



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

October 7, 2024

Board of Commissioners
North Valley Hospital
Tonasket, 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 North Valley Hospital 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 North Valley Hospital'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

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Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital

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

December 31, 2021 and 2020



Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Tonasket, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (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 its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 12 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, including omissions, 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 basic financial statements as a whole. The accompanying schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of these 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 basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 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 14, 2022, which has not been included with the 2021 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, 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 22, 2024

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Net Position
December 31, 2021 and 2020

| ASSETS | 2021 | 2020 |
|--|----------------------|----------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 10,699,570 | \$ 15,613,329 |
| Receivables: | | |
| Patient accounts | 4,510,681 | 2,505,173 |
| Taxes | 22,005 | 24,568 |
| Taxes restricted for debt service | 34,018 | 40,460 |
| Estimated third-party payor settlements | 198,000 | 519,874 |
| Other | 45,973 | 122,023 |
| Cash and cash equivalents, restricted for debt service | 1,022,230 | 945,686 |
| Inventories | 511,205 | 441,723 |
| Prepaid expenses | 303,456 | 355,250 |
| Total current assets | 17,347,138 | 20,568,086 |
| <i>Noncurrent assets</i> | | |
| Capital assets, net of accumulated depreciation | 13,108,937 | 12,060,485 |
| Total assets | \$ 30,456,075 | \$ 32,628,571 |

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Net Position (Continued)
December 31, 2021 and 2020

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | 2021 | 2020 |
|---|----------------------|----------------------|
| <i>Current liabilities</i> | | |
| Accounts payable | \$ 1,400,435 | \$ 1,058,822 |
| Accrued compensation and related liabilities | 363,296 | 358,598 |
| Accrued leave | 766,627 | 635,162 |
| Accrued interest payable | 20,757 | 22,790 |
| Estimated third-party payor settlements | 847,886 | - |
| Current maturities of long-term debt | 867,225 | 825,736 |
| Current maturities of capital lease obligations | 155,245 | 149,477 |
| Medicare accelerated payments payable | 2,193,415 | 3,878,288 |
| Unearned CARES Act Provider Relief Funds | 100,000 | 3,405,754 |
| Unearned COVID-19 grants | 252,684 | 83,136 |
| Total current liabilities | 6,967,570 | 10,417,763 |
| <i>Noncurrent liabilities</i> | | |
| Long-term debt, less current maturities | 7,313,864 | 8,214,116 |
| Capital lease obligations, less current maturities | 483,813 | 638,999 |
| Paycheck Protection Program note payable | - | 2,499,500 |
| Total noncurrent liabilities | 7,797,677 | 11,352,615 |
| Total liabilities | 14,765,247 | 21,770,378 |
| <i>Deferred inflows of resources, bond refunding</i> | 56,730 | 62,311 |
| <i>Net position</i> | | |
| Net investment in capital assets | 4,211,303 | 2,147,056 |
| Restricted for debt service | 1,056,248 | 986,146 |
| Unrestricted | 10,366,547 | 7,662,680 |
| Total net position | 15,634,098 | 10,795,882 |
| Total liabilities, deferred inflows of resources, and net position | \$ 30,456,075 | \$ 32,628,571 |

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
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 | \$ 27,273,651 | \$ 24,543,670 |
| Other | 447,889 | 366,053 |
| Total operating revenues | 27,721,540 | 24,909,723 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 12,372,353 | 11,462,701 |
| Employee benefits | 3,207,298 | 2,732,609 |
| Professional fees | 6,855,060 | 6,630,231 |
| Supplies | 3,444,873 | 2,251,050 |
| Utilities | 411,130 | 376,132 |
| Rentals and leases | 417,122 | 411,036 |
| Repairs and maintenance | 480,945 | 387,154 |
| Depreciation and amortization | 1,262,173 | 1,232,527 |
| Insurance | 305,636 | 186,715 |
| Other | 964,617 | 579,171 |
| Total operating expenses | 29,721,207 | 26,249,326 |
| <i>Operating loss</i> | (1,999,667) | (1,339,603) |
| <i>Nonoperating revenues (expenses)</i> | | |
| CARES Act Provider Relief Fund | 2,392,036 | 853,706 |
| COVID-19 grants | 651,856 | 274,921 |
| Taxation for maintenance and operations | 503,481 | 489,124 |
| Taxation for bond principal and interest | 786,182 | 787,546 |
| Contributions | 283,788 | 347,731 |
| Investment income | 9,435 | 31,506 |
| Interest expense | (288,395) | (301,921) |
| Total nonoperating revenues, net | 4,338,383 | 2,482,613 |
| <i>Change in net position before gain on forgiveness of Paycheck Protection Program loan</i> | 2,338,716 | 1,143,010 |
| Gain on forgiveness of Paycheck Protection Program loan | 2,499,500 | - |
| Change in net position | 4,838,216 | 1,143,010 |
| Net position, beginning of year | 10,795,882 | 9,652,872 |
| Net position, end of year | \$ 15,634,098 | \$ 10,795,882 |

