



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

January 30, 2023

Board of Commissioners  
Kennewick Public Hospital District No 1  
Nashville, 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 Kennewick Public Hospital District No 1 for the fiscal years ended December 31, 2021 and 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

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Financial Statements

December 31, 2020 and 2019

# Kennewick Public Hospital District

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## Independent Auditor's Report

The Board of Commissioners  
Kennewick Public Hospital District  
Kennewick, Washington

### Report on the Financial Statements

We have audited the accompanying statements of net position of Kennewick Public Hospital District (District) as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of 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 Kennewick Public Hospital District as of December 31, 2020 and 2019, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Correction of Error**

As discussed in Note 8 to the financial statements, errors resulting in the miscalculation and misclassification of net position for the year ended December 31, 2018 were discovered by management during the year. Accordingly, amounts reported for the January 1, 2019 balances in net position and noncurrent liabilities have been restated in the 2019 financial statements now presented to correct the errors. Our opinion is not modified with respect to this matter.

**Other Matter****Required Supplementary Information**

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a required 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 the missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Fargo, North Dakota  
September 15, 2021

Kennewick Public Hospital District  
Statements of Net Position - Assets  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u> (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,694,008	\$ 1,053,388
Receivables		
Client, net of estimated uncollectibles		
of \$14,000 in 2020 and 2019	98,031	101,496
Property tax	8,363	5,778
Other	25,000	-
Prepaid expenses	2,487	-
Total current assets	<u>1,827,889</u>	<u>1,160,662</u>
Noncurrent Cash and Investments		
Restricted by agreement		
Home Health escrow	144,979	301,134
Other long-term investments	679,195	676,291
Total noncurrent cash and investments	<u>824,174</u>	<u>977,425</u>
Capital Assets		
Depreciable capital assets, net of accumulated depreciation	<u>-</u>	<u>3,338</u>
Total assets	<u>\$ 2,652,063</u>	<u>\$ 2,141,425</u>

Kennewick Public Hospital District  
Statements of Net Position - Liabilities and Net Position  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u> (Restated)
Liabilities and Net Position		
Current Liabilities		
Current maturities of Payroll Protection Program loan	\$ 52,543	\$ -
Accounts payable	519,616	478,253
Deposits held for others	-	130,827
Accrued expenses		
Vacation	34,981	29,755
Payroll taxes and other	-	86
	<u>607,140</u>	<u>638,921</u>
Total current liabilities	607,140	638,921
Payable to Kennewick Liquidation Trust	144,979	301,134
Payroll Protection Program Loan, Less Current Maturities	<u>52,718</u>	<u>-</u>
Total liabilities	<u>804,837</u>	<u>940,055</u>
Net Position		
Net investment in capital assets	-	3,338
Restricted		
Expendable - Paul G. & Mabel Richmond Endowment Fund	679,195	676,291
Unrestricted	<u>1,168,031</u>	<u>521,741</u>
Total net position	<u>1,847,226</u>	<u>1,201,370</u>
Total liabilities and net position	<u><u>\$ 2,652,063</u></u>	<u><u>\$ 2,141,425</u></u>

Kennewick Public Hospital District  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u> (Restated)
Operating Revenues		
Client service revenue, net of bad debt of \$0 and \$105,223 in 2020 and 2019	\$ 1,045,715	\$ 937,947
Operating Expenses		
Salaries and wages	483,493	532,310
Employee benefits	166,474	87,113
Professional fees	175,550	195,126
Supplies	33,913	143,437
Purchased services, utilities	15,916	20,176
Purchased services, other	79,596	114,158
Insurance	27,660	67,222
Rent	67,493	64,064
Transportation	5,000	30,147
Other	41,557	79,946
Interest	-	695
Public election	45,113	-
Depreciation	3,338	9,776
Total operating expenses	<u>1,145,103</u>	<u>1,344,170</u>
Operating Loss	<u>(99,388)</u>	<u>(406,223)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,457,309	1,404,809
Investment income	33,312	89,101
Other income	3,725	-
Noncapital contributions and donations	5,889	8,428
Community Service Payment to RCCH Trios	(1,095,991)	(1,095,463)
Gain on forgiveness of debt	-	282,188
Gain on sale of interest in Tri-Cities Cancer Center	341,000	-
Nonoperating expenses, net	<u>745,244</u>	<u>689,063</u>
Revenues in Excess of Expenses and Change in Net Position	645,856	282,840
Net Position, Beginning of Year	<u>1,201,370</u>	<u>918,530</u>
Net Position, End of Year	<u>\$ 1,847,226</u>	<u>\$ 1,201,370</u>



Kennewick Public Hospital District  
Statements of Cash Flows  
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of clients	\$ 1,049,180	\$ 1,052,285
Payments to suppliers and contractors	(533,822)	(690,968)
Payments to or on behalf of employees	(644,827)	(667,638)
Net Cash Used For Operating Activities	(129,469)	(306,321)
Noncapital Financing Activities		
Noncapital contributions and donations	5,889	8,428
Other income	3,725	-
Property taxes	1,454,724	1,411,185
Payment to Kennewick Liquidation Trust	(156,155)	-
Receipts (payments) of deposits held for others	(130,827)	130,827
Net Cash From Noncapital Financing Activities	1,177,356	1,550,440
Capital and Capital Related Financing Activities		
Proceeds from issuance of long-term debt	105,261	-
Principal payments on long-term debt	-	(325,000)
Purchase of capital assets	-	(11,518)
Net Cash From (Used For) Capital and Capital Related Financing Activities	105,261	(336,518)
Investing Activities		
Investment income	33,312	89,101
Community Service Payment to RCCH Trios	(1,040,091)	(1,143,146)
Purchase of investments	(18,558)	(65,149)
Receipt on sale of TCCC	341,000	-
Net Cash Used For Investing Activities	(684,337)	(1,119,194)
Net Change in Cash and Cash Equivalents	468,811	(211,593)
Cash and Cash Equivalents, Beginning of Year	1,381,907	1,593,500
Cash and Cash Equivalents, End of Year	\$ 1,850,718	\$ 1,381,907

Kennewick Public Hospital District  
Statements of Cash Flows  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 1,694,008	\$ 1,053,388
Cash and cash equivalents in noncurrent cash and investments	<u>156,710</u>	<u>328,519</u>
Total cash and cash equivalents	<u>\$ 1,850,718</u>	<u>\$ 1,381,907</u>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities		
Operating loss	\$ (99,388)	\$ (406,223)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	3,338	9,776
Provision for bad debts	-	105,223
Changes in assets and liabilities		
Receivables		
Client receivables	3,465	9,115
Other	(25,000)	-
Prepaid expenses	(2,487)	-
Accounts payable	(14,537)	24,003
Accrued expenses	<u>5,140</u>	<u>(48,215)</u>
Net Cash Used For Operating Activities	<u>\$ (129,469)</u>	<u>\$ (306,321)</u>

**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of Kennewick Public Hospital District (District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

**Reporting Entity**

The District operates under the laws of the State of Washington for Washington municipal corporations. It was created in 1949 by the voters of Benton County to operate, control, and manage all matters concerning the County's health care functions.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government.

**Blended Component Units**

Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities (ADS), has been determined to be a component unit and is presented as a blended component unit in the District's financial statements.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the District's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/ components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the construction or improvement of those assets or the related debt obligations.

*Restricted net position:*

Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the District.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include deposits and highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statements of cash flows, the District considers all cash and highly liquid investments as cash and cash equivalents.

### **Client Receivables**

Client receivables are uncollateralized client and third party-payor obligations. Payments of client receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

At December 31, 2020 and 2019, client receivables consist of receivables from clients of ADS.

### **Noncurrent Cash and Investments**

Noncurrent cash and investments consist of other long-term investments and amounts restricted under a sale agreement.

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 State of Washington investment pool; savings accounts in qualified public depositories; and certain other investments. The District's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Government Treasury securities, or investments with the Washington State Local Government Investment Pool. The District has elected to be their own treasurer.

Other long-term investments include the assets of the Paul G. and Mabel Richmond Endowment Trust (Trust). The Trust was gifted to the District to support the District's mission and is managed by an outside trustee. As a result, the funds are not subject to the Revised Code of Washington, Chapter 39 as discussed above. The balance in the Trust as of December 31, 2020 and 2019 was \$679,195 and \$676,291, respectively.

### **Investment Income**

Interest, dividends, gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenues when earned.

### **Capital Assets**

Capital asset acquisitions in excess of \$500 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Building and equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the building or equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land Improvements	15 to 20 years
Buildings and Improvements	20 to 40 years
Leasehold Improvements	3 to 30 years
Equipment	3 to 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

**Deposits Held for Others**

Deposits held for others consisted of collected rent payments due to a third party. The total balance due as of December 31, 2019 was \$130,827 and was paid out in 2020.

**Gain on Forgiveness of Debt**

During 2018, the District recorded a liability of \$607,188 due to the Creditors Trust, based on the provisions of the bankruptcy settlement accepted by the bankruptcy court. In July 2019, the District settled the liability with the bankruptcy court by depositing \$325,000 into the Creditors Trust which the bankruptcy court accepted as payment in full. A gain on the forgiveness of debt was incurred in the amount of \$282,188 which is recognized in nonoperating revenues for the year ended December 31, 2019.

**Gain on Sale of Tri-Cities Cancer Center (TCCC)**

The District was one of three members of the TCCC. TCCC is a nonprofit organization formed to establish, maintain, and operate a coordinated regional system of cancer prevention and care in the Tri-Cities, Washington area. The other two members were Lourdes Health Network and Kadlec Regional Medical Center. During 2020, the District sold its interest in TCCC recognizing a gain in the amount of \$341,000 which is recognized in nonoperating revenues for the year ended December 31, 2020.

