension benefits. Since the Plan has been frozen, there is no annual required contribution, but the unfunded portion (the District's liability) is actuarially calculated by an independent actuary each year.

There is no annual covered payroll and, therefore, the ratio of the unfunded actuarial liability and contributions to annual covered payroll is zero. The District is liable for the unfunded portion of the Plan. The District's required contribution for the years ended December 31, 2019 and 2018, were \$53,122 and \$49,111, respectively. Actual contributions for the years equaled \$53,122 and \$49,111, or 100 percent and 100 percent, respectively, of required contributions.

***Net pension liability*** – The District's net pension liability was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability in the December 31, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>2019</b>	<b>2018</b>
Inflation	0%	0%
Salary increases	0%	0%
Investment rate of return	2.60%	2.20%

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**7. Defined Benefit Retirement Plan (continued):**

*Net pension liability (continued)* – The actuarial assumptions used in the December 31, 2019 and 2018, valuations were based on the results of an actuarial experience study for the periods January 1, 2019 through December 31, 2019, and January 1, 2018 through December 31, 2018, respectively. In addition, mortality rates were based on the RP-2014 with 2006 Base Rates Male/Female Tables with MP-2019 Improvement Scales.

The Plan uses the Entry Age Normal Cost Method. This method determines a current year's cost or "normal cost" as the total of each participant's annual amount necessary to fund the projected benefit over a level percentage of compensation from the date of hire to the date of anticipated retirement.

The target allocation and best estimate of arithmetic real rates of return are summarized as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Cash	100%	2.60%

*Discount rate* – The discount rate used to measure the total pension liability was 2.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**7. Defined Benefit Retirement Plan (continued):**

*Changes in the District's net pension liability* – Changes in the District's net pension liability were as follows:

	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
Balance, December 31, 2018	\$ 214,824	\$ 77,705	\$ 137,119
Changes for the year:			
Interest	4,243	-	4,243
Difference between expected and actual experience	27,003	-	27,003
Changes of assumptions	(5,039)	-	(5,039)
Net investment income	-	95	(95)
Contributions – employer	-	53,122	(53,122)
Benefit payments including refunds of employee contributions	(43,953)	(43,953)	-
Administrative expense	-	(70)	70
Net changes	(17,746)	9,194	(26,940)
<b>Balance, December 31, 2019</b>	<b>\$ 197,078</b>	<b>\$ 86,899</b>	<b>\$ 110,179</b>
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
Balance, December 31, 2017	\$ 275,680	\$ 72,533	\$ 203,147
Changes for the year:			
Interest	6,444	-	6,444
Difference between expected and actual experience	(26,011)	-	(26,011)
Changes of assumptions	2,664	-	2,664
Net investment income	-	84	(84)
Contributions – employer	-	49,111	(49,111)
Benefit payments including refunds of employee contributions	(43,953)	(43,953)	-
Administrative expense	-	(70)	70
Net changes	(60,856)	5,172	(66,028)
<b>Balance, December 31, 2018</b>	<b>\$ 214,824</b>	<b>\$ 77,705</b>	<b>\$ 137,119</b>

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**7. Defined Benefit Retirement Plan (continued):**

*Sensitivity of the net pension liability to changes in the discount rate* – The following presents the net pension liability calculated using the discount rates, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	Discount Rate	Net Pension Liability 2019	Discount Rate	Net Pension Liability 2018
1% decrease	1.60%	\$ 117,146	1.20%	\$ 145,364
Current discount rate	2.60%	\$ 110,179	2.20%	\$ 137,119
1% increase	3.60%	\$ 103,683	3.20%	\$ 129,466

*Pension expense, deferred outflows of resources, and deferred inflows of resources* – For the years ended December 31, 2019 and 2018, the District recognized pension expense of (\$25,640) and (\$16,980), respectively. At December 31, 2019 and 2018, the District reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

**8. Line of Credit:**

The District has a line of credit outstanding with Bank of the West of \$1,000,000 at December 31, 2019. There were no draws or payments associated with this line of credit during the year and no balance outstanding at year end.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**9. Long-term Debt:**

