



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

January 6, 2022

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, 2020. 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.

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

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2020 and 2019



DINGUS | ZARECOR & ASSOCIATES^{PLLC}
Certified Public Accountants

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

	Page
<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	8-25
<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>	26-27
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	28



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, 2020 and 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.

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, 2020 and 2019, 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 15 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the healthcare industry. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 15. 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 June 7, 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. We issued a similar report for the year ended December 31, 2019, dated May 13, 2020, which has not been included with the 2020 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
June 7, 2021

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
<i>Current assets</i>		
Cash and cash equivalents	\$ 15,935,819	\$ 2,277,264
Receivables:		
Patient accounts	2,540,823	3,489,587
Collateralized patient accounts	96,437	92,895
Estimated third-party payor settlements	450,508	607,881
Taxes	30,762	27,774
Taxes restricted for debt service	22,406	19,887
Grants	190,250	109,250
Other	272,732	40,260
Cash and cash equivalents, restricted for debt service	237,286	237,231
Cash and cash equivalents, limited as to use for debt service	53,712	4,734
Inventories	400,046	166,945
Prepaid expenses	126,240	130,525
Total current assets	20,357,021	7,204,233
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	85,828	85,232
Collateralized patient accounts receivable	32,112	40,527
Capital assets, net	10,257,597	10,373,422
Total noncurrent assets	10,375,537	10,499,181
Total assets	\$ 30,732,558	\$ 17,703,414

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, 2020 and 2019

LIABILITIES AND NET POSITION	2020	2019
<i>Current liabilities</i>		
Accounts payable	\$ 824,166	\$ 787,095
Accrued compensation and related liabilities	1,277,101	412,328
Accrued vacation	1,030,462	848,499
Accrued interest payable	13,799	16,879
Unearned CARES Act Provider Relief Fund	125,518	-
Estimated third-party payor settlements	-	446,305
Medicare accelerated payments payable	5,992,142	-
Current maturities of capital lease obligation	114,388	-
Current maturities of long-term debt	456,343	1,005,950
Current portion of net pension liability	40,291	53,122
Total current liabilities	9,874,210	3,570,178
<i>Noncurrent liabilities</i>		
Paycheck Protection Program loan	2,715,127	-
Capital lease obligation, less current maturities	449,052	-
Long-term debt, less current maturities	4,290,350	4,649,689
Net pension liability, less current portion	63,663	57,057
Total noncurrent liabilities	7,518,192	4,706,746
Total liabilities	17,392,402	8,276,924
<i>Net position</i>		
Net investment in capital assets	5,254,156	5,023,930
Restricted for debt service	259,692	257,118
Unrestricted	7,826,308	4,145,442
Total net position	13,340,156	9,426,490
Total liabilities and net position	\$ 30,732,558	\$ 17,703,414

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, 2020 and 2019

	2020	2019
<i>Operating revenues</i>		
Net patient service revenue	\$ 25,291,331	\$ 24,649,981
Grants	917,685	1,271,693
Other	298,940	210,803
Total operating revenues	26,507,956	26,132,477
<i>Operating expenses</i>		
Salaries and wages	14,299,943	13,128,100
Employee benefits	3,015,331	3,231,507
Professional fees	2,697,938	2,984,333
Supplies	2,244,663	1,719,170
Utilities	267,413	309,685
Purchased services	2,986,447	2,182,678
Leases and rentals	423,446	443,296
Repairs and maintenance	78,888	58,886
Depreciation and amortization	1,287,924	1,246,802
Insurance	187,927	172,309
Other	1,086,492	722,476
Total operating expenses	28,576,412	26,199,242
<i>Operating loss</i>	(2,068,456)	(66,765)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	906,037	886,916
Taxation for bond principal and interest	596,243	603,351
Contributions	1,000	530
Interest income	31,588	46,723
Interest expense	(215,382)	(233,292)
COVID-19 grants	468,563	-
CARES Act Provider Relief Fund	4,194,073	-
Total nonoperating revenues, net	5,982,122	1,304,228
Change in net position	3,913,666	1,237,463
<i>Net position, beginning of year</i>	9,426,490	8,189,027
Net position, end of year	\$ 13,340,156	\$ 9,426,490