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Cash received from and on behalf of patients | \$ 26,437,903 | \$ 24,420,233 |
| Cash received from other revenue | 523,939 | 354,846 |
| Cash paid to and on behalf of employees | (15,443,488) | (14,202,104) |
| Cash paid to suppliers and contractors | (12,555,458) | (10,674,747) |
| Net cash from operating activities | (1,037,104) | (101,772) |
| <i>Cash flows from noncapital financing activities</i> | | |
| Cash received from taxation for maintenance and operations | 506,044 | 499,434 |
| Cash received from contributions | 283,788 | 347,731 |
| Cash received from Medicare accelerated payments | - | 3,878,288 |
| Payments on Medicare accelerated payments | (1,684,873) | - |
| Cash received from CARES Act Provider Relief Fund | 179,667 | 4,259,460 |
| Cash paid for unused CARES Act Provider Relief Fund | (1,093,385) | - |
| Cash received from COVID-19 grants | 821,404 | 358,057 |
| Cash received from Paycheck Protection Program | - | 2,499,500 |
| Net cash from noncapital financing activities | (987,355) | 11,842,470 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Cash received from taxation for bond principal and interest | 792,624 | 804,553 |
| Cash received from issuance of long-term debt | - | 1,050,000 |
| Principal paid on long-term debt | (825,736) | (750,874) |
| Principal paid on capital lease obligations | (149,418) | (144,161) |
| Interest paid on long-term debt | (300,931) | (320,564) |
| Interest paid on capital lease obligations | (28,105) | (33,360) |
| Purchase of capital assets | (2,310,625) | (1,983,827) |
| Net cash from capital and related financing activities | (2,822,191) | (1,378,233) |
| <i>Cash flows from investing activities</i> | | |
| Interest received | 9,435 | 31,506 |
| Net increase (decrease) in cash and cash equivalents | (4,837,215) | 10,393,971 |
| Cash and cash equivalents, beginning of year | 16,559,015 | 6,165,044 |
| Cash and cash equivalents, end of year | \$ 11,721,800 | \$ 16,559,015 |

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|-----------------------|----------------------|
| <i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i> | | |
| Cash and cash equivalents | \$ 10,699,570 | \$ 15,613,329 |
| Cash and cash equivalents, restricted for debt service | 1,022,230 | 945,686 |
| Total cash and cash equivalents | \$ 11,721,800 | \$ 16,559,015 |
| <i>Reconciliation of Operating Loss to Net Cash From Operating Activities</i> | | |
| Operating loss | \$ (1,999,667) | \$ (1,339,603) |
| <i>Adjustments to reconcile operating loss to net cash from operating activities</i> | | |
| Depreciation and amortization | 1,262,173 | 1,232,527 |
| Provision for bad debts | 1,586,651 | 990,088 |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Patient accounts | (3,592,159) | (628,627) |
| Estimated third-party payor settlements | 321,874 | (469,600) |
| Other | 76,050 | (11,207) |
| Inventories | (69,482) | (46,187) |
| Prepaid expenses | 51,794 | (156,153) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 341,613 | 349,082 |
| Accrued compensation and related liabilities | 4,698 | (148,967) |
| Accrued leave | 131,465 | 142,173 |
| Estimated third-party payor settlements | 847,886 | (15,298) |
| Net cash from operating activities | \$ (1,037,104) | \$ (101,772) |

See accompanying notes to basic financial statements.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements
Years Ended December 31, 2021 and 2020

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Okanogan County Public Hospital District No. 4 (the District) owns and operates two separate operating divisions: a hospital division (the Hospital), which includes North Valley Hospital, a 25-bed critical access hospital in Tonasket, Washington, and a long-term care division (LTC) encompassing a 42-bed skilled nursing facility located in Tonasket, Washington. The District provides healthcare services to patients in the North Central Okanogan County, Washington, area. The services provided include acute care hospital, long-term nursing care, emergency room, physicians' clinic, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from paying federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms. The District is not a component unit of Okanogan County.

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. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – All cash receipts are deposited into a depository bank account. Periodically, these funds are transferred to the Okanogan County Treasurer (County Treasurer). The County Treasurer acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

Inventories – Inventories of medical and other supplies are stated at cost (first-in, first-out method), which is considered lower than market price.