A schedule of changes in the District's long-term debt follows:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amounts Due Within One Year
<i>Long-term debt</i>					
Government obligation contract	\$ 323,284	\$ -	\$ (48,844)	\$ 274,440	\$ 50,461
2018 LTGO bonds	986,615	-	(23,505)	963,110	24,006
2007 LTGO bonds	2,675,000	-	(160,000)	2,515,000	165,000
2007 UTGO bonds	1,115,000	-	(545,000)	570,000	570,000
Series 2014B COP	1,085,000	-	(75,000)	1,010,000	80,000
Recourse financing, collateralized patient notes receivable	235,700	276,596	(305,753)	206,543	116,483
Bond premiums and discounts	125,409	-	(8,863)	116,546	-
<b>Total long-term debt</b>	<b>\$ 6,546,008</b>	<b>\$ 276,596</b>	<b>\$ (1,166,965)</b>	<b>\$ 5,655,639</b>	<b>\$ 1,005,950</b>

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due Within One Year
<i>Long-term debt</i>					
Government obligation contract	\$ -	\$ 366,683	\$ (43,399)	\$ 323,284	\$ 48,845
2018 LTGO bonds	-	1,000,000	(13,385)	986,615	23,505
2017 LTGO bond anticipation note	1,000,000	-	(1,000,000)	-	-
2007 LTGO bonds	2,830,000	-	(155,000)	2,675,000	160,000
2007 UTGO bonds	1,640,000	-	(525,000)	1,115,000	545,000
Series 2014B COP	1,155,000	-	(70,000)	1,085,000	75,000
Recourse financing, collateralized patient notes receivable	192,553	322,382	(279,235)	235,700	142,197
Bond premiums and discounts	134,271	-	(8,862)	125,409	-
<b>Total long-term debt</b>	<b>\$ 6,951,824</b>	<b>\$ 1,689,065</b>	<b>\$ (2,094,881)</b>	<b>\$ 6,546,008</b>	<b>\$ 994,547</b>

The terms and due dates of the District's long-term debt are as follows:

- Government obligation contract with KS StateBank dated January 22, 2018, in the original amount of \$366,683 payable on the 22<sup>nd</sup> of each month with payments of \$4,888 including interest at 3.26 percent per annum through January 22, 2025. The District issued the general obligation contract to finance the HVAC upgrade and lighting, in conjunction with an energy grant from the Washington State Department of Commerce.
- USDA limited tax general obligation (LTGO) bond fund note dated June 1, 2018, in the original amount of \$1,000,000, payable monthly starting July 1, 2018, with variable principal payments ranging from \$1,937 to \$3,885, with an interest rate of 2.375 percent per annum, through June 1, 2048. The District issued the bond to provide the funds required to redeem the District's outstanding LTGO bond anticipation note, 2017, which was issued to remodel the District's physical therapy space.

**Public Hospital District No. 1 of Klickitat County  
doing business as Klickitat Valley Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**9. Long-term Debt (continued):**

- LTGO bonds dated April 12, 2007, in the original amount of \$4,080,000, payable annually on December 1, with variable principal payments ranging from \$165,000 to \$265,000. Variable rate interest of 4.1 percent to 4.5 percent is payable semiannually through December 2031. The District issued the bonds to purchase an assisted living facility (now the physician clinic building), previously owned by Klickitat Valley Hospital Memorial Foundation.

All LTGO bonds are general obligations of the District and secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

- Unlimited tax general obligation (UTGO) bonds dated April 12, 2007, in the original amount of \$4,870,000, payable annually on December 1, with final principal payment of \$570,000, plus semiannual interest rate of 4.5 percent in December 2020. The District issued the bonds to refund a portion of the outstanding 2000 UTGO Bonds. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest due. The UTGO bonds are direct and general obligations and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2007 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.
- State of Washington Certificates of Participation (COP), Series 2014B dated August 12, 2014, in the original amount of \$1,350,000, payable semiannually on June 1 and December 1, with variable principal payments ranging from \$80,000 to \$120,000, plus semiannual interest of 2.78 percent through June 2029. The State of Washington issued the COP for the District's physician clinic building remodel and is collateralized by the physician clinic building.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**9. Long-term Debt (continued):**

Aggregate annual principal and interest payments over the terms of long-term debt are as follows:

Years Ending December 31,	UTGO Bonds			LTGO Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2020	\$ 570,000	\$ 25,650	\$ 595,650	\$ 189,006	\$ 132,354	\$ 321,360
2021	-	-	-	194,646	124,949	319,595
2022	-	-	-	205,238	117,387	322,625
2023	-	-	-	210,844	109,131	319,975
2024	-	-	-	221,407	100,706	322,113
2025-2029	-	-	-	1,247,104	356,621	1,603,725
2030-2034	-	-	-	675,010	107,710	782,720
2035-2039	-	-	-	180,172	53,228	233,400
2040-2044	-	-	-	202,863	30,537	233,400
2045-2048	-	-	-	151,820	6,334	158,154
	<b>\$ 570,000</b>	<b>\$ 25,650</b>	<b>\$ 595,650</b>	<b>\$ 3,478,110</b>	<b>\$ 1,138,957</b>	<b>\$ 4,617,067</b>

Years Ending December 31,	Certificate of Participation			Recourse Financing		
	Principal	Interest	Totals	Principal	Interest	Totals
2020	\$ 80,000	\$ 41,900	\$ 121,900	\$ 116,483	\$ -	\$ 116,483
2021	85,000	37,775	122,775	90,060	-	90,060
2022	90,000	33,400	123,400	-	-	-
2023	95,000	28,775	123,775	-	-	-
2024	100,000	23,900	123,900	-	-	-
2025-2029	560,000	48,750	608,750	-	-	-
	<b>\$ 1,010,000</b>	<b>\$ 214,500</b>	<b>\$ 1,224,500</b>	<b>\$ 206,543</b>	<b>\$ -</b>	<b>\$ 206,543</b>

Years Ending December 31,	Government Obligation Contract		
	Principal	Interest	Totals
2020	\$ 50,461	\$ 8,197	\$ 58,658
2021	52,131	6,527	58,658
2022	53,856	4,802	58,658
2023	55,638	3,020	58,658
2024	57,479	1,179	58,658
2025-2029	4,875	13	4,888
	<b>\$ 274,440</b>	<b>\$ 23,738</b>	<b>\$ 298,178</b>

Years Ending December 31,	Total Long-Term Debt		
	Principal	Interest	Totals
2020	\$ 1,005,950	\$ 208,101	\$ 1,214,051
2021	421,837	169,251	591,088
2022	349,094	155,589	504,683
2023	361,482	140,926	502,408
2024	378,886	125,785	504,671
2025-2029	1,811,979	405,384	2,217,363
2030-2034	675,010	107,710	782,720
2035-2039	180,172	53,228	233,400
2040-2044	202,863	30,537	233,400
2045-2048	151,820	6,334	158,154
	<b>\$ 5,539,093</b>	<b>\$ 1,402,845</b>	<b>\$ 6,941,938</b>

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**10. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have increased from the prior year due to less patients qualifying for charity care and an increase in self-pay patient accounts receivable. The District has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2019	2018
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 13,149,564	\$ 11,430,082
Medicaid	6,896,971	6,030,769
Other third-party payors	5,152,480	4,085,186
Patients	1,466,367	1,953,415
	<b>26,665,382</b>	<b>23,499,452</b>
Less:		
Charity care	583,768	735,317
Provision for bad debts	1,431,633	864,784
<b>Net patient service revenue</b>	<b>\$ 24,649,981</b>	<b>\$ 21,899,351</b>

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The rural health clinic is also paid under a cost reimbursement method. Nonrural health clinic physician services are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**10. Net Patient Service Revenue (continued):**

- *Medicaid* – Medicaid beneficiaries receive coverage through either the Washington State Health Care Authority (HCA) or Medicaid managed care organizations (MCOs). The District is reimbursed for MCO covered inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses of the District. The District is reimbursed by the HCA for inpatient and outpatient services under a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and review by HCA. Rural health clinic services are paid on a prospectively set rate per visit.

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$314,000 and increased \$61,000 in 2019 and 2018, respectively, due to differences between original estimates and final settlements or revised estimates.

Net patient service increased by approximately \$1,526,416 due to the forgiveness by the state of Washington of the rural health clinic Medicaid managed care reconciliation amounts due.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2019 and 2018, were approximately \$344,000 and \$431,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2019 and 2018.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**11. Risk Management and Contingencies:**

***Risk management*** – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Medical malpractice claims*** – The District has professional liability insurance coverage with Physicians Insurance. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible per claim.