**Operating Revenues and Expenses**

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the District result from exchange transactions associated with providing health care services and operating the District – the District's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

**Net Client Service Revenue**

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

**Grants and Contributions**

The District may receive grants 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, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after revenues in excess of expenses.

**Property Taxes**

Property taxes are levied by the County on the District's behalf. The property taxes are intended to finance the District's activities of the same calendar year. Property taxes are recognized as revenue when received and are used for operations.

Levy date	–	January 1
Lien date	–	May 1
Due dates	–	April 30 and October 31

**Community Service Payment to RCCH Trios**

The District had entered into a Master Asset Purchase Agreement (Purchase Agreement) with RCCH Trios shortly after the Bankruptcy Court approved the Chapter 9 Plan of Adjustment on June 20, 2018. As part of this plan, the District will continue operations, which will consist primarily of the property tax mill levy. The mill levy is \$0.13 per \$1,000 of assessed property value. As part of the purchase agreement, the District shall pay RCCH Trios the "Community Service Payment." The Community Service Payment is defined as a percentage of the current year property tax less the permitted expenses. The Community Service Payment to RCCH was \$1,095,991 and \$1,095,463 for the years ended December 31, 2020 and 2019, respectively.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net position or change in net position.

**Note 2 - Net Client Service Revenue**

Adult Day Services 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:

**Medicaid.** Routine services rendered to ADS clients, who are beneficiaries of the Medicaid program, are paid according to a schedule of prospectively determined daily rates determined by Washington's Medicaid Program.

**Other.** Adult Day Services has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Adult Day Services under these agreements includes discounts from charges, prospectively determined rates per discharge, and prospectively determined daily rates.

Concentrations of net revenues by major payor accounted for the following percentages of the District's client service revenues for the years ended December 31, 2020 and 2019:

	2020	2019
Medicaid	90%	87%
Private pay	8%	10%
Other	2%	3%
	<u>100%</u>	<u>100%</u>

### Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2020 and 2019 are as follows:

	2020	2019
Carrying amount		
Deposits	\$ 1,850,718	\$ 1,381,907
Investments	667,464	648,906
	<u>\$ 2,518,182</u>	<u>\$ 2,030,813</u>

Deposits and investments are reported in the following statement of net position captions:

	2020	2019
Cash and cash equivalents	\$ 1,694,008	\$ 1,053,388
Restricted by agreement - Home Health escrow	144,979	301,134
Other long-term investments	679,195	676,291
	<u>\$ 2,518,182</u>	<u>\$ 2,030,813</u>



### Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the District's deposits may not be returned to it. The District has a general investment policy to minimize custodial credit risk.

The District had bank balances at December 31, 2020 and 2019 as follows:

	2020	2019
Insured (FDIC)	\$ 665,377	\$ 769,062
Uncollateralized	843,359	643,923
Total	<u>\$ 1,508,736</u>	<u>\$ 1,412,985</u>
Carrying value	<u>\$ 1,850,718</u>	<u>\$ 1,381,907</u>

### Investments

The District's investments are reported at fair value. The District is authorized by statute to invest funds in federal, state or local government bonds and in commercial paper. The investments held under the Paul G. and Mabel Richmond Endowment Fund are held by a third party which provides the funds to be invested in equities outside of the state statute requirements imposed on the District.

The District had the following investments and maturities at December 31, 2020:

Investment Type	Carrying Amount	Rating	Investment Maturities (in Years)		
			0-5	6-10	More Than 10
Mutual funds					
Fixed income	\$ 266,861	N/A	\$ 266,861	\$ -	\$ -
Equities	400,603	N/A	400,603	-	-
Total	<u>\$ 667,464</u>		<u>\$ 667,464</u>	<u>\$ -</u>	<u>\$ -</u>

The District had the following investments and maturities at December 31, 2019:

Investment Type	Carrying Amount	Rating	Investment Maturities (in Years)		
			0-5	6-10	More Than 10
Mutual funds					
Fixed income	\$ 237,308	N/A	\$ 237,308	\$ -	\$ -
Equities	411,598	N/A	411,598	-	-
Total	<u>\$ 648,906</u>		<u>\$ 648,906</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. State statutes limit the investment in commercial paper to maturities not to exceed 180 days. The District's investment policy currently does not contain a provision that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District will match investment maturities with anticipated cash flow requirements and investments shall not be committed for more than one year without the advance approval of the Finance and Audit Committee.

**Credit Risk**

The District's investment policy and State statutes limit investments in state or local government bonds to bonds with one of the three highest credit ratings of a nationally recognized rating agency and the investment in commercial paper to those with the highest short-term credit rating of any two nationally recognized statistical rating organizations. The District's investment policy currently does not contain a specific provision that further limits credit risk.

**Concentration of Credit Risk**

The District will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The District places a limit that the amount that may be invested with any one bank or institution may not exceed 30%. If the maximum limit of 30% would require splitting a fund, then this can be waived by the Finance and Audit Committee.

**Investment Income**

Investment income on cash equivalents, investments, and notes receivable consists of the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Nonoperating income		
Interest income and realized gains and losses	<u>\$ 33,312</u>	<u>\$ 89,101</u>

**Note 4 - Capital Assets**

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2020 are as follows:

	Balance December 31, 2019	Additions	Transfers and Retirements	Balance December 31, 2020
Capital assets being depreciated				
Building and improvements	\$ 238,350	\$ -	\$ -	\$ 238,350
Leasehold improvements	103,982	-	-	103,982
Equipment	62,856	-	-	62,856
Total capital assets being depreciated	405,188	\$ -	\$ -	405,188
Less accumulated depreciation for				
Building and improvements	\$ (238,350)	\$ -	\$ -	\$ (238,350)
Leasehold improvements	(100,644)	(3,338)	-	(103,982)
Equipment	(62,856)	-	-	(62,856)
Total accumulated depreciation	(401,850)	\$ (3,338)	\$ -	(405,188)
Net capital assets being depreciated	\$ 3,338			\$ -
Capital assets, net	\$ 3,338			\$ -

# Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2020 and 2019

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2019 are as follows:

	Balance December 31, 2018	Additions	Transfers and Retirements	Balance December 31, 2019
Capital assets being depreciated				
Building and improvements	\$ 238,350	\$ -	\$ -	\$ 238,350
Leasehold improvements	92,464	11,518	-	103,982
Equipment	62,856	-	-	62,856
Total capital assets being depreciated	393,670	\$ 11,518	\$ -	405,188
Less accumulated depreciation for				
Building and improvements	\$ (238,350)	\$ -	\$ -	\$ (238,350)
Leasehold improvements	(92,464)	(8,180)	-	(100,644)
Equipment	(61,260)	(1,596)	-	(62,856)
Total accumulated depreciation	(392,074)	\$ (9,776)	\$ -	(401,850)
Net capital assets being depreciated	\$ 1,596			\$ 3,338
Capital assets, net	\$ 1,596			\$ 3,338

## Note 5 - Paycheck Protection Program (PPP) Loan

ADS was granted a \$105,261 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. ADS is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. ADS has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA and lender. No forgiveness income has been recorded for the year ended December 31, 2020. ADS intends to apply for forgiveness of the PPP loan in 2021. ADS will be required to repay any remaining balance, plus accrued interest at 1%, in monthly payments. The terms of the loan provide for customary events of default including, amount other things, payment defaults, breach of representations and warranties, and insolvency events. The loan may be accelerated upon the occurrence of an event of default. Future maturities of the loan are \$52,543 and \$52,718 for the years ended December 31, 2021 and 2022, respectively.

**Note 6 - Commitments and Contingencies****Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Professional Liability**

Adult day services insures for professional liability claims under a claims-made based policy. Under the policy, insurance premiums cover only those claims actually reported during the policy term up to \$2 million of coverage for each occurrence and \$2 million in the aggregate.

**Litigations, Claims, and Disputes**

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from client services.

**COVID-19**

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The District is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of these financial statements, the current and future impact to the District is not known.

**Note 7 - Presentation of Component Units**

The following summarizes combining information for the District and Adult Day Services, which have been presented as blended component units, as of and for the year ended December 31, 2020.

**Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position  
December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Assets				
Assets				
Current assets	\$ 976,866	\$ 876,505	\$ (25,482)	\$ 1,827,889
Other assets	824,174	263,758	(263,758)	824,174
Total assets	<u>\$ 1,801,040</u>	<u>\$ 1,140,263</u>	<u>\$ (289,240)</u>	<u>\$ 2,652,063</u>
Liabilities and Net Position				
Liabilities				
Current liabilities	\$ 541,294	\$ 91,328	\$ (25,482)	\$ 607,140
Noncurrent liabilities	408,737	52,718	(263,758)	197,697
Total liabilities	<u>950,031</u>	<u>144,046</u>	<u>(289,240)</u>	<u>804,837</u>
Net position				
Restricted				
Expendable - Paul G. & Mabel Richmond Endowment Fund	679,195	-	-	679,195
Unrestricted	171,814	996,217	-	1,168,031
Total net position	<u>851,009</u>	<u>996,217</u>	<u>-</u>	<u>1,847,226</u>
Total liabilities and net position	<u>\$ 1,801,040</u>	<u>\$ 1,140,263</u>	<u>\$ (289,240)</u>	<u>\$ 2,652,063</u>

**Table 2: Operating Results and Changes in Net Position**  
**Year Ended December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Operating Revenues				
Net client service revenue	\$ -	\$ 1,045,715	\$ -	\$ 1,045,715
Operating Expenses				
Depreciation	-	3,338	-	3,338
Other operating expenses	342,921	817,248	(18,404)	1,141,765
Total operating expenses	342,921	820,586	(18,404)	1,145,103
Operating Income (Loss)	(342,921)	225,129	18,404	(99,388)
Nonoperating Revenues (Expenses)	738,590	25,058	(18,404)	745,244
Revenues in Excess of Expenses and Change in Net Position	395,669	250,187	-	645,856
Net Position, Beginning of Year	455,340	746,030	-	1,201,370
Net Position, End of Year	\$ 851,009	\$ 996,217	\$ -	\$ 1,847,226

# Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2020 and 2019

**Table 3: Cash Flows**  
**Year Ended December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Net Cash from (used for)				
Operating Activities	\$ (370,063)	\$ 240,594	\$ -	\$ (129,469)
Net Cash from Noncapital				
Financing Activities	1,171,467	5,889	-	1,177,356
Net Cash from Capital and				
Capital Related Financing				
Activities	-	105,261	-	105,261
Net Cash from (used for)				
Investing Activities	<u>(728,988)</u>	<u>44,651</u>	<u>-</u>	<u>(684,337)</u>
Net Change in Cash and Cash				
Equivalents	72,416	396,395	-	468,811
Cash and Cash Equivalents,				
Beginning of Year	<u>1,025,310</u>	<u>356,597</u>	<u>-</u>	<u>1,381,907</u>
Cash and Cash Equivalents,				
End of Year	<u><u>\$ 1,097,726</u></u>	<u><u>\$ 752,992</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,850,718</u></u>



# Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2020 and 2019

The following summarizes combining information for the District and Adult Day Services, which have been presented as blended component units, as of and for the year ended December 31, 2019.

