



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

June 13, 2024

Board of Commissioners  
East Adams Rural Healthcare  
Ritzville, Washington

**Contracted CPA Firm's Audit Report on Financial Statements and  
Federal Single Audit**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of East Adams Rural Healthcare 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 or East Adams Rural Healthcare's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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# **Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare**

**Basic Financial Statements and  
Independent Auditors' Reports**

December 31, 2021 and 2020



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Ritzville, Washington

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) as of and for the years 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 financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2021 and 2020, and the changes in financial position and its 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 audits 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 Auditors' 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 audits. 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.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Emphasis of Matter – Restatement of December 31, 2020 Financial Statements**

As discussed in Note 14 to the financial statements, the 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the year ended December 31, 2021. We issued a similar report for the year ended December 31, 2020, dated February 17, 2022, which has not been included with the 2021 financial compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Spokane Valley, Washington  
February 20, 2024

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Basic Statements of Net Position**  
**December 31, 2021 and 2020**

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 6,159,147	\$ 6,262,398
Receivables:		
Patient accounts, net	5,184,793	3,618,989
Estimated third-party payor settlements	-	121,000
Taxes	54,084	54,407
Inventories	217,256	193,399
Prepaid expenses	26,345	-
Total current assets	<b>11,641,625</b>	<b>10,250,193</b>
<i>Noncurrent assets</i>		
Assets limited as to use:		
Cash and cash equivalents:		
Designated by Board for capital additions	2,086,917	1,871,422
Designated by Board for health insurance deductions	47,678	59,415
Capital assets, net of accumulated depreciation	9,065,944	9,567,778
Total noncurrent assets	<b>11,200,539</b>	<b>11,498,615</b>
<b>Total assets</b>	<b>\$ 22,842,164</b>	<b>\$ 21,748,808</b>
<b>LIABILITIES AND NET POSITION</b>		
<i>Current liabilities</i>		
Current portion of long-term debt	\$ 250,000	\$ 240,000
Accounts payable	343,692	307,062
Refunds payable for overpayments on patient accounts	174,241	183,103
Accrued compensation and related liabilities	235,115	209,676
Estimated third-party payor settlements	277,000	14,000
Deferred CARES Act Provider Relief Fund	166,234	99,283
Deferred other COVID-19 grants	252,263	-
Medicare accelerated payments payable	1,053,364	2,000,978
Accrued vacation	283,286	239,179
Total current liabilities	<b>3,035,195</b>	<b>3,293,281</b>
<i>Noncurrent liabilities</i>		
Paycheck Protection Program loan	-	885,719
Long-term debt, net of current maturities	7,621,600	7,882,586
Total noncurrent liabilities	<b>7,621,600</b>	<b>8,768,305</b>
Total liabilities	<b>10,656,795</b>	<b>12,061,586</b>
<i>Net position</i>		
Net investment in capital assets	1,194,344	1,445,192
Unrestricted	10,991,025	8,242,030
Total net position	<b>12,185,369</b>	<b>9,687,222</b>
<b>Total liabilities and net position</b>	<b>\$ 22,842,164</b>	<b>\$ 21,748,808</b>

See accompanying notes to basic financial statements.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Basic Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<i>Operating revenues</i>		
Net patient service revenue	\$ 10,503,752	\$ 7,120,616
Grants	196,054	949,800
Other	119,857	189,558
Total operating revenues	10,819,663	8,259,974
<i>Operating expenses</i>		
Salaries and wages	5,278,022	5,211,694
Employee benefits	1,006,797	866,580
Supplies	516,753	465,330
Professional fees	2,716,340	1,694,760
Depreciation	755,610	818,785
Repairs and maintenance	119,800	139,645
Utilities	212,347	195,022
Insurance	139,997	129,004
Rent	55,553	35,921
Other	545,786	434,928
Total operating expenses	11,347,005	9,991,669
<i>Operating income (loss)</i>	(527,342)	(1,731,695)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	524,916	509,565
Taxation for emergency medical services	305,118	297,070
Taxation for bond principal and interest	400,931	400,000
CARES Act Provider Relief Fund	262,657	3,449,340
Interest expense	(361,739)	(367,754)
Total nonoperating revenues, net	1,131,883	4,288,221
<i>Change in net position before gain on forgiveness of Paycheck Protection Program loan</i>	604,541	2,556,526
Gain on forgiveness of Paycheck Protection Program loans	1,893,606	-
<i>Change in net position</i>	2,498,147	2,556,526
<i>Net position, beginning of year, as previously reported</i>	9,687,222	6,542,967
<i>Prior period adjustments</i>	-	587,729
<i>Net position, beginning of year, as restated</i>	-	7,130,696
<b>Net position, end of year</b>	<b>\$ 12,185,369</b>	<b>\$ 9,687,222</b>