Compensated absences – The District's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates each pay period throughout the year with a maximum of 500 hours. Employees may carry over 100 percent of the PTO hours earned in one year to the next year. After one year of continuous employment, employees may cash out accrued PTO hours one time every year. Additionally, the employee must have at least the number of hours equivalent to the employee's regular weekly scheduled hours of PTO remaining accrued after such payout. On termination of employment, the employee shall be paid all accrued and unused PTO hours, given they meet the requirements in the personnel policies. PTO is accrued when earned.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
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)

Compensated absences (continued) – The District’s employees also earn extended illness benefits (EIB) at varying rates based on actual hours worked and job classification. EIB accruals are available for use in the pay period following successful completion of the probationary period. EIB may be accessed immediately for the use of medically qualifying leave for the employee or for family members as designated by the Washington State Family Care Act, as amended, under varying circumstances as outlined in the policy. By November 1 of each calendar year, an employee may make a written request to the human resources director or designee to convert a designated number of PTO hours to the EIB bank. The maximum accrual for EIB is 500 hours. Hours in the EIB bank shall not be paid upon resignation or termination of employment except for personnel hired prior to June 26, 2014. For personnel hired prior to June 26, 2014, after 20 years of continuous service, a cash payout of up to 100 hours per year is allowable. At least 100 hours must remain in the employees’ EIB bank. Cash payouts are paid at 50 percent.

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

Deferred inflows of resources, bond refunding – The difference between the reacquisition price and the carrying amount of the refinanced 2007 unlimited general obligation bonds has been deferred and is amortized using the straight-line method over the life of the refunding bonds.

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

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
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)

Grants and contributions – From time to time, the District receives grants from individuals and other 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.

Upcoming accounting standards 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, 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.

Subsequent events – Subsequent events have been reviewed through February 22, 2024, the date on which the financial statements were available to be issued.

Reclassifications – Certain amounts have been reclassified in the 2020 financial statements in order to be consistent with the 2021 financial statements presentation. Those reclassifications had no effect on the previously reported change in net position.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
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 refunded to it. All cash and cash equivalents held by the County Treasurer or deposited with qualified public depositories are protected against loss by the State of Washington Public Deposit Protection Commission, as provided by the Revised Code of Washington (RCW) Chapter 39.58, subject to certain limitations. Qualified public depositories, including Wells Fargo and Umpqua Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington. The cash on deposit with these banks is also insured through the Federal Deposit Insurance Corporation.

The RCW, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Okanogan County Investment Pool at December 31, 2021 and 2020, were \$8,562,789 and \$8,553,058, respectively. The Okanogan County Investment Pool consists only of a simple money market account.

Investments in the Okanogan County Local Government Investment Pool are reported at fair value based on the net asset value per share. Investments generally may be redeemed with no waiting period with proper notice to the Okanogan County Treasurer.

3. Patient Accounts Receivable:

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

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

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

3. Patient Accounts Receivable (continued):

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

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Receivables from patients and their insurance carriers | \$ 4,051,577 | \$ 2,466,217 |
| Receivables from Medicare | 2,237,399 | 1,322,990 |
| Receivables from Medicaid | 541,291 | 320,440 |
| Total patient accounts receivable | 6,830,267 | 4,109,647 |
| Less allowance for uncollectible accounts | (2,319,586) | (1,604,474) |
| Patient accounts receivable, net | \$ 4,510,681 | \$ 2,505,173 |

4. Property Taxes:

The Okanogan County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the Okanogan County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

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

The District has two levies: maintenance and operations (M&O) levy and 2007 and 2008 bond levies.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

4. Property Taxes (continued):

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

| 2021 | | | |
|-------------|------------------|-----------------------|--------------------|
| | Levy Rate | Assessed Value | Levy Amount |
| M&O levy | 0.442612 | \$ 1,131,268,254 | \$ 500,713 |
| Bond levies | 0.685700 | \$ 1,124,311,179 | \$ 770,940 |
| 2020 | | | |
| | Levy Rate | Assessed Value | Levy Amount |
| M&O levy | 0.458467 | \$ 1,066,867,322 | \$ 489,123 |
| Bond levies | 0.729855 | \$ 1,060,832,419 | \$ 774,254 |

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.

5. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation or amortization is removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues or expenses. All capital assets, other than land and construction in progress, are being depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Such amortization is included in depreciation and amortization in the financial statements. Useful lives have been estimated as follows:

| | |
|-------------------|---------------|
| Land improvements | 2 to 20 years |
| Buildings | 5 to 40 years |
| Fixed equipment | 5 to 25 years |
| Movable equipment | 3 to 20 years |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

5. Capital Assets (continued):

Capital additions, retirements, transfers, and balances follow:

| | Balance December 31, 2020 | Additions | Retirements | Transfers | Balance December 31, 2021 |
|---|---------------------------------|---------------------|-------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 358,540 | \$ - | \$ - | \$ - | \$ 358,540 |
| Construction in progress | 787,429 | 1,550,573 | - | (920,752) | 1,417,250 |
| Total capital assets not being depreciated | 1,145,969 | 1,550,573 | - | (920,752) | 1,775,790 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 719,936 | - | - | - | 719,936 |
| Buildings | 14,144,542 | - | - | 228,456 | 14,372,998 |
| Fixed equipment | 6,615,562 | 34,953 | - | 692,296 | 7,342,811 |
| Movable equipment | 7,602,003 | 725,099 | (25,832) | - | 8,301,270 |
| Total capital assets being depreciated | 29,082,043 | 760,052 | (25,832) | 920,752 | 30,737,015 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | 715,095 | 2,014 | - | - | 717,109 |
| Buildings | 6,504,420 | 473,198 | - | - | 6,977,618 |
| Fixed equipment | 5,075,962 | 179,195 | - | - | 5,255,157 |
| Movable equipment | 5,872,050 | 607,766 | (25,832) | - | 6,453,984 |
| Total accumulated depreciation | 18,167,527 | 1,262,173 | (25,832) | - | 19,403,868 |
| Total capital assets being depreciated, net | 10,914,516 | (502,121) | - | 920,752 | 11,333,147 |
| Capital assets, net | \$ 12,060,485 | \$ 1,048,452 | \$ - | \$ - | \$ 13,108,937 |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

5. Capital Assets (continued):

Capital additions, retirements, transfers, and balances follow:

| | Balance December 31, 2019 | Additions | Retirements | Transfers | Balance December 31, 2020 |
|--|---------------------------------|-------------------|-------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 358,540 | \$ - | \$ - | \$ - | \$ 358,540 |
| Construction in progress | 78,151 | 1,200,189 | - | (490,911) | 787,429 |
| Total capital assets not being depreciated | 436,691 | 1,200,189 | - | (490,911) | 1,145,969 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 719,936 | - | - | - | 719,936 |
| Buildings | 13,742,166 | - | - | 402,376 | 14,144,542 |
| Fixed equipment | 6,528,794 | 71,051 | - | 15,717 | 6,615,562 |
| Movable equipment | 6,816,598 | 712,587 | - | 72,818 | 7,602,003 |
| Total capital assets being depreciated | 27,807,494 | 783,638 | - | 490,911 | 29,082,043 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | 711,908 | 3,187 | - | - | 715,095 |
| Buildings | 6,046,391 | 458,029 | - | - | 6,504,420 |
| Fixed equipment | 4,878,138 | 197,824 | - | - | 5,075,962 |
| Movable equipment | 5,298,563 | 573,487 | - | - | 5,872,050 |
| Total accumulated depreciation | 16,935,000 | 1,232,527 | - | - | 18,167,527 |
| <i>Total capital assets being depreciated, net</i> | | | | | |
| | 10,872,494 | (448,889) | - | 490,911 | 10,914,516 |
| Capital assets, net | \$ 11,309,185 | \$ 751,300 | \$ - | \$ - | \$ 12,060,485 |

Construction in progress at December 31, 2021, consisted primarily of architecture costs associated with a project to replace HVAC systems throughout the District's buildings and other building upgrades. The project is expected to be completed in October 2024 and is expected to have a total cost of approximately \$6,500,000. In April 2022, the District received a \$1,000,000 grant from the United States Department of Agriculture to assist in funding the project. The remaining costs will be financed primarily through a \$5,000,000 Limited Tax General Obligation and Revenue Bond, which was issued in June 2023. In June 2023, the District entered into an agreement with Swinerton Builders to begin construction on the project. Total obligations per this contract are approximately \$5,500,000.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