**Table 4: Assets, Liabilities, Deferred Inflows of Resources, and Net Position  
December 31, 2019**

	Kennewick Public Hospital District (Restated)	Adult Day Services	Eliminations	Combined (Restated)
<b>Assets</b>				
Assets				
Current assets	\$ 702,569	\$ 483,575	\$ (25,482)	\$ 1,160,662
Other assets	977,425	289,240	(289,240)	977,425
Capital assets, net	-	3,338	-	3,338
Total assets	<u>\$ 1,679,994</u>	<u>\$ 776,153</u>	<u>\$ (314,722)</u>	<u>\$ 2,141,425</u>
<b>Liabilities and Net Position</b>				
Liabilities				
Current liabilities	\$ 634,280	\$ 30,123	\$ (25,482)	\$ 638,921
Noncurrent liabilities	590,374	-	(289,240)	301,134
Total liabilities	<u>1,224,654</u>	<u>30,123</u>	<u>(314,722)</u>	<u>940,055</u>
Net position				
Net investment in capital assets	-	3,338	-	3,338
Restricted				
Expendable - Paul G. & Mabel Richmond Endowment Fund	676,291	-	-	676,291
Unrestricted	<u>(220,951)</u>	<u>742,692</u>	<u>-</u>	<u>521,741</u>
Total net position	<u>455,340</u>	<u>746,030</u>	<u>-</u>	<u>1,201,370</u>
Total liabilities and net position	<u>\$ 1,679,994</u>	<u>\$ 776,153</u>	<u>\$ (314,722)</u>	<u>\$ 2,141,425</u>

**Table 5: Operating Results and Changes in Net Position  
December 31, 2019**

	Kennewick Public Hospital District (Restated)	Adult Day Services	Eliminations	Combined (Restated)
Operating Revenues				
Net client service revenue	\$ -	\$ 937,947	\$ -	\$ 937,947
Operating Expenses				
Depreciation	-	9,776	-	9,776
Other operating expenses	372,918	961,476	-	1,334,394
Total operating expenses	372,918	971,252	-	1,344,170
Operating Loss	(372,918)	(33,305)	-	(406,223)
Nonoperating Revenues (Expenses)	681,319	7,744	-	689,063
Revenues in Excess of (Less Than) Expenses and Change in Net Position	308,401	(25,561)	-	282,840
Net Position, Beginning of Year	146,939	771,591	-	918,530
Net Position, End of Year	\$ 455,340	\$ 746,030	\$ -	\$ 1,201,370

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2020 and 2019

**Table 6: Cash Flows**  
**December 31, 2019**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Net Cash from (used for)				
Operating Activities	\$ (338,763)	\$ 32,442	\$ -	\$ (306,321)
Net Cash from Noncapital Financing Activities	1,544,012	6,428	-	1,550,440
Net Cash used for Capital and Capital Related Financing Activities	(325,000)	(11,518)	-	(336,518)
Net Cash used for Investing Activities	<u>(814,971)</u>	<u>(304,223)</u>	<u>-</u>	<u>(1,119,194)</u>
Net Change in Cash and Cash Equivalents	65,278	(276,871)	-	(211,593)
Cash and Cash Equivalents, Beginning of Year	<u>960,032</u>	<u>633,468</u>	<u>-</u>	<u>1,593,500</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,025,310</u>	<u>\$ 356,597</u>	<u>\$ -</u>	<u>\$ 1,381,907</u>

**Note 8 - Correction of Errors**

During 2020, the District discovered two errors in the financial statements related to the classification of the Paul G. and Mabel Richmond Endowment Fund and the payable to the Kennewick Liquidation Trust. Accordingly, the errors were corrected to the beginning balances in the 2019 financial statements.

The impact to the 2019 financial statements for the correction of errors is noted as follows:

	Amounts as Previously Reported	Correction of Error	Amounts as Restated
<b>Statement of Net Position</b>			
Long-term liabilities			
Payable to Kennewick Liquidation Trust	\$ -	\$ 301,134	\$ 301,134
Total liabilities	638,921	301,134	940,055
<b>Net Position</b>			
Restricted			
Expendable - Paul G. & Mabel Richmond Endowment Fund	\$ -	\$ 676,291	\$ 676,291
Expendable	301,134	(301,134)	-
Nonexpendable	682,453	(682,453)	-
Unrestricted	515,579	6,162	521,741
Total net position	1,502,504	(301,134)	1,201,370
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>			
Net Position, Beginning of Year	\$ 1,219,664	\$ (301,134)	\$ 918,530
Net Position, End of Year	1,502,504	(301,134)	1,201,370



Supplementary Information  
December 31, 2020 and 2019

## Kennewick Public Hospital District



## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
Kennewick Public Hospital District  
Kennewick, Washington

We have audited the financial statements of Kennewick Public Hospital District (District) as of and for the years ended December 31, 2020 and 2019, and our report thereon dated September 15, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Schedules on pages 27 through 30 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota  
September 15, 2021

Kennewick Public Hospital District  
Combining Statement of Net Position  
December 31, 2020

	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 941,016	\$ 752,992	\$ 1,694,008	\$ -	\$ 1,694,008
Receivables					
Clients, net	-	98,031	98,031	-	98,031
Current portion of note receivable	-	25,482	25,482	(25,482)	-
Property tax	8,363	-	8,363	-	8,363
Other	25,000	-	25,000	-	25,000
Prepaid expenses	2,487	-	2,487	-	2,487
<b>Total current assets</b>	<b>976,866</b>	<b>876,505</b>	<b>1,853,371</b>	<b>(25,482)</b>	<b>1,827,889</b>
<b>Noncurrent Cash and Investments</b>					
Restricted under agreement					
Home Health escrow	144,979	-	144,979	-	144,979
Note receivable	-	263,758	263,758	(263,758)	-
Other long-term investments	679,195	-	679,195	-	679,195
<b>Total noncurrent cash and investments</b>	<b>824,174</b>	<b>263,758</b>	<b>1,087,932</b>	<b>(263,758)</b>	<b>824,174</b>
<b>Total assets</b>	<b>\$ 1,801,040</b>	<b>\$ 1,140,263</b>	<b>\$ 2,941,303</b>	<b>\$ (289,240)</b>	<b>\$ 2,652,063</b>
	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 25,482	\$ -	\$ 25,482	\$ (25,482)	\$ -
Current maturities of Payroll Protection Program loan	-	52,543	52,543	-	52,543
Accounts payable	515,812	3,804	519,616	-	519,616
Accrued expenses					
Vacation	-	34,981	34,981	-	34,981
<b>Total current liabilities</b>	<b>541,294</b>	<b>91,328</b>	<b>632,622</b>	<b>(25,482)</b>	<b>607,140</b>
Long-Term Debt, Less Current Maturities	263,758	-	263,758	(263,758)	-
Payable to Kennewick Liquidation Trust	144,979		144,979	-	144,979
Payroll Protection Program loan, Less Current Maturities	-	52,718	52,718	-	52,718
<b>Total liabilities</b>	<b>950,031</b>	<b>144,046</b>	<b>1,094,077</b>	<b>(289,240)</b>	<b>804,837</b>
<b>Net Position</b>					
Restricted					
Expendable - Paul G. & Mabel Richmond					
Endowment Fund	679,195	-	679,195	-	679,195
Unrestricted	171,814	996,217	1,168,031	-	1,168,031
<b>Total net position</b>	<b>851,009</b>	<b>996,217</b>	<b>1,847,226</b>	<b>-</b>	<b>1,847,226</b>
<b>Total liabilities and net position</b>	<b>\$ 1,801,040</b>	<b>\$ 1,140,263</b>	<b>\$ 2,941,303</b>	<b>\$ (289,240)</b>	<b>\$ 2,652,063</b>