See accompanying notes to basic financial statements.



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Basic Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b><i>Change in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 9,313,086	\$ 6,123,832
Grant receipts	196,054	949,800
Other receipts	119,857	210,381
Payments to and on behalf of employees	(6,215,273)	(5,970,526)
Payments to suppliers and contractors	(4,320,148)	(3,084,301)
Net cash from operating activities	(906,424)	(1,770,814)
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	525,239	508,999
Paycheck Protection Program loan	1,007,887	885,719
CARES Act Provider Relief Fund	329,608	3,548,623
COVID-19 grants	252,263	-
Medicare accelerated payments	(947,614)	2,000,978
Taxation for emergency medical services	305,118	297,070
Net cash from noncapital financing activities	1,472,501	7,241,389
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	400,931	400,000
Principal paid on long-term debt	(250,986)	(240,986)
Purchase of capital assets	(253,776)	(178,506)
Cash received from sale of capital assets	-	483,472
Cash paid for interest on long-term debt	(361,739)	(367,754)
Net cash from capital and related financing activities	(465,570)	96,226
Net change in cash and cash equivalents	100,507	5,566,801
Cash and cash equivalents, beginning of year	8,193,235	2,626,434
Cash and cash equivalents, end of year	\$ 8,293,742	\$ 8,193,235

*See accompanying notes to basic financial statements.*

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Basic Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2021 and 2020**

	2021	2020
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 6,159,147	\$ 6,262,398
Cash and cash equivalents designated by Board for capital additions	2,086,917	1,871,422
Cash and cash equivalents designated by Board for health insurance deductions	47,678	59,415
<b>Total cash and cash equivalents</b>	<b>\$ 8,293,742</b>	<b>\$ 8,193,235</b>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</i></b>		
Operating income (loss)	\$ (527,342)	\$ (1,731,695)
<i>Adjustments to reconcile operating income (loss) to net cash from operating activities</i>		
Depreciation	755,610	818,785
Loss on sale of capital assets and related expenses	-	57,361
Provision for bad debts	61,863	665,303
(Increase) decrease in assets:		
Receivables:		
Patient accounts, net	(1,627,667)	(1,118,589)
Estimated third-party payor settlements	121,000	(121,000)
Inventories	(23,857)	(12,577)
Prepaid expenses	(26,345)	-
Increase (decrease) in liabilities:		
Accounts payable	36,630	(13,652)
Refunds payable for overpayments on patient accounts	(8,862)	(227,500)
Accrued compensation and related liabilities	25,439	63,210
Estimated third-party payor settlements	263,000	(194,998)
Accrued vacation	44,107	44,538
<b>Net cash from operating activities</b>	<b>\$ (906,424)</b>	<b>\$ (1,770,814)</b>

*See accompanying notes to basic financial statements.*

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2021 and 2020**

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

**a. Reporting Entity**

Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) owns and operates a 12-bed acute care hospital and rural health clinics in Ritzville and Washtucna, Washington. The District provides healthcare services to patients in the Adams County, Washington (the County) area. The services provided include acute care hospital, emergency room, clinic, and the related ancillary services (laboratory, imaging, physical therapy, etc.).

The District operates under the laws of the State of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The Board of Commissioners consists of five elected community members. Commissioner positions are at-large and are elected for six-year terms. Two positions are elected every two years, with the final position elected in the sixth year.

The District also has dual status as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code). The District is exempt from federal income tax.

The District has no material component units. The East Adams County Healthcare Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized primarily to solicit and accept charitable contributions in order to provide support to the District. The Foundation's financial position is not material to the District and has not been included in these financial statements.