6. Long-term Debt and Capital Lease Obligations:

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

| | Balance December 31, 2020 | Additions | Reductions | Balance December 31, 2021 | Amount Due Within One Year |
|---|---------------------------------|---------------------|-----------------------|---------------------------------|----------------------------------|
| <i>Long-term debt</i> | | | | | |
| Limited Tax General Obligation Bonds, 2002 | \$ 403,512 | \$ - | \$ (196,442) | \$ 207,070 | \$ 207,070 |
| Unlimited Tax General Obligation Bonds, 2017 | 7,340,000 | - | (465,000) | 6,875,000 | 490,000 |
| Bond premiums and discounts | 365,838 | - | (33,027) | 332,811 | - |
| KS State Bank note payable | 930,502 | - | (164,294) | 766,208 | 170,155 |
| Total long-term debt | 9,039,852 | - | (858,763) | 8,181,089 | 867,225 |
| <i>Capital lease obligations</i> | 788,476 | - | (149,418) | 639,058 | 155,245 |
| Total long-term debt and capital lease obligations | \$ 9,828,328 | \$ - | \$ (1,008,181) | \$ 8,820,147 | \$ 1,022,470 |
| | | | | | |
| | Balance December 31, 2019 | Additions | Reductions | Balance December 31, 2020 | Amount Due Within One Year |
| <i>Long-term debt</i> | | | | | |
| Limited Tax General Obligation Bonds, 2002 | \$ 589,888 | \$ - | \$ (186,376) | \$ 403,512 | \$ 196,442 |
| Unlimited Tax General Obligation Bonds, 2017 | 7,785,000 | - | (445,000) | 7,340,000 | 465,000 |
| Bond premiums and discounts | 396,323 | - | (30,485) | 365,838 | - |
| KS State Bank note payable | - | 1,050,000 | (119,498) | 930,502 | 164,294 |
| Total long-term debt | 8,771,211 | 1,050,000 | (781,359) | 9,039,852 | 825,736 |
| <i>Capital lease obligations</i> | 932,637 | - | (144,161) | 788,476 | 149,477 |
| Total long-term debt and capital lease obligations | \$ 9,703,848 | \$ 1,050,000 | \$ (925,520) | \$ 9,828,328 | \$ 975,213 |

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

- Note payable to KS State Bank dated March 1, 2020, in the original amount of \$1,050,000, payable monthly in varying principal installments from \$13,953 in 2022 to \$16,147 in 2026, plus interest at 3.51 percent.

The note was issued for the purpose of upgrading the Hospital boiler and constructing a new clinic. The note is collateralized by the boiler equipment.

- Limited Tax General Obligation (LTGO) Improvement and Refunding Bonds, 2002 Series A (tax-exempt) dated October 1, 2002, in the original amount of \$2,473,000, are payable semiannually on June 1 and December 1, in varying principal installments from \$96,929 in 2021 to \$104,887 in 2022, plus interest at 5.33 percent.

The 2002 LTGO bonds were issued for the purpose of refunding the 1991, 1995, and 1997 LTGO bonds. The 1991 bonds were issued for the purpose of purchasing and furnishing a clinic; the 1995 and 1997 bonds were issued for the purpose of constructing an assisted living center.

LTGO 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.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

6. Long-term Debt and Capital Lease Obligations (continued):

Long-term debt (continued) –

- Unlimited Tax General Obligation (UTGO) Bonds, series 2017, dated December 1, 2017, in the original amount of \$8,760,000, payable annually in varying principal installments from \$490,000 in 2022 to \$785,000 in 2032, plus interest varying from 3 percent to 4 percent.

The 2017 UTGO bonds were issued for the purpose of refunding the 2007 UTGO bonds. The 2007 UTGO bonds were issued for the purpose of expanding and modernizing the Hospital and to purchase land required for the expansion.

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 2007 UTGO bonds and a special levy to pay the principal and interest. Tax receipts limited for the bond redemption and interest are used to pay the principal and interest each year.

Aggregate annual principal and interest payments over the terms of long-term debt follow:

| Years Ending December 31, | UTGO Bonds | | | LTGO Bonds | | |
|------------------------------|---------------------|---------------------|---------------------|-------------------|-----------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2022 | \$ 490,000 | \$ 238,025 | \$ 728,025 | \$ 207,070 | \$ 8,313 | \$ 215,383 |
| 2023 | 515,000 | 218,425 | 733,425 | - | - | - |
| 2024 | 540,000 | 202,975 | 742,975 | - | - | - |
| 2025 | 565,000 | 186,775 | 751,775 | - | - | - |
| 2026 | 590,000 | 169,825 | 759,825 | - | - | - |
| 2027-2031 | 3,390,000 | 539,700 | 3,929,700 | - | - | - |
| 2032 | 785,000 | 31,400 | 816,400 | - | - | - |
| | \$ 6,875,000 | \$ 1,587,125 | \$ 8,462,125 | \$ 207,070 | \$ 8,313 | \$ 215,383 |