**Kennewick Public Hospital District**  
**Combining Statement of Net Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
Operating Revenues					
Net client service revenue	\$ -	\$ 1,045,715	\$ 1,045,715	\$ -	\$ 1,045,715
Operating Expenses					
Salaries and wages	-	483,493	483,493	-	483,493
Employee benefits	-	166,474	166,474	-	166,474
Professional fees	174,470	1,080	175,550	-	175,550
Supplies	-	33,913	33,913	-	33,913
Purchased services, utilities	3,312	12,604	15,916	-	15,916
Purchased services, other	66,033	13,563	79,596	-	79,596
Insurance	9,169	18,491	27,660	-	27,660
Rent	-	67,493	67,493	-	67,493
Transportation	-	5,000	5,000	-	5,000
Other	26,420	15,137	41,557	-	41,557
Interest	18,404	-	18,404	(18,404)	-
Public election	45,113	-	45,113	-	45,113
Depreciation	-	3,338	3,338	-	3,338
Total operating expenses	342,921	820,586	1,163,507	(18,404)	1,145,103
Operating Income (Loss)	(342,921)	225,129	(117,792)	18,404	(99,388)
Nonoperating Revenues (Expenses)					
Property taxes	1,457,309	-	1,457,309	-	1,457,309
Investment income	32,547	19,169	51,716	(18,404)	33,312
Other income	3,725	-	3,725	-	3,725
Noncapital contributions and donations	-	5,889	5,889	-	5,889
Community Service Payment to RCCH Trios	(1,095,991)	-	(1,095,991)	-	(1,095,991)
Gain on sale of interest in Tri-Cities Cancer Center	341,000	-	341,000	-	341,000
Nonoperating revenues, net	738,590	25,058	763,648	(18,404)	745,244
Revenues in Excess of Expenses and Change in Net Position	395,669	250,187	645,856	-	645,856
Net Position, Beginning of Year	455,340	746,030	1,201,370	-	1,201,370
Net Position, End of Year	\$ 851,009	\$ 996,217	\$ 1,847,226	\$ -	\$ 1,847,226



Kennewick Public Hospital District  
Combining Statement of Net Position  
December 31, 2019

	Kennewick Public Hospital District (Restated)	Adult Day Services	Total	Eliminations	Total (Restated)
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 696,791	\$ 356,597	\$ 1,053,388	\$ -	\$ 1,053,388
Receivables					
Clients, net	-	101,496	101,496	-	101,496
Current portion of note receivable	-	25,482	25,482	(25,482)	-
Property tax	5,778	-	5,778	-	5,778
<b>Total current assets</b>	<b>702,569</b>	<b>483,575</b>	<b>1,186,144</b>	<b>(25,482)</b>	<b>1,160,662</b>
<b>Noncurrent Cash and Investments</b>					
Restricted under agreement					
Home Health escrow	301,134	-	301,134	-	301,134
Note receivable	-	289,240	289,240	(289,240)	-
Other long-term investments	676,291	-	676,291	-	676,291
<b>Total noncurrent cash and investments</b>	<b>977,425</b>	<b>289,240</b>	<b>1,266,665</b>	<b>(289,240)</b>	<b>977,425</b>
<b>Capital Assets</b>					
Depreciable capital assets, net of accumulated depreciation	-	3,338	3,338	-	3,338
<b>Total assets</b>	<b>\$ 1,679,994</b>	<b>\$ 776,153</b>	<b>\$ 2,456,147</b>	<b>\$ (314,722)</b>	<b>\$ 2,141,425</b>
	Kennewick Public Hospital District (Restated)	Adult Day Services	Total	Eliminations	Total (Restated)
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 25,482	\$ -	\$ 25,482	\$ (25,482)	\$ -
Accounts payable	477,971	282	478,253	-	478,253
Deposits held for others	130,827	-	130,827	-	130,827
Accrued expenses					
Vacation	-	29,755	29,755	-	29,755
Payroll taxes and other	-	86	86	-	86
<b>Total current liabilities</b>	<b>634,280</b>	<b>30,123</b>	<b>664,403</b>	<b>(25,482)</b>	<b>638,921</b>
Payable to Kennewick Liquidation Trust	301,134		301,134	-	301,134
Long-term debt, less current maturities	289,240	-	289,240	(289,240)	-
<b>Total liabilities</b>	<b>1,224,654</b>	<b>30,123</b>	<b>1,254,777</b>	<b>(314,722)</b>	<b>940,055</b>
<b>Net Position</b>					
Net investment in capital assets	-	3,338	3,338	-	3,338
Restricted					
Expendable - Paul G. & Mabel					
Richmond Endowment Fund	676,291	-	676,291	-	676,291
Unrestricted	(220,951)	742,692	521,741	-	521,741
<b>Total net position</b>	<b>455,340</b>	<b>746,030</b>	<b>1,201,370</b>	<b>-</b>	<b>1,201,370</b>
<b>Total liabilities and net position</b>	<b>\$ 1,679,994</b>	<b>\$ 776,153</b>	<b>\$ 2,456,147</b>	<b>\$ (314,722)</b>	<b>\$ 2,141,425</b>

**Kennewick Public Hospital District**  
**Combining Statement of Net Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2019**

	Kennewick Public Hospital District (Restated)	Adult Day Services	Total	Eliminations	Total (Restated)
Operating Revenues					
Net client service revenue	\$ -	\$ 937,947	\$ 937,947	\$ -	\$ 937,947
Operating Expenses					
Salaries and wages	-	532,310	532,310	-	532,310
Employee benefits	-	87,113	87,113	-	87,113
Professional fees	193,146	1,980	195,126	-	195,126
Supplies	344	143,093	143,437	-	143,437
Purchased services, utilities	2,687	17,489	20,176	-	20,176
Purchased services, other	78,724	35,434	114,158	-	114,158
Insurance	49,640	17,582	67,222	-	67,222
Rent	-	64,064	64,064	-	64,064
Transportation	-	30,147	30,147	-	30,147
Other	47,682	32,264	79,946	-	79,946
Interest	695	-	695	-	695
Depreciation and amortization	-	9,776	9,776	-	9,776
Total operating expenses	372,918	971,252	1,344,170	-	1,344,170
Operating Loss	(372,918)	(33,305)	(406,223)	-	(406,223)
Nonoperating Revenues (Expenses)					
Property taxes	1,404,809	-	1,404,809	-	1,404,809
Investment income	87,785	1,316	89,101	-	89,101
Noncapital contributions and donations, net	2,000	6,428	8,428	-	8,428
Community Service Payment to RCCH Trios	(1,095,463)	-	(1,095,463)	-	(1,095,463)
Gain on forgiveness of debt	282,188	-	282,188	-	282,188
Nonoperating revenues, net	681,319	7,744	689,063	-	689,063
Revenues in Excess of (Less Than) Expenses and Change in Net Position	308,401	(25,561)	282,840	-	282,840
Net Position, Beginning of Year	146,939	771,591	918,530	-	918,530
Net Position, End of year	\$ 455,340	\$ 746,030	\$ 1,201,370	\$ -	\$ 1,201,370



**Independent Auditor's 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***

The Board of Commissioners  
Kennewick Public Hospital District  
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kennewick Public Hospital District (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, and have issued our report thereon dated September 15, 2021.

**Correction of Error**

As discussed in Note 8 to the financial statements, errors resulting in the miscalculation and misclassification of net position for the year ended December 31, 2018 were discovered by management during the year. Accordingly, amounts reported for the January 1, 2019 balances in net position have been restated in the 2019 financial statements now presented to correct the errors. Our opinion is not modified with respect to this matter.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider deficiencies 2020-001, 2020-002, 2020-003 and 2020-004 in the accompanying Schedule of Findings and Responses to be material weaknesses.

### **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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is reported as Compliance Finding 2020-005 in the accompanying Schedule of Findings and Responses.

### **District's Responses to Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
September 15, 2021

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**Financial Statement Findings**

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<b>2020-001</b>	<b>Preparation of Financial Statements</b> <b>Material Weakness in Internal Control over Financial Reporting</b>
<i>Criteria</i>	A properly designed system of internal control over financial reporting includes preparation of an entity's financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).
<i>Condition</i>	The District does not have an internal control system designed to provide for the preparation of financial statements being audited, including related disclosures and preparation of the cash flow statement in accordance with GAAP.
<i>Cause</i>	This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by the auditors as part of the audit.
<i>Effect</i>	This control deficiency could result in required information being omitted from the financial statements. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.
<i>Recommendation</i>	We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
<i>Views of Responsible Officials</i>	Management agrees with the finding.
<b>2020-002</b>	<b>Audit Adjustments</b> <b>Material Weakness in Internal Control over Financial Reporting</b>
<i>Criteria</i>	A good system of internal control contemplates an adequate system for recording and processing adjusting journal entries material to the financial statements.
<i>Condition</i>	As part of our audit, we proposed significant audit adjustments to the financial statements, including accounts that were not reconciled at year end, that were not identified by management as a result of the District's existing internal controls.

*Cause* A proper reconciliation between the District's general ledger and subsidiary accounts was not performed on multiple accounts resulting in material audit adjustments.

*Effect* The deficiency resulted in misstatements to the financial statements that were not prevented, or detected and corrected, by internal personnel in a timely manner.

*Recommendation* We recommend that management reflect all entries in the financial statements to ensure that the Board of Commissioners has all relevant information.

*Views of Responsible Officials* Management agrees with the finding.

**2020-003                      Limited Segregation of Duties  
Material Weakness in Internal Control over Financial Reporting**

*Criteria* In order to achieve a high level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

*Condition* The District and ADS do not have an internal control system to allow for proper segregation of duties in certain areas of the accounting function.

*Cause* The District has no employees and therefore, has the accounting function completed by an outside accountant. ADS has a limited number of employees that perform multiple accounting functions.

*Effect* Inadequate segregation of duties could adversely affect ADS and the District's ability to detect and correct misstatements in a timely period in the normal course of performing the accounting function.

*Recommendation* While we recognize that the nature of the District's operations after the sale to RCCH is such that optimal internal control can likely not be achieved, it is important that the District is aware of this condition. Under this condition, the most effective control is the Board of Commissioners' oversight and knowledge of matters relating to the operations of the District.

*Views of Responsible Officials* Management agrees with the finding.

**2020-004**

**Correction of Error**

**Material Weakness in Internal Control over Financial Reporting**

*Criteria*

A good system of internal control should provide an adequate system for recording and processing material transactions in the financial statements. Procedures to identify possible misstatements include timely reconciliations of accounts to the general ledger.

*Condition*

The prior year financial statements had to be restated in the current year due to the correction of two errors. The correction related to the proper classification of the Paul G. and Mabel Richmond Endowment Fund within the Statement of Net Position as well as recording a payable to the Kennewick Liquidation Trust, which related to the bankruptcy recorded in fiscal year 2018.