**b. Summary of Significant Accounting Policies**

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

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

***Cash and cash equivalents*** – All cash receipts are deposited directly to the District's bank account. Periodically, such cash is transferred to the Adams County Treasurer (County Treasurer), who acts as the District's Treasurer. Warrants are issued by the District against the cash deposited with the County Treasurer, and the warrants are paid by the County Treasurer from these funds. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of three months or less as cash and cash equivalents.

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

Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2021 and 2020

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

b. Summary of Significant Accounting Policies (continued)

**Assets limited as to use** – Assets limited as to use include assets limited by the Board of Commissioners for future capital improvements and health insurance deductions over which the Board retains control and may, at its discretion, subsequently use for other purposes. In 2023, the Board approved moving approximately \$1,320,000 from assets limited as to use to operating cash and cash equivalents.

**Compensated absences** – The District’s policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Depending on years of completion, vacation accrues from 152 to 272 hours per year. Each employee has one year to use all vacation time that has been accumulated during the preceding year. Employees terminated after completion of introductory period of no less than ninety calendar days of employment will be eligible to cash out the prorated accrued unused vacation pay. Sick leave is a benefit granted to all regular employees and accumulated at a rate of 1 hour for every 40 hours worked. A maximum of 40 hours of unused accrued sick leave may be carried over to the following calendar year. All vacation pay is accrued and expensed when incurred. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

**Net position** – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is assets that must be used for a particular purpose, as specified by creditors, donors, or contributors external to the District. The District did not have a restricted net position balance in 2021 or 2020. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

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

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

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

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

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

***Operating revenues and expenses*** – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services, the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

***Subsequent events*** – Subsequent events have been reviewed through February 20, 2024, the date on which the financial statements were available to be issued.

***Upcoming accounting pronouncements*** – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 31, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-of-use subscription asset — an intangible asset — and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The new guidance is effective for the District’s year ending December 31, 2023. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**2. Bank Deposits and Investments:**

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

As of December 31, 2021, and 2020, the District had no deposit balances that were uninsured and uncollateralized. The District's deposits are covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

*The Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool (LGIP); savings accounts in qualified public depositories; and certain other investments. The County Treasurer invests the District's funds in authorized investments at the District's discretion.

The amounts deposited in the LGIP at December 31, 2021 and 2020, were \$1,865,658 and \$1,863,737, respectively.

State statutes limit investments in bonds, debentures, or notes of any corporation to be rated "A" or higher by nationally recognized statistical rating organizations.

All of the District's investments were in the LGIP at December 31, 2021 and 2020.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**3. Patient Accounts Receivable:**

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

The District's allowance for uncollectible accounts for self-pay patients decreased significantly from the prior year due to a decrease in the balance of self-pay patient accounts at year end. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	<b>2021</b>	<b>2020</b>
Patients and their insurance carriers	\$ 1,684,198	\$ 1,996,894
Medicare	3,718,011	2,341,923
Medicaid	93,584	101,869
Total patient accounts receivable	5,495,793	4,440,686
Less allowance for uncollectible amounts	311,000	821,697
<b>Patient accounts receivable, net</b>	<b>\$ 5,184,793</b>	<b>\$ 3,618,989</b>

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**4. Capital Assets:**

The District capitalizes assets whose costs exceed \$5,000 and whose estimated useful life is greater than three years. Major expenses for capital assets, including repairs that increase the useful life, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues (expenses).

All capital assets, other than land and construction in progress, are depreciated by the straight-line method using these asset lives:

Land improvements	10 to 20 years
Buildings	15 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	2 to 20 years