| Years Ending December 31, | Note Payable | | | Totals | | |
|------------------------------|-------------------|------------------|-------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2022 | \$ 170,155 | \$ 24,174 | \$ 194,329 | \$ 867,225 | \$ 270,512 | \$ 1,137,737 |
| 2023 | 176,223 | 18,104 | 194,327 | 691,223 | 236,529 | 927,752 |
| 2024 | 182,510 | 11,818 | 194,328 | 722,510 | 214,793 | 937,303 |
| 2025 | 189,020 | 5,308 | 194,328 | 754,020 | 192,083 | 946,103 |
| 2026 | 48,300 | 2,823 | 51,123 | 638,300 | 172,648 | 810,948 |
| 2027-2031 | - | - | - | 3,390,000 | 539,700 | 3,929,700 |
| 2032 | - | - | - | 785,000 | 31,400 | 816,400 |
| | \$ 766,208 | \$ 62,227 | \$ 828,435 | \$ 7,848,278 | \$ 1,657,665 | \$ 9,505,943 |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

6. Long-term Debt and Capital Lease Obligations (continued):

Capital lease obligations – During 2018, the District entered into a capital lease obligation with an interest rate of 3.148 percent. The lease is collateralized by an X-ray machine. At December 31, 2021 and 2020, the capitalized cost of the capital lease obligation was \$144,000 and the accumulated amortization was \$72,000 and \$54,000, respectively.

Additionally, during 2018, the District entered into a master lease purchase agreement, under which the District received \$985,000 for medical equipment and capital improvements whose title will transfer to the lender and will be leased to the District over the period of 15 years, with payments beginning in January 2019. The District will assume ownership of the assets at the conclusion of the lease and, therefore, the amount has been reported as a capital lease obligation. At December 31, 2021 and 2020, the capitalized cost of the capital lease obligation was \$961,209 and the accumulated amortization was \$430,799 and \$283,096, respectively.

Scheduled future annual payments on capital lease obligations are as follows:

| Years Ending December 31, | Amount |
|--|-------------------|
| 2022 | \$ 176,915 |
| 2023 | 176,915 |
| 2024 | 176,915 |
| 2025 | 158,329 |
| 2026 | - |
| Total future minimum lease payments | 689,074 |
| Less amount representing interest | (50,016) |
| Present value of future minimum lease payments | 639,058 |
| Less current maturities | (155,245) |
| Total capital lease obligations, net of current maturities | \$ 483,813 |

7. Paycheck Protection Program Note Payable:

On May 6, 2020, the District was granted two loans from Umpqua Bank in the aggregate amount of \$2,499,500, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The District applied for PPP loan forgiveness in March 2021, and forgiveness was approved. The loan forgiveness is recorded as a gain on forgiveness of Paycheck Protection Program loan in the statements of revenues, expenses, and changes in net position.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

8. 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 write-offs have not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during 2021 or 2020.

Patient service revenue, net of contractual adjustments and discounts, recognized in the period from these major payor sources, is as follows:

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 13,306,811 | \$ 11,660,329 |
| Medicaid | 6,863,323 | 7,301,938 |
| Other third-party payors | 6,605,441 | 4,802,941 |
| Patients | 2,098,028 | 1,591,970 |
| Proshare | 424,417 | 586,985 |
| | 29,298,020 | 25,944,163 |
| Less: | | |
| Charity care | (437,718) | (410,405) |
| Provision for bad debts | (1,586,651) | (990,088) |
| Net patient service revenue | \$ 27,273,651 | \$ 24,543,670 |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

8. Net Patient Service Revenue (continued):

The District has agreements with third-party payors that provide for payments 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 by Medicare, and is reimbursed for most inpatient, swing-bed, and outpatient services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for skilled nursing facility services under a prospective payment system. Physician services are reimbursed on a fee schedule. The Medicare program’s administrative procedures preclude final determination of amounts due to the District for such services until three years after the District’s cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Nursing home services are reimbursed based on costs as defined and limited by the Medicaid program. Swing-bed services are reimbursed on a prospectively set rate per day. Physician services are reimbursed on a fee schedule.
- The District has also 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 increased by approximately \$5,800 and \$11,000 in the years ended December 31, 2021 and 2020, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for each of the years ended December 31, 2021 and 2020, was approximately \$280,000.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

9. CARES Act Provider Relief Fund:

Through December 31, 2021, the District received approximately \$4,370,000 of funding from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District recorded these funds as unearned revenue until eligible expenses or lost revenues are recognized. During the years ended December 31, 2021 and 2020, the District recognized approximately \$2,400,000 and \$850,000 of revenue from these funds, respectively. The District returned \$1,093,385 of Provider Relief Fund receipts to the U.S. Health Resources & Services Administration in December 2021. The District had \$100,000 remaining as of December 31, 2021, which was returned in April 2023.