*Cause*

It was discovered that the Paul G. and Mabel Richmond Endowment Fund is expendable instead of nonexpendable due to a change to the Trust Agreement that management was not initially aware of. The recording of the payable to the Kennewick Liquidation Trust was initially recorded as expendable net position rather than as a liability and a reduction of unrestricted net position as part of the bankruptcy entry recorded in fiscal year 2018.

*Effect*

The correction resulted in a material adjustment to the prior year financial statements.

*Recommendation*

We recommend that management continue to review its current processes related to timely reconciliations of the specific account balances to avoid these types of adjustments.

*Views of Responsible Officials*

Management agrees with the finding.

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**Compliance Finding**

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<b>2020-005</b>	<b>Proper Collateralization Noncompliance</b>
<i>Criteria</i>	The District is required to maintain proper collateralization of deposits in qualified public depositories, as determined by the Revised Code of Washington, Chapter 39, that are not covered under the Federal Deposit Insurance Corporation (FDIC).
<i>Condition</i>	The District's deposits were not properly collateralized at December 31, 2020 with approximately \$843,000 in excess of FDIC limits and potentially at risk.
<i>Cause</i>	The District did not maintain a proper agreement with the depositories to maintain proper collateralization.
<i>Effect</i>	The District was not in compliance with being properly collateralized. If the depository were to fail, the District risks losing their deposits.
<i>Recommendation</i>	We recommend that management implement policies and procedures to ensure the District's deposits are properly collateralized.
<i>Views of Responsible Officials</i>	Management agrees with the finding.





Financial Statements

December 31, 2021 and 2020

# Kennewick Public Hospital District

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## Independent Auditor's Report

The Board of Commissioners  
Kennewick Public Hospital District  
Kennewick, Washington

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Kennewick Public Hospital District (District) as of and for the year ended December 31, 2021 and 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Kennewick Public Hospital District as of December 31, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a required 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 the missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
October 31, 2022

Kennewick Public Hospital District  
Statements of Net Position - Assets  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,194,502	\$ 1,694,008
Receivables		
Client, net of estimated uncollectibles		
of \$14,000 in 2021 and 2020	80,140	98,031
Property tax	705	8,363
Other	-	25,000
Prepaid expenses	<u>646</u>	<u>2,487</u>
Total current assets	<u>2,275,993</u>	<u>1,827,889</u>
Noncurrent Cash and Investments		
Restricted by agreement		
Home Health escrow	-	144,979
Other long-term investments	<u>710,231</u>	<u>679,195</u>
Total noncurrent cash and investments	<u>710,231</u>	<u>824,174</u>
Capital Assets		
Capital assets not being depreciated	14,870	
Depreciable capital assets, net of accumulated depreciation	<u>20,819</u>	<u>-</u>
Total capital assets	<u>35,689</u>	<u>-</u>
Total assets	<u><u>\$ 3,021,913</u></u>	<u><u>\$ 2,652,063</u></u>

Kennewick Public Hospital District  
Statements of Net Position - Liabilities and Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of Payroll Protection Program loan	\$ -	\$ 52,543
Accounts payable	501,327	519,616
Accrued expenses		
Vacation	45,081	34,981
Payroll taxes and other	7,014	-
Total current liabilities	<u>553,422</u>	<u>607,140</u>
Payable to Kennewick Liquidation Trust	-	144,979
Payroll Protection Program Loan, Less Current Maturities	<u>-</u>	<u>52,718</u>
Total liabilities	<u>553,422</u>	<u>804,837</u>
Net Position		
Net investment in capital assets	35,689	-
Restricted		
Expendable - Paul G. & Mabel Richmond Endowment Fund	710,231	679,195
Expendable - for operating activities	341,000	-
Unrestricted	<u>1,381,571</u>	<u>1,168,031</u>
Total net position	<u>2,468,491</u>	<u>1,847,226</u>
Total liabilities and net position	<u>\$ 3,021,913</u>	<u>\$ 2,652,063</u>

Kennewick Public Hospital District  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Client service revenue	\$ 935,253	\$ 1,045,715
Operating Expenses		
Salaries and wages	516,022	483,493
Employee benefits	173,755	166,474
Professional fees	85,842	175,550
Supplies	49,411	33,913
Purchased services, utilities	15,693	15,916
Purchased services, other	98,726	79,596
Insurance	34,354	27,660
Rent	72,644	67,493
Transportation	4,150	5,000
Other	45,489	41,557
Public election	34,123	45,113
Depreciation	718	3,338
Total operating expenses	<u>1,130,927</u>	<u>1,145,103</u>
Operating Loss	<u>(195,674)</u>	<u>(99,388)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,493,365	1,457,309
Donation	341,000	-
Investment income	66,615	33,312
Other income	1,781	3,725
Gain on forgiveness of Paycheck Protection Program (PPP) loan	105,261	-
Noncapital contributions and donations	22,385	5,889
Community Service Payment to RCCH Trios	(1,213,468)	(1,095,991)
Gain on sale of interest in Tri-Cities Cancer Center	-	341,000
Nonoperating revenues, net	<u>816,939</u>	<u>745,244</u>
Revenues in Excess of Expenses and Change in Net Position	621,265	645,856
Net Position, Beginning of Year	<u>1,847,226</u>	<u>1,201,370</u>
Net Position, End of Year	<u><u>\$ 2,468,491</u></u>	<u><u>\$ 1,847,226</u></u>



Kennewick Public Hospital District  
Statements of Cash Flows  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of clients	\$ 953,144	\$ 1,049,180
Payments to suppliers and contractors	(432,843)	(533,822)
Payments to or on behalf of employees	<u>(672,663)</u>	<u>(644,827)</u>
Net Cash Used For Operating Activities	<u>(152,362)</u>	<u>(129,469)</u>
Noncapital Financing Activities		
Noncapital contributions and donations	363,385	5,889
Other income	1,781	3,725
Property taxes	1,501,023	1,454,724
Payment to Kennewick Liquidation Trust	(144,979)	(156,155)
Payments of deposits held for others	-	(130,827)
Paycheck Protection Program loan forgiveness	<u>-</u>	<u>105,261</u>
Net Cash From Noncapital Financing Activities	<u>1,721,210</u>	<u>1,282,617</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	<u>(36,407)</u>	<u>-</u>
Investing Activities		
Investment income	66,615	33,312
Community Service Payment to RCCH Trios	(1,212,505)	(1,040,091)
Purchase of investments	(33,485)	(18,558)
Receipt on sale of TCCC	<u>-</u>	<u>341,000</u>
Net Cash Used For Investing Activities	<u>(1,179,375)</u>	<u>(684,337)</u>
Net Change in Cash and Cash Equivalents	353,066	468,811
Cash and Cash Equivalents, Beginning of Year	<u>1,850,718</u>	<u>1,381,907</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,203,784</u></u>	<u><u>\$ 1,850,718</u></u>

Kennewick Public Hospital District  
Statements of Cash Flows  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 2,194,502	\$ 1,694,008
Cash and cash equivalents in noncurrent cash and investments	<u>9,282</u>	<u>156,710</u>
Total cash and cash equivalents	<u>\$ 2,203,784</u>	<u>\$ 1,850,718</u>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities		
Operating loss	\$ (195,674)	\$ (99,388)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	718	3,338
Changes in assets and liabilities		
Receivables		
Client receivables	17,891	3,465
Other	25,000	(25,000)
Prepaid expenses	1,841	(2,487)
Accounts payable	(19,252)	(14,537)
Accrued expenses	<u>17,114</u>	<u>5,140</u>
Net Cash Used For Operating Activities	<u>\$ (152,362)</u>	<u>\$ (129,469)</u>
Supplemental Disclosure of Noncash Activities		
Gain on forgiveness of Paycheck Protection Program (PPP) loan	<u>\$ 105,261</u>	<u>\$ -</u>

**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of Kennewick Public Hospital District (District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

**Reporting Entity**

The District operates under the laws of the State of Washington for Washington municipal corporations. It was created in 1949 by the voters of Benton County to operate, control, and manage all matters concerning the County's health care functions.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government.

**Blended Component Units**

Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities (ADS), has been determined to be a component unit and is presented as a blended component unit in the District's financial statements.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the District's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/ components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the construction or improvement of those assets or the related debt obligations.

*Restricted net position:*

Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the District.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include deposits and highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statements of cash flows, the District considers all cash and highly liquid investments as cash and cash equivalents.

### **Client Receivables**

Client receivables are uncollateralized client and third party-payor obligations. Payments of client receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

At December 31, 2021 and 2020, client receivables consist of receivables from clients of ADS.

### **Noncurrent Cash and Investments**

Noncurrent cash and investments consist of other long-term investments and amounts restricted under a sale agreement.

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 State of Washington investment pool; savings accounts in qualified public depositories; and certain other investments. The District's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Government Treasury securities, or investments with the Washington State Local Government Investment Pool. The District has elected to be their own treasurer.

Other long-term investments include the assets of the Paul G. and Mabel Richmond Endowment Trust (Trust). The Trust was gifted to the District to support the District's mission and is managed by an outside trustee. As a result, the funds are not subject to the Revised Code of Washington, Chapter 39 as discussed above. The balance in the Trust as of December 31, 2021 and 2020 was \$710,231 and \$679,195, respectively.

### **Investment Income**

Interest, dividends, gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenues when earned.

### **Capital Assets**

Capital asset acquisitions in excess of \$500 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Building and equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the building or equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land Improvements	15 to 20 years
Buildings and Improvements	20 to 40 years
Leasehold Improvements	3 to 30 years
Equipment	3 to 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

#### **Gain on Sale of Tri-Cities Cancer Center (TCCC)**

The District was one of three members of TCCC. TCCC is a nonprofit organization formed to establish, maintain, and operate a coordinated regional system of cancer prevention and care in the Tri-Cities, Washington area. The other two members were Lourdes Health Network and Kadlec Regional Medical Center. During 2020, the District sold its interest in TCCC recognizing a gain in the amount of \$341,000 which is recognized in nonoperating revenues for the year ended December 31, 2020.