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

	Balance December 31, 2020	Additions	Retirements	Transfers	Balance December 31, 2021
<i>Capital assets not being depreciated</i>					
Land	\$ 16,698	\$ -	\$ -	\$ -	\$ 16,698
Construction in progress	-	106,840	-	-	106,840
Total capital assets not being depreciated	16,698	106,840	-	-	123,538
<i>Capital assets being depreciated</i>					
Land improvements	244,149	-	-	-	244,149
Buildings	10,560,026	-	-	-	10,560,026
Fixed equipment	1,770,045	10,723	-	-	1,780,768
Movable equipment	4,183,902	136,213	(68,325)	-	4,251,790
Total capital assets being depreciated	16,758,122	146,936	(68,325)	-	16,836,733
<i>Less accumulated depreciation for</i>					
Land improvements	106,010	20,969	-	-	126,979
Buildings	2,744,311	509,444	-	-	3,253,755
Fixed equipment	528,311	111,419	-	-	639,730
Movable equipment	3,828,410	113,778	(68,325)	-	3,873,863
Total accumulated depreciation	7,207,042	755,610	(68,325)	-	7,894,327
Total capital assets being depreciated, net	9,551,080	(608,674)	-	-	8,942,406
Total capital assets, net	\$ 9,567,778	\$ (501,834)	\$ -	\$ -	\$ 9,065,944



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

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

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 181,799	\$ -	\$ (165,101)	\$ -	\$ 16,698
Total capital assets not being depreciated	181,799	-	(165,101)	-	16,698
<i>Capital assets being depreciated</i>					
Land improvements	244,149	-	-	-	244,149
Buildings	11,181,425	-	(621,399)	-	10,560,026
Fixed equipment	1,770,045	-	-	-	1,770,045
Movable equipment	4,005,396	178,506	-	-	4,183,902
Total capital assets being depreciated	17,201,015	178,506	(621,399)	-	16,758,122
<i>Less accumulated depreciation for</i>					
Land improvements	85,041	20,969	-	-	106,010
Buildings	2,453,802	536,176	(245,667)	-	2,744,311
Fixed equipment	417,963	110,348	-	-	528,311
Movable equipment	3,677,118	151,292	-	-	3,828,410
Total accumulated depreciation	6,633,924	818,785	(245,667)	-	7,207,042
Total capital assets being depreciated, net	10,567,091	(640,279)	(375,732)	-	9,551,080
<b>Total capital assets, net</b>	<b>\$ 10,748,890</b>	<b>\$ (640,279)</b>	<b>\$ (540,833)</b>	<b>\$ -</b>	<b>\$ 9,567,778</b>

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**5. Long-term Debt:**

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

	Balance December 31, 2020	Additions	Reductions	Balance December 31, 2021	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 5,715,000	\$ -	\$ (120,000)	\$ 5,595,000	\$ 125,000
Bond premium on 2014 unlimited tax general obligation bonds	84,629	-	(3,588)	81,041	-
2015 limited tax general obligation bonds	2,220,000	-	(120,000)	2,100,000	125,000
Bond premium on 2015 unlimited tax general obligation bonds	102,957	-	(7,398)	95,559	-
<b>Total long-term debt</b>	<b>\$ 8,122,586</b>	<b>\$ -</b>	<b>\$ (250,986)</b>	<b>\$ 7,871,600</b>	<b>\$ 250,000</b>
	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 5,830,000	\$ -	\$ (115,000)	\$ 5,715,000	\$ 120,000
Bond premium on 2014 unlimited tax general obligation bonds	88,217	-	(3,588)	84,629	-
2015 limited tax general obligation bonds	2,335,000	-	(115,000)	2,220,000	120,000
Bond premium on 2015 unlimited tax general obligation bonds	110,355	-	(7,398)	102,957	-
<b>Total long-term debt</b>	<b>\$ 8,363,572</b>	<b>\$ -</b>	<b>\$ (240,986)</b>	<b>\$ 8,122,586</b>	<b>\$ 240,000</b>

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

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

The terms and due dates of the District's long-term debt follow:

- Unlimited Tax General Obligation (UTGO) Bonds dated December 30, 2014, in the original amount of \$6,370,000. The bonds are due in varying principal installments from \$125,000 to \$420,000, plus semiannual interest at varying interest rates from 3.3 percent to 5.125 percent through December 2044. The District issued the bonds to pay costs of capital improvements to the District's facilities to comply with state building code regulations. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. The UTGO Bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a tax upon the taxable property within the District. The voters of the District approved the 2014 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.
- Limited Tax General Obligation (LTGO) Bonds dated February 5, 2015, in the original amount of \$2,905,000. The bonds are due in varying principal installments from \$125,000 to \$210,000, plus semiannual interest at varying interest rates from 4 percent to 5 percent through December 2034. The District issued the bonds to pay costs of capital improvements to the District's facilities to comply with state building code regulations. All limited tax general obligation bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