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, 2020 and 2019

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 25,696,652	\$ 23,162,295
Cash received from grants	836,685	1,162,443
Cash received from other revenue	66,468	201,211
Cash paid to and on behalf of employees	(16,274,763)	(16,171,130)
Cash paid to suppliers and contractors	(10,164,959)	(8,481,099)
Net cash provided by (used in) operating activities	160,083	(126,280)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	903,049	893,828
Proceeds from CARES Act Provider Relief Fund	4,319,591	-
Proceeds from COVID-19 grants	468,563	-
Proceeds from the Paycheck Protection Program loan	2,715,127	-
Proceeds from Medicare accelerated payments	5,992,142	-
Proceeds from recourse financing	248,766	276,596
Contributions received	1,000	530
Net cash provided by noncapital financing activities	14,648,238	1,170,954
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	593,724	609,087
Interest paid	(227,323)	(245,098)
Principal payments on long-term debt	(889,467)	(852,349)
Principal payments on capital lease	(37,560)	-
Payments for purchase of capital assets	(571,084)	(915,757)
Proceeds from capital grants	-	75,520
Net cash used in capital and related financing activities	(1,131,710)	(1,328,597)
<i>Cash flows from investing activities</i>		
Interest received	31,573	46,260
Net increase (decrease) in cash and cash equivalents	13,708,184	(237,663)
Cash and cash equivalents, beginning of year	2,604,461	2,842,124
Cash and cash equivalents, end of year	\$ 16,312,645	\$ 2,604,461

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, 2020 and 2019

	2020	2019
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 15,935,819	\$ 2,277,264
Cash and cash equivalents, restricted for debt service	237,286	237,231
Cash and cash equivalents, limited as to use for debt service	53,712	4,734
Cash and cash equivalents, limited as to use for capital acquisitions	85,828	85,232
Total cash and cash equivalents	\$ 16,312,645	\$ 2,604,461
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (2,068,456)	\$ (66,765)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,287,924	1,246,802
Provision for bad debts	1,405,307	1,431,633
(Increase) decrease in current assets:		
Receivables:		
Patient accounts	(711,054)	(2,219,088)
Estimated third-party payor settlements	157,373	31,173
Grants	(81,000)	(109,250)
Other	(232,472)	(9,592)
Inventories	(233,101)	57,987
Prepaid expenses	4,285	168,478
Increase (decrease) in current liabilities:		
Accounts payable	37,071	(114,731)
Accrued compensation and related liabilities	864,773	51,427
Accrued vacation	181,963	163,990
Estimated third-party payor settlements	(446,305)	(731,404)
Net pension liability	(6,225)	(26,940)
Net cash provided by (used in) operating activities	\$ 160,083	\$ (126,280)

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 \$189,377 and \$211,640 in 2020 and 2019, respectively.

During the year ended December 31, 2020, the District entered into a capital lease obligation for radiology equipment in the amount of \$601,000.

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, 2020 and 2019

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, 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, 2020 and 2019

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. Expenditures for maintenance and repairs are charged to operations as they are incurred; betterments and major renewals are capitalized.

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, 2020 and 2019

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, 2022, 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.

Reclassifications – Certain reclassifications have been made to the 2019 financial statements to confirm to the classifications used in the 2020 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through June 7, 2021, 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.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

2. Bank Deposits and Investments (continued):

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, 2020 and 2019, were approximately \$15,420,000 and \$1,795,000, 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.