10. Retirement Plans:

The District provides benefits through the North Valley Hospital Profit Sharing Plan (the 401(a) Plan), a defined contribution retirement plan under Section 401(a) of the Internal Revenue Code (IRC). The 401(a) Plan is administered by Empower Retirement. Benefit terms, including contribution requirements, for the 401(a) Plan are established and may be amended by the Board of Commissioners. In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the District to the plan plus investment earnings. The 401(a) Plan is available to all employees at least 21 years of age, on the first day of the month following 90 days of employment. Employees become vested following 800 hours of service during a 12-month period. The District can contribute up to 1 percent of eligible employees' compensation to the 401(a) Plan. The District contributed approximately \$175,000 and \$158,000 to the 401(a) Plan in 2021 and 2020, respectively.

Forfeitures and the District's liability were not material in 2021 and 2020.

The District also offers a deferred compensation plan under Section 457(b) of the IRC. The name of the plan is the Okanogan Co. Public Hospital District #4 Deferred Compensation Plan (the 457(b) Plan). The 457(b) Plan is administered by Empower Retirement. Benefit terms for the 457(b) Plan are established and may be amended by the Board of Commissioners. The 457(b) Plan is available to all employees at least 21 years of age, on the first day of the month following 90 days of employment. Employee contributions are deposited and held with accounts established with Empower Retirement and are 100 percent vested. District employees contributed approximately \$388,000 and \$350,000 to the 457(b) Plan in 2021 and 2020, respectively.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

11. Risk Management and Contingencies:

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

The District also has excess professional liability insurance with Coverys on a “claims-made” basis. The excess malpractice insurance provides \$2,000,000 per claim of primary coverage with an aggregate limit of \$2,000,000. The policy has no deductible.

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

Self-insurance risk pools – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust. The trust is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Unemployment compensation expense under the plan was approximately \$78,000 and \$44,000 in 2021 and 2020, respectively.

The District insures for workers’ compensation through the State of Washington’s Department of Labor & Industries (L&I). L&I manages all claims and pays benefits out of an insurance pool called the Washington State Fund. The fund is financed by premiums paid by employers and employees. Premiums are charged to operations as they are incurred. Workers’ compensation expense was approximately \$211,000 and \$153,000 in 2021 and 2020, respectively.

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

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.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

12. Concentration of Risks:

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

The mix of receivables from patients follows:

| | 2021 | 2020 |
|--------------------------|-------|-------|
| Medicare | 40 % | 42 % |
| Medicaid | 13 | 11 |
| Other third-party payors | 22 | 15 |
| Patients | 25 | 32 |
| | 100 % | 100 % |

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

Collective bargaining units – Effective September 1, 2020, the District renewed its contract with a labor union. As of December 31, 2021 and 2020, approximately 58 percent and 46 percent, respectively, of the District's employees were represented under a collective bargaining agreement with United Food & Commercial Workers Union Local 21. The contract was effective through August 31, 2023. As of February 22, 2024, contract negotiations have reached a tentative agreement but the new contract had not been finalized and signed.

13. COVID-19 Pandemic:

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

As part of the federal government's response to the pandemic, the District received government grants as described in Note 9 above, as well as obtaining two PPP loans as described in Note 7 above. In addition, Medicare sequestration was suspended from May 1, 2020 through March 31, 2022, which increased Medicare reimbursement by 2 percent. Medicare sequestration of 1 percent began April 1, 2022 through June 30, 2022, and full Medicare sequestration of 2 percent resumed on July 1, 2022.

Additionally, the District received Medicare accelerated payments of \$3,867,132 in April 2020. Repayment of the Medicare accelerated payments began in May 2021 and were fully repaid in September 2022.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

14. Subsequent Events:

In August 2023, the District received a distressed hospital grant award of approximately \$408,000 from the State of Washington Health Care Authority.