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

Years Ending December 31,	LTGO Bonds			UTGO Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 125,000	\$ 96,750	\$ 221,750	\$ 125,000	\$ 267,985	\$ 392,985
2023	130,000	91,750	221,750	130,000	263,860	393,860
2024	135,000	86,550	221,550	140,000	259,570	399,570
2025	140,000	81,150	221,150	145,000	254,950	399,950
2026	145,000	75,550	220,550	155,000	247,700	402,700
2027 - 2031	825,000	276,250	1,101,250	925,000	1,123,150	2,048,150
2032 - 2036	600,000	61,000	661,000	1,195,000	900,094	2,095,094
2037 - 2041	-	-	-	1,590,000	558,369	2,148,369
2042 - 2044	-	-	-	1,190,000	124,281	1,314,281
	<b>\$ 2,100,000</b>	<b>\$ 769,000</b>	<b>\$ 2,869,000</b>	<b>\$ 5,595,000</b>	<b>\$ 3,999,959</b>	<b>\$ 9,594,959</b>

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**6. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs decreased significantly from the prior year as the District worked to improve its billing and collections processes in 2020, which included reviewing and writing off a substantial number of accounts. After this process, the remaining accounts were more current and collectible resulting in fewer writeoffs in 2021. The District has not changed its charity care or uninsured discount policies during fiscal years 2021 or 2020.

Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2021</b>	<b>2020</b>
Patient service revenue (net of contractual allowances and discounts):		
Medicare	\$ 8,089,558	\$ 5,800,669
Medicaid	153,103	454,480
Other third-party payors	2,146,013	941,150
Patients	494,644	687,426
	<b>10,883,318</b>	<b>7,883,725</b>
Less:		
Charity care	317,703	97,806
Provision for bad debts	61,863	665,303
<b>Net patient service revenue</b>	<b>\$ 10,503,752</b>	<b>\$ 7,120,616</b>

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

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

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

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

- *Medicaid* – The majority of Medicaid beneficiaries are covered through health maintenance organizations operated by commercial insurance companies. The District is reimbursed by these organizations for inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses for the District. Inpatient and outpatient services rendered to Medicaid program beneficiaries not covered through health maintenance organizations are reimbursed on a cost basis as defined by the state of Washington. The District's physician clinics are certified as rural health clinics and are reimbursed by Medicaid for these services based on a prospectively established rate per visit, which is based on historical cost. Nonrural health clinic physician services are reimbursed on a fee schedule.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$11,000 and \$150,000 in the years ended December 31, 2021, and 2020, respectively, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2021 and 2020, were approximately \$362,000 and \$96,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2021 and 2020.

**7. Property Taxes:**

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on February 15 on property values listed as of the prior January 1. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every year with a physical inspection every six years.

Taxes are due in two equal installments on April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further tax levies must be authorized by a vote of the residents of the District.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**7. Property Taxes (continued):**

For 2021, the District's regular tax levy was approximately \$0.60 per \$1,000 on a total assessed valuation of \$855,877,898, for a total regular levy of \$516,083. The District's Emergency Medical Services (EMS) tax levy was approximately \$0.36 per \$1,000 on a total assessed valuation of \$855,877,898, for a total EMS levy of \$304,695. The District's general obligation bond tax levy was approximately \$0.47 per \$1,000 on a total assessed valuation of \$853,541,298, for a total general obligation bond levy of \$400,000.

For 2020, the District's regular tax levy was approximately \$0.61 per \$1,000 on a total assessed valuation of \$825,195,304, for a total regular levy of \$503,167. The District's Emergency Medical Services (EMS) tax levy was approximately \$0.36 per \$1,000 on a total assessed valuation of \$825,195,304, for a total EMS levy of \$297,070. The District's general obligation bond tax levy was approximately \$0.49 per \$1,000 on a total assessed valuation of \$822,801,404, for a total general obligation bond levy of \$400,000.