#### **Operating Revenues and Expenses**

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the District result from exchange transactions associated with providing health care services and operating the District – the District's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

#### **Client Service Revenue**

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

#### **Grants and Contributions**

The District may receive grants 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, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after revenues in excess of expenses.

## Property Taxes

Property taxes are levied by the County on the District's behalf. The property taxes are intended to finance the District's activities of the same calendar year. Property taxes are recognized as revenue when received and are used for operations.

Levy date	–	January 1
Lien date	–	May 1
Due dates	–	April 30 and October 31

## Community Service Payment to RCCH Trios

The District had entered into a Master Asset Purchase Agreement (Purchase Agreement) with RCCH Trios shortly after the Bankruptcy Court approved the Chapter 9 Plan of Adjustment on June 20, 2018. As part of this plan, the District will continue operations, which will consist primarily of the property tax mill levy. The mill levy is \$0.13 per \$1,000 of assessed property value. As part of the purchase agreement, the District shall pay RCCH Trios the "Community Service Payment." The Community Service Payment is defined as a percentage of the current year property tax less the permitted expenses. The Community Service Payment to RCCH was \$1,213,468 and \$1,095,991 for the years ended December 31, 2021 and 2020, respectively.

## Note 2 - Client Service Revenue

Adult Day Services 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:

**Medicaid.** Routine services rendered to ADS clients, who are beneficiaries of the Medicaid program, are paid according to a schedule of prospectively determined daily rates determined by Washington's Medicaid Program.

**Other.** Adult Day Services has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Adult Day Services under these agreements includes discounts from charges, prospectively determined rates per discharge, and prospectively determined daily rates.

Concentrations of net revenues by major payor accounted for the following percentages of the District's client service revenues for the years ended December 31, 2021 and 2020:

	2021	2020
Medicaid	95%	90%
Private pay	3%	8%
Other	2%	2%
	<u>100%</u>	<u>100%</u>

### Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2021 and 2020 are as follows:

	2021	2020
Carrying amount		
Deposits	\$ 2,203,784	\$ 1,850,718
Investments	700,949	667,464
	<u>\$ 2,904,733</u>	<u>\$ 2,518,182</u>

Deposits and investments are reported in the following statement of net position captions:

	2021	2020
Cash and cash equivalents	\$ 2,194,502	\$ 1,694,008
Other long-term investments	710,231	679,195
Restricted by agreement - Home Health escrow	-	144,979
	<u>\$ 2,904,733</u>	<u>\$ 2,518,182</u>

#### Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the District's deposits may not be returned to it. The District has a general investment policy to minimize custodial credit risk.

The District had bank balances at December 31, 2021 and 2020 as follows:

	2021	2020
Insured (FDIC)	\$ 520,372	\$ 665,377
Uncollateralized	1,088,752	843,359
Total	<u>\$ 1,609,124</u>	<u>\$ 1,508,736</u>
Carrying value	<u>\$ 2,203,784</u>	<u>\$ 1,850,718</u>

At December 31, 2021 and 2020, the District's deposits were not properly collateralized with approximately \$1,089,000 and \$843,000 in excess of FDIC limits and potentially at risk.

#### Investments

The District's investments are reported at fair value. The District is authorized by statute to invest funds in federal, state or local government bonds and in commercial paper. The investments held under the Paul G. and Mabel Richmond Endowment Fund are held by a third party which provides the funds to be invested in equities outside of the state statute requirements imposed on the District.



The District had the following investments and maturities at December 31, 2021:

Investment Type	Carrying Amount	Rating	Investment Maturities (in Years)		
			0-5	6-10	More Than 10
Mutual funds					
Fixed income	\$ 259,000	N/A	\$ 259,000	\$ -	\$ -
Equities	441,949	N/A	441,949	-	-
Total	<u>\$ 700,949</u>		<u>\$ 700,949</u>	<u>\$ -</u>	<u>\$ -</u>

The District had the following investments and maturities at December 31, 2020:

Investment Type	Carrying Amount	Rating	Investment Maturities (in Years)		
			0-5	6-10	More Than 10
Mutual funds					
Fixed income	\$ 266,861	N/A	\$ 266,861	\$ -	\$ -
Equities	400,603	N/A	400,603	-	-
Total	<u>\$ 667,464</u>		<u>\$ 667,464</u>	<u>\$ -</u>	<u>\$ -</u>

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. State statutes limit the investment in commercial paper to maturities not to exceed 180 days. The District's investment policy currently does not contain a provision that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District will match investment maturities with anticipated cash flow requirements and investments shall not be committed for more than one year without the advance approval of the Finance and Audit Committee.

### Credit Risk

The District's investment policy and State statutes limit investments in state or local government bonds to bonds with one of the three highest credit ratings of a nationally recognized rating agency and the investment in commercial paper to those with the highest short-term credit rating of any two nationally recognized statistical rating organizations. The District's investment policy currently does not contain a specific provision that further limits credit risk.

### Concentration of Credit Risk

The District will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The District places a limit that the amount that may be invested with any one bank or institution may not exceed 30%. If the maximum limit of 30% would require splitting a fund, then this can be waived by the Finance and Audit Committee.

### Investment Income

Investment income on cash equivalents, investments, and notes receivable consists of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Nonoperating income		
Interest income and realized gains and losses	<u>\$ 66,615</u>	<u>\$ 33,312</u>

### Note 4 - Paycheck Protection Program (PPP) Loan

ADS was granted a \$105,261 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. ADS had recorded a note payable and recorded the forgiveness upon being legally released from the loan obligation by the SBA and lender. Forgiveness income of \$105,261 has been recorded in non-operating revenues for the year ended December 31, 2021.

**Note 5 - Capital Assets**

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2021 are as follows:

	Balance December 31, 2020	Additions	Transfers and Retirements	Balance December 31, 2021
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 14,870	\$ -	\$ 14,870
Capital assets being depreciated				
Building and improvements	\$ 238,350	\$ -	\$ -	\$ 238,350
Leasehold improvements	103,982	17,837	-	121,819
Equipment	62,856	3,700	-	66,556
Total capital assets being depreciated	405,188	\$ 21,537	\$ -	426,725
Less accumulated depreciation for				
Building and improvements	(238,350)	\$ -	\$ -	(238,350)
Leasehold improvements	(103,982)	(595)	-	(104,577)
Equipment	(62,856)	(123)	-	(62,979)
Total accumulated depreciation	(405,188)	\$ (718)	\$ -	(405,906)
Net capital assets being depreciated	\$ -			\$ 20,819
Capital assets, net	\$ -			\$ 35,689

Construction in progress at December 31, 2021 represents costs for the purchase of a building in Kennewick, WA for which Adult Day Services (ADS) is currently leasing. On March 22, 2022, ADS completed the purchase of the 10 North Washington Street, Kennewick, Washington location for \$1,170,000. ADS obtained financing of \$720,000 for the purchase with the remaining purchase price being paid with operating cash reserves.

Kennewick Public Hospital District  
Notes to Financial Statements  
December 31, 2021 and 2020

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2020 are as follows:

	Balance December 31, 2019	Additions	Transfers and Retirements	Balance December 31, 2020
Capital assets being depreciated				
Building and improvements	\$ 238,350	\$ -	\$ -	\$ 238,350
Leasehold improvements	103,982	-	-	103,982
Equipment	62,856	-	-	62,856
Total capital assets being depreciated	405,188	\$ -	\$ -	405,188
Less accumulated depreciation for				
Building and improvements	(238,350)	-	-	(238,350)
Leasehold improvements	(100,644)	(3,338)	-	(103,982)
Equipment	(62,856)	-	-	(62,856)
Total accumulated depreciation	(401,850)	\$ (3,338)	\$ -	(405,188)
Net capital assets being depreciated	\$ 3,338			\$ -
Capital assets, net	\$ 3,338			\$ -

**Note 6 - Concentration of Credit Risk**

Adult Day Services grants credit without collateral to its clients, most of which are insured under third party payor agreements. The mix of receivables from third-party payors and clients at December 31, 2021 and 2020 was as follows:

	2021	2020
Medicaid	82%	89%
Private pay	12%	9%
Other	6%	2%
	100%	100%

**Note 7 - Commitments and Contingencies****Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Professional Liability**

Adult day services insures for professional liability claims under a claims-made based policy. Under the policy, insurance premiums cover only those claims actually reported during the policy term up to \$2 million of coverage for each occurrence and \$2 million in the aggregate.

**Litigations, Claims, and Disputes**

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from client services.

**COVID-19**

The world-wide coronavirus pandemic has continued to impact national and global economies. The District is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of these financial statements, the current and future impact to the District is not known.

**Note 8 - Presentation of Component Units**

The following summarizes combining information for the District and Adult Day Services, which have been presented as blended component units, as of and for the year ended December 31, 2021.

**Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position  
December 31, 2021**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Assets				
Assets				
Current assets	\$ 1,326,176	\$ 978,539	\$ (28,722)	\$ 2,275,993
Other assets	710,231	233,867	(233,867)	710,231
Capital assets, net	-	35,689	-	35,689
Total assets	<u>\$ 2,036,407</u>	<u>\$ 1,248,095</u>	<u>\$ (262,589)</u>	<u>\$ 3,021,913</u>
Liabilities and Net Position				
Liabilities				
Current liabilities	\$ 518,687	\$ 63,457	\$ (28,722)	\$ 553,422
Noncurrent liabilities	233,867	-	(233,867)	-
Total liabilities	<u>752,554</u>	<u>63,457</u>	<u>(262,589)</u>	<u>553,422</u>
Net position				
Net investment in capital assets	-	35,689	-	35,689
Restricted				
Expendable - Paul G. & Mabel Richmond Endowment Fund	710,231	-	-	710,231
Expendable - for operating activities	341,000	-	-	341,000
Unrestricted	<u>232,622</u>	<u>1,148,949</u>	<u>-</u>	<u>1,381,571</u>
Total net position	<u>1,283,853</u>	<u>1,184,638</u>	<u>-</u>	<u>2,468,491</u>
Total liabilities and net position	<u>\$ 2,036,407</u>	<u>\$ 1,248,095</u>	<u>\$ (262,589)</u>	<u>\$ 3,021,913</u>

**Table 2: Operating Results and Changes in Net Position  
Year Ended December 31, 2021**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Operating Revenues				
Client service revenue	\$ -	\$ 935,253	\$ -	\$ 935,253
Operating Expenses				
Depreciation	-	718	-	718
Other operating expenses	258,657	888,791	(17,239)	1,130,209
Total operating expenses	258,657	889,509	(17,239)	1,130,927
Operating Income (Loss)	(258,657)	45,744	17,239	(195,674)
Nonoperating Revenues (Expenses)	691,501	142,677	(17,239)	816,939
Revenues in Excess of Expenses and Change in Net Position	432,844	188,421	-	621,265
Net Position, Beginning of Year	851,009	996,217	-	1,847,226
Net Position, End of Year	\$ 1,283,853	\$ 1,184,638	\$ -	\$ 2,468,491

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2021 and 2020

**Table 3: Cash Flows**  
**Year Ended December 31, 2021**

	<u>Kennewick Public Hospital District</u>	<u>Adult Day Services</u>	<u>Eliminations</u>	<u>Combined</u>
Net Cash from (used for) Operating Activities	\$ (241,387)	\$ 89,025	\$ -	\$ (152,362)
Net Cash from Noncapital Financing Activities	1,708,825	12,385	-	1,721,210
Net Cash from Capital and Capital Related Financing Activities	-	(36,407)	-	(36,407)
Net Cash from (used for) Investing Activities	<u>(1,231,057)</u>	<u>51,682</u>	<u>-</u>	<u>(1,179,375)</u>
Net Change in Cash and Cash Equivalents	236,381	116,685	-	353,066
Cash and Cash Equivalents, Beginning of Year	<u>1,097,726</u>	<u>752,992</u>	<u>-</u>	<u>1,850,718</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,334,107</u>	<u>\$ 869,677</u>	<u>\$ -</u>	<u>\$ 2,203,784</u>



# Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2021 and 2020

The following summarizes combining information for the District and Adult Day Services, which have been presented as blended component units, as of and for the year ended December 31, 2020.

**Table 4: Assets, Liabilities, Deferred Inflows of Resources, and Net Position  
December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Assets				
Assets				
Current assets	\$ 976,866	\$ 876,505	\$ (25,482)	\$ 1,827,889
Other assets	824,174	263,758	(263,758)	824,174
	<u>824,174</u>	<u>263,758</u>	<u>(263,758)</u>	<u>824,174</u>
Total assets	<u>\$ 1,801,040</u>	<u>\$ 1,140,263</u>	<u>\$ (289,240)</u>	<u>\$ 2,652,063</u>
Liabilities and Net Position				
Liabilities				
Current liabilities	\$ 541,294	\$ 91,328	\$ (25,482)	\$ 607,140
Noncurrent liabilities	408,737	52,718	(263,758)	197,697
	<u>408,737</u>	<u>52,718</u>	<u>(263,758)</u>	<u>197,697</u>
Total liabilities	<u>950,031</u>	<u>144,046</u>	<u>(289,240)</u>	<u>804,837</u>
Net position				
Restricted				
Expendable - Paul G. & Mabel Richmond Endowment Fund	679,195	-	-	679,195
Unrestricted	171,814	996,217	-	1,168,031
	<u>171,814</u>	<u>996,217</u>	<u>-</u>	<u>1,168,031</u>
Total net position	<u>851,009</u>	<u>996,217</u>	<u>-</u>	<u>1,847,226</u>
Total liabilities and net position	<u>\$ 1,801,040</u>	<u>\$ 1,140,263</u>	<u>\$ (289,240)</u>	<u>\$ 2,652,063</u>

**Table 5: Operating Results and Changes in Net Position  
December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Operating Revenues				
Client service revenue	\$ -	\$ 1,045,715	\$ -	\$ 1,045,715
Operating Expenses				
Depreciation	-	3,338	-	3,338
Other operating expenses	342,921	817,248	(18,404)	1,141,765
Total operating expenses	342,921	820,586	(18,404)	1,145,103
Operating Income (Loss)	(342,921)	225,129	18,404	(99,388)
Nonoperating Revenues (Expenses)	738,590	25,058	(18,404)	745,244
Revenues in Excess of Expenses and Change in Net Position	395,669	250,187	-	645,856
Net Position, Beginning of Year	455,340	746,030	-	1,201,370
Net Position, End of Year	\$ 851,009	\$ 996,217	\$ -	\$ 1,847,226

**Table 6: Cash Flows**  
**December 31, 2020**

	Kennewick Public Hospital District	Adult Day Services	Eliminations	Combined
Net Cash from (used for)				
Operating Activities	\$ (370,063)	\$ 240,594	\$ -	\$ (129,469)
Net Cash from Noncapital				
Financing Activities	1,276,728	5,889	-	1,282,617
Net Cash from Capital and				
Capital Related Financing				
Activities	(105,261)	105,261	-	-
Net Cash from (used for)				
Investing Activities	(728,988)	44,651	-	(684,337)
Net Change in Cash and Cash				
Equivalents	72,416	396,395	-	468,811
Cash and Cash Equivalents,				
Beginning of Year	1,025,310	356,597	-	1,381,907
Cash and Cash Equivalents,				
End of Year	\$ 1,097,726	\$ 752,992	\$ -	\$ 1,850,718



Supplementary Information  
December 31, 2021 and 2020

## Kennewick Public Hospital District



## Independent Auditor's Report on Supplementary Information

The Board of Commissioners  
Kennewick Public Hospital District  
Kennewick, Washington

We have audited the financial statements of Kennewick Public Hospital District (District) as of and for the years ended December 31, 2021 and 2020, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota  
October 31, 2022

Kennewick Public Hospital District  
Combining Statement of Net Position  
December 31, 2021

	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,324,825	\$ 869,677	\$ 2,194,502	\$ -	\$ 2,194,502
Receivables					
Clients, net	-	80,140	80,140	-	80,140
Current portion of note receivable	-	28,722	28,722	(28,722)	-
Property tax	705	-	705	-	705
Prepaid expenses	646	-	646	-	646
Total current assets	<u>1,326,176</u>	<u>978,539</u>	<u>2,304,715</u>	<u>(28,722)</u>	<u>2,275,993</u>
<b>Noncurrent Cash and Investments</b>					
Restricted by agreement					
Home Health escrow	-	233,867	233,867	(233,867)	-
Other long-term investments	710,231	-	710,231	-	710,231
Total noncurrent cash and investments	<u>710,231</u>	<u>233,867</u>	<u>944,098</u>	<u>(233,867)</u>	<u>710,231</u>
<b>Capital Assets</b>					
Capital assets not being depreciated	-	14,870	14,870	-	14,870
Depreciable capital assets, net of accumulated depreciation	-	20,819	20,819	-	20,819
Total capital assets	<u>-</u>	<u>35,689</u>	<u>35,689</u>	<u>-</u>	<u>35,689</u>
Total assets	<u>\$ 2,036,407</u>	<u>\$ 1,248,095</u>	<u>\$ 3,284,502</u>	<u>\$ (262,589)</u>	<u>\$ 3,021,913</u>
	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 28,722	\$ -	\$ 28,722	\$ (28,722)	\$ -
Accounts payable	489,965	11,362	501,327	-	501,327
Accrued expenses					
Vacation	-	45,081	45,081	-	45,081
Payroll taxes and other	-	7,014	7,014	-	7,014
Total current liabilities	<u>518,687</u>	<u>63,457</u>	<u>582,144</u>	<u>(28,722)</u>	<u>553,422</u>
<b>Long-Term Debt, Less Current Maturities</b>	<u>233,867</u>	<u>-</u>	<u>233,867</u>	<u>(233,867)</u>	<u>-</u>
Total liabilities	<u>752,554</u>	<u>63,457</u>	<u>816,011</u>	<u>(262,589)</u>	<u>553,422</u>
<b>Net Position</b>					
Net investment in capital assets	-	35,689	35,689	-	35,689
Restricted					
Expendable - Paul G. & Mabel Richmond					
Endowment Fund	710,231	-	710,231	-	710,231
Expendable - for operating activities	341,000	-	341,000	-	341,000
Unrestricted	232,622	1,148,949	1,381,571	-	1,381,571
Total net position	<u>1,283,853</u>	<u>1,184,638</u>	<u>2,468,491</u>	<u>-</u>	<u>2,468,491</u>
Total liabilities and net position	<u>\$ 2,036,407</u>	<u>\$ 1,248,095</u>	<u>\$ 3,284,502</u>	<u>\$ (262,589)</u>	<u>\$ 3,021,913</u>

Kennewick Public Hospital District  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2021