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.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

3. Patient Accounts Receivable (continued):

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:

	2020	2019
Receivables from patients and their insurance carriers	\$ 2,528,974	\$ 2,929,495
Receivables from Medicare	1,180,011	1,385,079
Receivables from Medicaid	518,092	808,947
Total patient accounts receivable	4,227,077	5,123,521
Less allowance for uncollectible accounts	1,686,254	1,633,934
Patient accounts receivable, net	\$ 2,540,823	\$ 3,489,587

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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:

2020						
		Assessed Value			Total	
	Levy Rate	Regular	Bond	Timber	Levy Amount	
2007 Bond and timber levy	0.4422	\$ -	\$ 1,306,288,761	\$ 40,663,683	\$ 595,650	
M&O levy	0.6362	1,320,357,068	-	-	840,046	
2019						
		Assessed Value			Total	
	Levy Rate	Regular	Bond	Timber	Levy Amount	
2007 Bond and timber levy	0.4322	\$ -	\$ 1,321,007,832	\$ 56,231,082	\$ 595,175	
M&O levy	0.6153	1,335,848,562	-	-	821,926	

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, 2020 and 2019

5. Capital Assets:

All capital assets other than land are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

Capital assets acquired via capital lease are amortized over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in the depreciation and amortization in the basic financial statements.

Useful lives have been estimated as follows:

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, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	211,510	124,133	-	-	335,643
Total capital assets not being depreciated	415,216	124,133	-	-	539,349
<i>Capital assets being depreciated</i>					
Buildings and improvements	20,483,429	119,963	(13,231)	-	20,590,161
Land improvements	1,782,696	8,033	(18,776)	-	1,771,953
Equipment	7,476,394	919,970	(849,996)	-	7,546,368
Total capital assets being depreciated	29,742,519	1,047,966	(882,003)	-	29,908,482
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(12,094,375)	(776,989)	13,231	-	(12,858,133)
Land improvements	(1,339,497)	(109,701)	18,776	-	(1,430,422)
Equipment	(6,350,441)	(401,234)	849,996	-	(5,901,679)
Total accumulated depreciation	(19,784,313)	(1,287,924)	882,003	-	(20,190,234)
Total capital assets being depreciated, net	9,958,206	(239,958)	-	-	9,718,248
Capital assets, net	\$ 10,373,422	\$ (115,825)	\$ -	\$ -	\$ 10,257,597

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

5. Capital Assets (continued):

	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
Capital assets, net	\$ 10,704,004	\$ (330,582)	\$ -	\$ -	\$ 10,373,422

Significant construction in progress as of December 31, 2020, consisted of the Community Vision 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 estimated to be completed in 2022, with costs to complete of approximately \$15,700,000. The District plans to fund the project by issuing Unlimited Tax General Obligation bonds.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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, 2020 and 2019, employee contributions were approximately \$598,000 and \$518,000, respectively, and the District's contributions to the 403(b) Plan were approximately \$317,000 and \$306,000, 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, 2020 and 2019.

7. Employee Health Self-insurance:

Beginning in March 2020, the District participates in a self-insured health insurance plan administered by Regence BlueShield (the Third-party Administrator). The District records plan expenses as incurred. The District also has an agreement with Sun Life Assurance Company of Canada to provide excess loss insurance coverage. Coverage under the excess loss plan is effective when individual claims exceed \$50,000. The calculation of loss coverage is based upon a set dollar amount per covered employee. The District accrues an incurred but not reported liability for plan claims that have been incurred but that have not yet been reported to the Third-party Administrator. This liability is included in accrued compensation and related liabilities in the accompanying statements of net position. Activity in the District's accrued employee health claims liability were as follows at December 31, 2020:

Estimated claims liability - beginning of year	\$	-
Current year contributions and changes in estimates		1,429,822
Claims payments		(1,229,822)
<hr/>		
Estimated claims liability - end of year	\$	200,000

8. Line of Credit:

The District has a line of credit outstanding with Bank of the West of \$1,000,000 at December 31, 2020. 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, 2020 and 2019

9. Long-term Debt and Capital Lease Obligation:

A schedule of changes in the District's long-term debt and capital lease obligation follows:

	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Amounts Due Within One Year
<i>Long-term debt</i>					
Government obligation contract	\$ 274,440	\$ -	\$ (50,461)	\$ 223,979	\$ 52,131
2018 LTGO bonds	963,110	-	(24,006)	939,104	24,646
2007 LTGO bonds	2,515,000	-	(165,000)	2,350,000	170,000
2007 UTGO bonds	570,000	-	(570,000)	-	-
Series 2014B COP	1,010,000	-	(80,000)	930,000	85,000
Recourse financing, collateralized patient notes receivable	206,543	248,766	(259,384)	195,925	124,566
Bond premiums and discounts	116,546	-	(8,861)	107,685	-
Total long-term debt	5,655,639	248,766	(1,157,712)	4,746,693	456,343
<i>Capital lease obligation</i>					
Canon Medical Systems, Inc. lease	-	601,000	(37,560)	563,440	114,388
Total long-term debt and capital lease obligation	\$ 5,655,639	\$ 849,766	\$ (1,195,272)	\$ 5,310,133	\$ 570,731

	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	-
Total long-term debt	\$ 6,546,008	\$ 276,596	\$ (1,166,965)	\$ 5,655,639	\$ 1,005,950

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

- A government obligation contract with KS StateBank dated January 22, 2018, in the original amount of \$366,683 payable on the 22nd 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.
- A 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 to finance the 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, 2020 and 2019

9. Long-term Debt and Capital Lease Obligation (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 \$170,000 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. The UTGO bonds were paid in full in 2020.
- 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 \$85,000 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.

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

Years Ending December 31,	LTGO Bonds		
	Principal	Interest	Totals
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	232,098	91,727	323,825
2026-2030	1,295,516	303,724	1,599,240
2031-2035	428,852	81,208	510,060
2036-2040	184,476	48,925	233,401
2041-2045	207,758	25,642	233,400
2046-2049	108,270	3,202	111,472
	\$ 3,289,105	\$ 1,006,601	\$ 4,295,706

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

9. Long-term Debt and Capital Lease Obligation (continued):

Years Ending December 31,	Certificate of Participation			Recourse Financing		
	Principal	Interest	Totals	Principal	Interest	Totals
2021	\$ 85,000	\$ 37,775	\$ 122,775	\$ 124,566	\$ -	\$ 124,566
2022	90,000	33,400	123,400	71,359	-	71,359
2023	95,000	28,775	123,775	-	-	-
2024	100,000	23,900	123,900	-	-	-
2025	105,000	18,775	123,775	-	-	-
2026-2029	455,000	29,975	484,975	-	-	-
	\$ 930,000	\$ 172,600	\$ 1,102,600	\$ 195,925	\$ -	\$ 195,925

Years Ending December 31,	Government Obligation Contract		
	Principal	Interest	Totals
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	4,875	13	4,888
	\$ 223,979	\$ 15,541	\$ 239,520

Years Ending December 31,	Total Long-term Debt		
	Principal	Interest	Totals
2021	\$ 456,343	\$ 169,251	\$ 625,594
2022	420,453	155,589	576,042
2023	361,482	140,926	502,408
2024	378,886	125,785	504,671
2025	341,973	110,515	452,488
2026-2030	1,750,516	333,699	2,084,215
2031-2035	428,852	81,208	510,060
2036-2040	184,476	48,925	233,401
2041-2045	207,758	25,642	233,400
2046-2049	108,270	3,202	111,472
	\$ 4,639,009	\$ 1,194,742	\$ 5,833,751

Capital lease obligation – The capital lease obligation, payable to Canon Medical Systems, Inc., is due in monthly installments of \$10,772, including interest of 0.24 percent, through August 2025.