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

**8. Deferred Compensation Plans:**

The District sponsors and administers a defined contribution retirement plan. The Adams County Public Hospital District No. 2 403(b) TDA Plan (the Plan) is available to all employees who have completed one year of service. Employees may contribute up to 100 percent of their pretax annual compensation, subject to certain Internal Revenue Code limitations. The District matches contributions up to 6 percent of each covered employee's compensation, depending on years of service. Employees are always 100 percent vested in all employee and employer contributions. Benefit terms, including contribution requirements, are established and may be amended by the District. Total employer contributions to the Plan were \$107,538 and \$116,715 for the years ended December 31, 2021 and 2020, respectively.

**9. Contingencies:**

**Risk management** – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the three preceding years.

**Medical malpractice claims** – The District purchases malpractice liability insurance through Coverys. The Coverys policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy.

If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carrier only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before, but reported to the insurance carrier after, cancellation or expiration of a claims-made policy.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**9. Contingencies (continued):**

***Medical malpractice claims (continued)*** – The current malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000 plus an additional \$1,000,000 of annual excess coverage.

No liability has been accrued for future coverage for acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year. The District's malpractice insurance policy has no deductible. Therefore, all qualifying expenses would be covered by the policy.

***Unemployment and workers' compensation risk transfer pools*** – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Fund (the Fund) and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust (the Trust). Both are risk transfer pools administered by the Washington State Hospital Association. Premiums are based upon prior claims history and are charged to operations as they are paid. Workers' compensation expense was approximately \$16,000 and \$118,000 in 2021 and 2020, respectively.

In 2015, the Trust assessed its financial condition and decided it had excess financial reserves that it would return to the member districts. The Trust will pay the dividends to the districts over five years. Each year, the Trust will evaluate the financial and actuarial data, and may, at its discretion, choose to suspend the payment or adjust the time period over which the remaining dividend is paid. Payments of \$-0- and \$50,733 were made by the Trust to the District in 2021 and 2020, respectively. These receipts were recognized in 2020 as reductions in the expense.

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

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

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**10. Concentrations of Risk:**

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

The mix of gross receivables from patients was as follows:

	2021	2020
Medicare	48 %	35 %
Medicaid	5	4
Other third-party payors	37	41
Patients	10	20
	100 %	100 %

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

**11. Paycheck Protection Program Loan:**

In May 2020, the District was granted a loan from US Bank in the aggregate amount of \$885,719, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The PPP loan, which was in the form of a note dated May 18, 2020, matured on May 14, 2022, and bears interest at a rate of 1 percent per annum, payable monthly commencing on December 14, 2020. The note may be prepaid by the District at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred after February 15, 2020. The District used the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The District applied for PPP loan forgiveness in April 2021, and forgiveness was approved.

The District received a second PPP loan from Columbia State Bank in the amount of \$1,007,887, dated April 6, 2021. The District applied for PPP loan forgiveness for this loan in December 2021, and forgiveness was approved.

The loan forgiveness for both PPP loans, totaling \$1,893,606, is recorded as a gain on forgiveness of Paycheck Protection Program loans in the statement of revenues, expenses, and changes in net position for the year ending December 31, 2021.



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2021 and 2020**

**12. CARES Act Provider Relief Fund:**

In April through May 2020, the District received \$3,548,623 of funding from the CARES Act Provider Relief Fund. The District received additional Provider Relief Fund payments of \$329,608 in 2021. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the years ended December 31, 2021 and 2020, the District recognized \$262,657 and \$3,449,340, respectively, of grant revenue from these funds. The District had \$166,234 remaining funds as of December 31, 2021, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

**13. Subsequent Event:**

The District entered into an agreement in November 2021 for a new electronic health record (EHR) system. The system will not be implemented until 2022. The initial term of the contract is seven years and will require estimated total costs of approximately \$2,350,000, which includes the licensing of the EHR software, implementation costs, and related support fees.

**14. Prior Period Adjustment:**

The District identified an error in the calculations of the allowance for contractual adjustments in the 2020 and 2019 financial statements.