	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
Operating Revenues					
Client service revenue	\$ -	\$ 935,253	\$ 935,253	\$ -	\$ 935,253
Operating Expenses					
Salaries and wages	-	516,022	516,022	-	516,022
Employee benefits	-	173,755	173,755	-	173,755
Professional fees	73,943	11,899	85,842	-	85,842
Supplies	-	49,411	49,411	-	49,411
Purchased services, utilities	3,705	11,988	15,693	-	15,693
Purchased services, other	88,328	10,398	98,726	-	98,726
Insurance	13,742	20,612	34,354	-	34,354
Rent	-	72,644	72,644	-	72,644
Transportation	-	4,150	4,150	-	4,150
Other	27,577	17,912	45,489	-	45,489
Interest	17,239	-	17,239	(17,239)	-
Public election	34,123	-	34,123	-	34,123
Depreciation	-	718	718	-	718
Total operating expenses	258,657	889,509	1,148,166	(17,239)	1,130,927
Operating Income (Loss)	(258,657)	45,744	(212,913)	17,239	(195,674)
Nonoperating Revenues (Expenses)					
Property taxes	1,493,365	-	1,493,365	-	1,493,365
Donation	341,000	-	341,000	-	341,000
Investment income	58,823	25,031	83,854	(17,239)	66,615
Other income	1,781	-	1,781	-	1,781
Gain on PPP loan forgiveness	-	105,261	105,261	-	105,261
Noncapital contributions and donations	10,000	12,385	22,385	-	22,385
Community Service Payment to RCCH Trios	(1,213,468)	-	(1,213,468)	-	(1,213,468)
Nonoperating revenues, net	691,501	142,677	834,178	(17,239)	816,939
Revenues in Excess of Expenses and Change in Net Position	432,844	188,421	621,265	-	621,265
Net Position, Beginning of Year	851,009	996,217	1,847,226	-	1,847,226
Net Position, End of Year	\$ 1,283,853	\$ 1,184,638	\$ 2,468,491	\$ -	\$ 2,468,491

Kennewick Public Hospital District  
Combining Statement of Net Position  
December 31, 2020

	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 941,016	\$ 752,992	\$ 1,694,008	\$ -	\$ 1,694,008
Receivables					
Clients, net	-	98,031	98,031	-	98,031
Current portion of note receivable	-	25,482	25,482	(25,482)	-
Property tax	8,363	-	8,363	-	8,363
Other	25,000	-	25,000	-	25,000
Prepaid expenses	2,487	-	2,487	-	2,487
<b>Total current assets</b>	<b>976,866</b>	<b>876,505</b>	<b>1,853,371</b>	<b>(25,482)</b>	<b>1,827,889</b>
<b>Noncurrent Cash and Investments</b>					
Restricted under agreement					
Home Health escrow	144,979	-	144,979	-	144,979
Note receivable	-	263,758	263,758	(263,758)	-
Other long-term investments	679,195	-	679,195	-	679,195
<b>Total noncurrent cash and investments</b>	<b>824,174</b>	<b>263,758</b>	<b>1,087,932</b>	<b>(263,758)</b>	<b>824,174</b>
<b>Total assets</b>	<b>\$ 1,801,040</b>	<b>\$ 1,140,263</b>	<b>\$ 2,941,303</b>	<b>\$ (289,240)</b>	<b>\$ 2,652,063</b>
	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 25,482	\$ -	\$ 25,482	\$ (25,482)	\$ -
Current maturities of Payroll Protection Program loan	-	52,543	52,543	-	52,543
Accounts payable	515,812	3,804	519,616	-	519,616
Accrued expenses					
Vacation	-	34,981	34,981	-	34,981
<b>Total current liabilities</b>	<b>541,294</b>	<b>91,328</b>	<b>632,622</b>	<b>(25,482)</b>	<b>607,140</b>
Payable to Kennewick Liquidation Trust	144,979		144,979	-	144,979
Long-Term Debt, Less Current Maturities	263,758	-	263,758	(263,758)	-
Payroll Protection Program Loan, Less Current Maturities	-	52,718	52,718	-	52,718
<b>Total liabilities</b>	<b>950,031</b>	<b>144,046</b>	<b>1,094,077</b>	<b>(289,240)</b>	<b>804,837</b>
<b>Net Position</b>					
Restricted					
Expendable - Paul G. & Mabel Richmond Endowment Fund	679,195	-	679,195	-	679,195
Unrestricted	171,814	996,217	1,168,031	-	1,168,031
<b>Total net position</b>	<b>851,009</b>	<b>996,217</b>	<b>1,847,226</b>	<b>-</b>	<b>1,847,226</b>
<b>Total liabilities and net position</b>	<b>\$ 1,801,040</b>	<b>\$ 1,140,263</b>	<b>\$ 2,941,303</b>	<b>\$ (289,240)</b>	<b>\$ 2,652,063</b>



Kennewick Public Hospital District  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2020

	Kennewick Public Hospital District	Adult Day Services	Total	Eliminations	Total
Operating Revenues					
Client service revenue	\$ -	\$ 1,045,715	\$ 1,045,715	\$ -	\$ 1,045,715
Operating Expenses					
Salaries and wages	-	483,493	483,493	-	483,493
Employee benefits	-	166,474	166,474	-	166,474
Professional fees	174,470	1,080	175,550	-	175,550
Supplies	-	33,913	33,913	-	33,913
Purchased services, utilities	3,312	12,604	15,916	-	15,916
Purchased services, other	66,033	13,563	79,596	-	79,596
Insurance	9,169	18,491	27,660	-	27,660
Rent	-	67,493	67,493	-	67,493
Transportation	-	5,000	5,000	-	5,000
Other	26,420	15,137	41,557	-	41,557
Interest	18,404	-	18,404	(18,404)	-
Public election	45,113	-	45,113	-	45,113
Depreciation	-	3,338	3,338	-	3,338
Total operating expenses	342,921	820,586	1,163,507	(18,404)	1,145,103
Operating Income (Loss)	(342,921)	225,129	(117,792)	18,404	(99,388)
Nonoperating Revenues (Expenses)					
Property taxes	1,457,309	-	1,457,309	-	1,457,309
Investment income	32,547	19,169	51,716	(18,404)	33,312
Other income	3,725	-	3,725	-	3,725
Noncapital contributions and donations	-	5,889	5,889	-	5,889
Community Service Payment to RCCH Trios	(1,095,991)	-	(1,095,991)	-	(1,095,991)
Gain on sale of interest in Tri-Cities Cancer Center	341,000	-	341,000	-	341,000
Nonoperating revenues, net	738,590	25,058	763,648	(18,404)	745,244
Revenues in Excess of Expenses and Change in Net Position	395,669	250,187	645,856	-	645,856
Net Position, Beginning of Year	455,340	746,030	1,201,370	-	1,201,370
Net Position, End of year	\$ 851,009	\$ 996,217	\$ 1,847,226	\$ -	\$ 1,847,226



**Independent Auditor's 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**

The Board of Commissioners  
Kennewick Public Hospital District  
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kennewick Public Hospital District (District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as the basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001, 2021-002, and 2021-003 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is reported as Compliance Finding 2021-004 in the accompanying Schedule of Findings and Responses.

## **The District's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified and described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota

October 31, 2022

## Financial Statement Findings

<b>2021-001</b>	<b>Preparation of Financial Statements Material Weakness in Internal Control over Financial Reporting</b>
<i>Criteria</i>	A properly designed system of internal control over financial reporting includes preparation of an entity's financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).
<i>Condition</i>	The District does not have an internal control system designed to provide for the preparation of financial statements being audited, including related disclosures and preparation of the cash flow statement in accordance with GAAP.
<i>Cause</i>	This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by the auditors as part of the audit.
<i>Effect</i>	This control deficiency could result in required information being omitted from the financial statements. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.
<i>Recommendation</i>	We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
<i>Views of Responsible Officials</i>	Management agrees with the finding.
<b>2021-002</b>	<b>Audit Adjustments Material Weakness in Internal Control over Financial Reporting</b>
<i>Criteria</i>	A good system of internal control contemplates an adequate system for recording and processing adjusting journal entries material to the financial statements.
<i>Condition</i>	As part of our audit, we proposed significant audit adjustments to the financial statements, including accounts that were not reconciled at year end, that were not identified by management as a result of the District's existing internal controls.

*Cause* A proper reconciliation between the District's general ledger and subsidiary accounts was not performed on multiple accounts resulting in material audit adjustments.

*Effect* The deficiency resulted in misstatements to the financial statements that were not prevented, or detected and corrected, by internal personnel in a timely manner.

*Recommendation* We recommend that management reflect all entries in the financial statements to ensure that the Board of Commissioners has all relevant information.

*Views of Responsible Officials* Management agrees with the finding.

**2021-003                      Limited Segregation of Duties  
Material Weakness in Internal Control over Financial Reporting**

*Criteria* In order to achieve a high level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

*Condition* The District and ADS do not have an internal control system to allow for proper segregation of duties in certain areas of the accounting function.

*Cause* The District has no employees and therefore, has the accounting function completed by an outside accountant. ADS has a limited number of employees that perform multiple accounting functions.

*Effect* Inadequate segregation of duties could adversely affect ADS and the District's ability to detect and correct misstatements in a timely period in the normal course of performing the accounting function.

*Recommendation* While we recognize that the nature of the District's operations after the sale to RCCH is such that optimal internal control can likely not be achieved, it is important that the District is aware of this condition. Under this condition, the most effective control is the Board of Commissioners' oversight and knowledge of matters relating to the operations of the District.

*Views of Responsible Officials* Management agrees with the finding.

**Compliance Finding**

**2021-004                      Proper Collateralization  
Noncompliance**

<i>Criteria</i>	The District is required to maintain proper collateralization of deposits in qualified public depositories, as determined by the Revised Code of Washington, Chapter 39, that are not covered under the Federal Deposit Insurance Corporation (FDIC).
<i>Condition</i>	The District's deposits were not properly collateralized at December 31, 2021 with approximately \$1,089,000 in excess of FDIC limits and potentially at risk.
<i>Cause</i>	The District did not maintain a proper agreement with the depositories to maintain proper collateralization.
<i>Effect</i>	The District was not in compliance with being properly collateralized. If the depository were to fail, the District risks losing their deposits.
<i>Recommendation</i>	We recommend that management implement policies and procedures to ensure the District's deposits are properly collateralized.
<i>Views of Responsible Officials</i>	Management agrees with the finding.