The capital lease obligation is reflected in the District's assets and liabilities. The assets acquired under capital lease had a capitalized cost of \$601,000 and accumulated amortization of \$50,083 as of December 31, 2020.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

9. Long-term Debt and Capital Lease Obligation (continued):

Capital lease obligation (continued) – Aggregate annual principal and interest payments over the term of the capital lease obligation are as follows:

Years Ending December 31,	Capital Lease Obligation		
	Principal	Interest	Totals
2021	\$ 114,388	\$ 14,879	\$ 129,267
2022	117,762	11,505	129,267
2023	121,235	8,032	129,267
2024	124,810	4,457	129,267
2025	85,245	933	86,178
	\$ 563,440	\$ 39,806	\$ 603,246

10. Paycheck Protection Program Loan:

In April 2020, the District was granted a loan from Solera National Bank in the aggregate amount of \$2,715,127, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The PPP loan, which was in the form of a note dated April 27, 2020, matures on April 27, 2022, and bears interest at a rate of 1 percent per annum. The note may be prepaid by the District at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred after February 15, 2020. The District used the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The District believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. The District has applied for loan forgiveness.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

11. 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 not changed significantly between 2019 and 2020. The District has not changed its charity care or uninsured discount policies during fiscal years 2020 or 2019. 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:

	2020	2019
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 12,457,850	\$ 13,149,564
Medicaid	5,548,464	6,896,971
Other third-party payors	5,083,303	5,152,480
Patients	2,470,889	1,466,367
340B contract pharmacy	664,556	-
Retail pharmacy	872,498	-
	27,097,560	26,665,382
Less:		
Charity care	400,922	583,768
Provision for bad debts	1,405,307	1,431,633
Net patient service revenue	\$ 25,291,331	\$ 24,649,981

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, 2020 and 2019

11. 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 \$218,000 and increased \$314,000 in 2020 and 2019, respectively, due to differences between original estimates and final settlements or revised estimates.

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, 2020 and 2019, were approximately \$249,000 and \$344,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2020 and 2019.

12. CARES Act Provider Relief Fund

In April 2020, the District received \$4,319,591 of funding from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the year ended December 31, 2020, the District recognized \$4,194,073 of grant revenue from these funds. The District had \$125,518 remaining funds as of December 31, 2020, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

13. 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 \$101,000 (net of \$76,078 in dividends) and \$92,000 (net of \$88,049 in dividends) in 2020 and 2019, respectively. Payments by the District charged to unemployment expense were approximately \$24,000 (net of \$-0- in dividends) and (\$3,200) (net of \$33,406 in dividends) in 2020 and 2019, 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, 2020 and 2019

13. 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:

	2020	2019
Collateralized patient accounts receivable	\$ 195,925	\$ 206,544
Less allowance for uncollectible accounts	67,376	73,122
Net collateralized patient accounts receivable	\$ 128,549	\$ 133,422

During 2020 and 2019, the District transferred \$248,755 and \$276,596, respectively, of such receivables.

14. 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:

	2020	2019
Medicare	31 %	32 %
Medicaid	19	21
Other third-party payors	24	21
Patients	26	26
	100 %	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, 2020 and 2019, approximately 60 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, 2020 and 2019**

15. COVID-19 Pandemic:

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Washington temporarily suspending all elective surgeries and other elective procedures. In addition, the District has experienced declines in volumes of outpatient and ancillary services, such as imaging, laboratory, and clinic visits.

The District received government grants as described in Note 12 above as part of the federal government's response to the pandemic.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2021, which will increase Medicare reimbursement by 2 percent.

The District also entered into the PPP loan described in Note 10 above, also a part of the federal government's response to the pandemic.

The District has also received Medicare accelerated payments of \$5,992,142 in April 2020. The Medicare accelerated payments will begin to be repaid over 17 months beginning in April 2021.

The District also deferred the payment of federal payroll taxes from May 1, 2020 through December 31, 2020. Deferred payroll taxes as of December 31, 2020, total \$548,240. Payment of these taxes began in January 2021.

In addition to accepting funding from the CARES Act Provider Relief Fund and the other funding sources noted above, the hospital resumed the services that had been temporarily suspended. The Washington state suspension on elective surgeries was lifted in May 2020. However, the pandemic continues to affect the District's operations. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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, 2020, 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 June 7, 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) 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 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 7, 2021

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020

The audit for the year ended December 31, 2019, reported no audit findings, nor were there any unresolved findings from periods December 31, 2018, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2020.