Beginning net position was restated as follows for the year ended December 31, 2020:

Net position at beginning of year - as originally stated	\$	6,542,967
Adjustment to correct the allowance for contractual adjustments		587,729
<b>Net position at beginning of year - as restated</b>	<b>\$</b>	<b>7,130,696</b>

Change in net position was restated as follows for the year ended December 31, 2020:

Change in net position - as originally stated	\$	1,898,806
Adjustment to correct the allowance for contractual adjustments - 2019		(587,729)
Adjustment to correct the allowance for contractual adjustments - 2020		1,245,449
<b>Change in net position - as restated</b>	<b>\$</b>	<b>2,556,526</b>

Ending net position was restated as follows for the year ended December 31, 2020:

Net position at end of year - as originally stated	\$	8,441,773
Adjustment to correct the allowance for contractual adjustments - 2020		1,245,449
<b>Net position at end of year - as restated</b>	<b>\$</b>	<b>9,687,222</b>

## **SINGLE AUDIT**

## **AUDITORS' SECTION**



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

Board of Commissioners  
Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Ritzville, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the 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 as listed in the table of contents, and have issued our report thereon dated February 20, 2024.

**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 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.

*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 audit findings and questioned costs as items 2021-001 and 2021-002 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, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
February 20, 2024

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
THE DISTRICT'S MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners  
Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Ritzville, Washington

**Report on Compliance for the District's Major Federal Program**

***Opinion on the District's Major Federal Program***

We have audited Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2021. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

***Basis for Opinion on the District's Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the District's major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal program.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
February 20, 2024



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended December 31, 2021**

**Section I – Summary of Auditors’ Results**

**Financial Statements:**

Type of auditors' report issued:	<i>Unmodified</i>	
Internal control over financial reporting:		
• Material weakness(es) identified?	<u>    X    </u> yes	<u>        </u> no
• Significant deficiency(ies) identified?	<u>        </u> yes	<u>    X    </u> none reported
Noncompliance material to financial statements noted?	<u>        </u> yes	<u>    X    </u> no

**Federal Awards:**

Internal control over major federal program:		
• Material weakness(es) identified?	<u>        </u> yes	<u>    X    </u> no
• Significant deficiency(ies) identified?	<u>        </u> yes	<u>    X    </u> none reported
Type of auditors' report issued on compliance for major federal program:	<i>Unmodified</i>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u>        </u> yes	<u>    X    </u> no

**Identification of major federal program:**

<i>Federal Assistance Listing Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

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Dollar threshold used to distinguish between type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	<u>        </u> yes	<u>    X    </u> no
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**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Audit Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2021**

**Section II – Financial Statement Findings**

**2021-001 Account Reconciliations**

<i>Condition</i>	There should not be any significant or material adjusting journal entries made during the audit process. Patient revenue, Medicare accelerated payments, purchase order accruals, and the allowance for doubtful accounts were not adequately reconciled during the year.
<i>Criteria</i>	<p>[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness</p> <p>During the audit process, numerous adjusting journal entries were both prepared by management and proposed by the audit team to achieve accurate account balances. Significant adjustments were made to correct balances related to patient revenue, Medicare accelerated payments, purchase order accruals, and the allowance for doubtful accounts, including a prior period adjustment for the allowance for doubtful accounts. Management was unable to completely reconcile many of the discrepancies, determine appropriate adjustments needed to correct the balances, or provide supporting schedules demonstrating which invoices or system reports made up the balances.</p>
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	Although performed regularly by management, reconciliations and review are not being executed with the level of precision necessary to identify needed adjustments in a timely manner.
<i>Effect</i>	Financial reports depended upon by management, the Board of Commissioners, and external financial statement users may not present an accurate image of the District's financial position.
<i>Recommendation</i>	All statement of net position accounts should be reconciled to system reports listing the individual balances making up the total balance in each account, adjusting as necessary each month. Accurate and consistent schedules should be used from year to year when making adjustments to account balances.
<i>Management's Response</i>	The Chief Financial Officer (CFO) will reconcile all balance sheet accounts on a monthly basis to the subsidiary ledgers and applicable supporting documentation in accordance with new month end close procedures. Adjusting entries will be made monthly to ensure the most accurate reflection of the District's financial position.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Audit Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2021**