The District also has excess professional liability insurance with Physicians Insurance on a “claims-made” basis. The excess malpractice insurance provides \$4,000,000 per claim of primary coverage with an aggregate limit of \$4,000,000. The policy has no deductible per claim.

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

***Self-insurance risk pools*** – The District has a self-insured workers’ compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust and the Public Hospital District Unemployment Trust, which are self-insurance risk pools administered by the Washington State Hospital Association. The District pays a share of actual workers’ compensation claims, unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$92,000 (net of \$88,049 in dividends) and \$25,000 (net of \$141,170 in dividends) in 2019 and 2018, respectively. Payments by the District charged to unemployment expense were approximately \$(3,200) (net of \$33,406 in dividends) and \$14,000 (net of \$28,207 in dividends) in 2019 and 2018, respectively.

***Industry regulations*** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**11. Risk Management and Contingencies (continued):**

***Collateralized patient accounts receivable*** – The District transfers to a financial institution certain patient receivable balances; however, these transfers are subject to recourse and as a result, do not meet the criteria for a sale in accordance with current accounting standards. Accordingly, the transfer of these receivables is accounted for as a collateralized borrowing. Related collateralized receivables and notes payable are shown on the statements of net position. Collateralized accounts receivable, net of allowances, are as follows:

	<b>2019</b>	<b>2018</b>
Collateralized patient accounts receivable	\$ 206,543	\$ 235,700
Less allowance for uncollectible accounts	<b>73,121</b>	78,949
<b>Net collateralized patient accounts receivable</b>	<b>\$ 133,422</b>	<b>\$ 156,751</b>

During 2019 and 2018, the District transferred \$276,596 and \$322,382, respectively, of such receivables.

**12. Concentration of Risks:**

***Patient accounts receivable*** – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around eastern Klickitat County.

The mix of receivables from patients was as follows:

	<b>2019</b>	<b>2018</b>
Medicare	<b>32 %</b>	33 %
Medicaid	<b>21</b>	27
Other third-party payors	<b>21</b>	15
Patients	<b>26</b>	25
	<b>100 %</b>	100 %

***Physicians*** – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

***Collective bargaining unit*** – As of December 31, 2019 and 2018, approximately 56 percent and 56 percent, respectively, of the District's employees were represented by the union under a collective bargaining agreement with Service Employees International Union 1199NW. The contract is effective through June 30, 2021.

**Public Hospital District No. 1 of Klickitat County**  
**doing business as Klickitat Valley Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**13. COVID-19 Pandemic:**

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. The District has incurred additional direct costs for response to COVID-19 and has lost revenue due to the temporary discontinuance or reduction of service lines.

State and federal governments are providing emergency funding to help hospitals overcome these negative effects. The District has received CARES Act Provider Relief Fund payments of \$4,270,130 subsequent to year end.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2020, increasing Medicare reimbursement by 2 percent.

The District has also received subsequent to year end a Small Business Administration Paycheck Protection Program loan through Columbia State Bank of \$2,715,127. This loan contains a forgiveness provision, in which the loan could be forgiven partially or entirely, based on the District meeting qualifications.

The District has unrestricted reserves representing 38 days of operating expenses.

The District has also received Medicare accelerated payments of approximately \$6,000,000 subsequent to year end. The Medicare accelerated payments will begin to be repaid with 120 days of receipt.

State and federal governments are also considering additional emergency funding to help hospitals overcome these negative effects.

Management also is restarting elective surgeries when the state of Washington restrictions are removed. The District could also utilize its unrestricted reserves to cover operating expenses until revenues recover. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

**14. Subsequent Events:**

In February 2020, the District entered into a capital lease obligation in the amount of \$556,143 to finance the purchase of a CT scanner.

The District stopped providing home health services in February 2020 with the intent to transfer the certificate of need to another provider.

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners  
Public Hospital District No. 1 of Klickitat County  
doing business as Klickitat Valley Health  
Goldendale, 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 Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (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 basic financial statements as listed in the table of contents, and have issued our report thereon dated May 13, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control 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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
May 13, 2020

**Public Hospital District No. 1 of Klickitat County  
doing business as Klickitat Valley Health  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2019**

The audit for the year ended December 31, 2018, reported no audit findings, nor were there any unresolved findings from periods December 31, 2017, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2019.