**2021-002 Manual Journal Entries**

<i>Condition</i>	The review process for manual journal entries is not adequately designed and does not operate effectively enough to prevent, detect, and correct potential misstatements. Many of the manual journal entries posted during the year were not reviewed by someone other than the Chief Financial Officer, who prepared and posted the journal entries.
<i>Criteria</i>	<p>[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness</p> <p>Local governmental entities are required to maintain internal controls over financial accounting and reporting systems to ensure public funds are properly safeguarded. Review of manual journal entries reduces the risk of errors and the risk that a single employee could conduct inappropriate or illegal activities, conceal such activities, and not be discovered.</p>
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	There was no consistently followed process during the year to ensure that each manual journal entry was properly reviewed by someone other than the person preparing and posting the entry.
<i>Effect</i>	There is an increased risk of fraudulent or erroneous journal entries being posted to the general ledger and not being detected by the District's internal controls.
<i>Recommendation</i>	All manual journal entries posted to the general ledger should be regularly and thoroughly reviewed by an individual with the training and sufficient knowledge to detect mistakes. Journal entries should not be reviewed by the same individual who posted them. We recommend the CFO and administrative assistant print and review a report monthly showing all manual journal entries posted during the month, verifying all entries were properly reviewed in accordance with the District's policies. We further recommend providing additional training and explanation to each individual involved with the manual journal entry process, to strengthen understanding of what is being reviewed.
<i>Management's Response</i>	The CFO will ensure the Accounts Payable Clerk, Revenue Cycle Manager, and/or the Administrative Assistant are properly trained and sufficiently knowledgeable in all manual journal entries prepared and reviewed for posting to the general ledger. Each manual journal entry will be reviewed and approved by one of these three positions, separate from the individual preparing the entry in accordance with the District's policies.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Audit Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2021**

**Section III – Federal Award Findings and Questioned Costs**

There are no matters reported for 2021. Therefore, no corrective action plan is necessary, nor has one been prepared.

**AUDITEE'S SECTION**

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2021**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Additional Award Identification</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Health and Human Services Direct Programs:</b>				
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		COVID-19	\$ 3,452,854
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		COVID-19	133,048
Total U.S. Department of Health and Human Services Direct Programs				3,585,902
<b>Total expenditures of federal awards</b>				<b>\$ 3,585,902</b>

*See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.*

**Notes to the Schedule of Expenditures of Federal Awards**

**1. Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) under programs of the federal government for the year ended December 31, 2021. Amounts reported on the Schedule for Federal Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution are based upon the June 30, 2021, Provider Relief Fund report. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



East Adams Rural  
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**Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Corrective Action Plan  
Year Ended December 31, 2021**

The current year Schedule of Audit Findings and Questioned Costs reported two matters in Section II – *Financial Statement Findings* and no matters in Section III – *Federal Award Findings and Questioned Costs*.

**Current year audit findings:**

**2021-001 Account Reconciliations**

**Corrective action planned:**

***Corrective action planned:***

The Chief Financial Officer (CFO) will reconcile all balance sheet accounts on a monthly basis to the subsidiary ledgers and applicable supporting documentation in accordance with new month end close procedures. Adjusting entries will be made monthly to ensure the most accurate reflection of the District's financial position.

***Anticipated completion date:***

March 31, 2024

***Contact person responsible for  
corrective action:***

Matt Gosman, CFO

**2021-002 Manual Journal Entries**

**Corrective action planned:**

***Corrective action planned:***

The CFO will ensure the Accounts Payable Clerk, Revenue Cycle Manager, and/or the Administrative Assistant are properly trained and sufficiently knowledgeable in all manual journal entries prepared and reviewed for posting to the general ledger. Each manual journal entry will be reviewed and approved by one of these three positions, separate from the individual preparing the entry in accordance with the District's policies.

***Anticipated completion date:***

March 31, 2024

***Contact person responsible for  
corrective action:***

Matt Gosman, CFO



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**Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Summary Schedule of Prior Year Audit Findings  
Year Ended December 31, 2021**

Description		Current Status
2019-001	Account Reconciliations	Repeated
2019-002	Manual Journal Entries	Repeated