SUPPLEMENTAL SCHEDULES

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Divisional Statement of Net Position
December 31, 2021

| ASSETS | Hospital Division | LTC Division | Eliminations | Totals |
|--|------------------------------|-------------------------|-----------------------|----------------------|
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 10,145,892 | \$ 553,678 | \$ - | \$ 10,699,570 |
| Receivables: | | | | |
| Patient accounts | 4,356,871 | 153,810 | - | 4,510,681 |
| Taxes | 22,005 | - | - | 22,005 |
| Taxes restricted for debt service | 34,018 | - | - | 34,018 |
| Estimated third-party payor settlements | - | 198,000 | - | 198,000 |
| Other | 23,077 | 22,896 | - | 45,973 |
| Cash and cash equivalents, restricted for debt service | 1,022,230 | - | - | 1,022,230 |
| Inventories | 468,462 | 42,743 | - | 511,205 |
| Prepaid expenses | 288,644 | 14,812 | - | 303,456 |
| Total current assets | 16,361,199 | 985,939 | - | 17,347,138 |
| <i>Noncurrent assets</i> | | | | |
| Due from long-term care division | 4,940,853 | - | (4,940,853) | - |
| Capital assets, net of accumulated depreciation | 12,774,666 | 334,271 | - | 13,108,937 |
| Total noncurrent assets | 17,715,519 | 334,271 | (4,940,853) | 13,108,937 |
| Total assets | \$ 34,076,718 | \$ 1,320,210 | \$ (4,940,853) | \$ 30,456,075 |

See accompanying independent auditors' report.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Divisional Statement of Net Position (Continued)
December 31, 2021

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | Hospital Division | LTC Division | Eliminations | Totals |
|---|------------------------------|-------------------------|-----------------------|----------------------|
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 1,319,328 | \$ 81,107 | \$ - | \$ 1,400,435 |
| Accrued compensation and related liabilities | 293,267 | 70,029 | - | 363,296 |
| Accrued leave | 616,057 | 150,570 | - | 766,627 |
| Accrued interest payable | 20,757 | - | - | 20,757 |
| Estimated third-party payor settlements | 847,886 | - | - | 847,886 |
| Current maturities of long-term debt | 867,225 | - | - | 867,225 |
| Current maturities of capital lease obligations | 155,245 | - | - | 155,245 |
| Medicare accelerated payments payable | 2,182,259 | 11,156 | - | 2,193,415 |
| Unearned CARES Act Provider Relief Funds | 100,000 | - | - | 100,000 |
| Unearned COVID-19 grants | 252,684 | - | - | 252,684 |
| Total current liabilities | 6,654,708 | 312,862 | - | 6,967,570 |
| <i>Noncurrent liabilities</i> | | | | |
| Due to hospital division | - | 4,940,853 | (4,940,853) | - |
| Long-term debt, less current maturities | 7,313,864 | - | - | 7,313,864 |
| Capital lease obligations, less current maturities | 483,813 | - | - | 483,813 |
| Total noncurrent liabilities | 7,797,677 | 4,940,853 | (4,940,853) | 7,797,677 |
| Total liabilities | 14,452,385 | 5,253,715 | (4,940,853) | 14,765,247 |
| <i>Deferred inflows of resources, bond refunding</i> | 56,730 | - | - | 56,730 |
| <i>Net position</i> | | | | |
| Net investment in capital assets | 3,877,032 | 334,271 | - | 4,211,303 |
| Restricted for debt service | 1,056,248 | - | - | 1,056,248 |
| Unrestricted | 14,634,323 | (4,267,776) | - | 10,366,547 |
| Total net position | 19,567,603 | (3,933,505) | - | 15,634,098 |
| Total liabilities, deferred inflows of resources, and net position | \$ 34,076,718 | \$ 1,320,210 | \$ (4,940,853) | \$ 30,456,075 |

See accompanying independent auditors' report.

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Divisional Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2021

| | Hospital Division | LTC Division | Eliminations | Totals |
|--|------------------------------|-------------------------|---------------------|----------------------|
| <i>Operating revenues</i> | | | | |
| Net patient service revenue | \$ 23,888,135 | \$ 3,437,593 | \$ (52,077) | \$ 27,273,651 |
| Other | 255,358 | 835,574 | (643,043) | 447,889 |
| Total operating revenues | 24,143,493 | 4,273,167 | (695,120) | 27,721,540 |
| <i>Operating expenses</i> | | | | |
| Salaries and wages | 9,955,446 | 3,112,027 | (695,120) | 12,372,353 |
| Employee benefits | 2,429,102 | 778,196 | - | 3,207,298 |
| Professional fees | 6,453,545 | 401,515 | - | 6,855,060 |
| Supplies | 2,959,538 | 485,335 | - | 3,444,873 |
| Utilities | 312,937 | 98,193 | - | 411,130 |
| Rentals and leases | 400,314 | 16,808 | - | 417,122 |
| Repairs and maintenance | 457,897 | 23,048 | - | 480,945 |
| Depreciation and amortization | 1,200,441 | 61,732 | - | 1,262,173 |
| Insurance | 293,645 | 11,991 | - | 305,636 |
| Other | 856,866 | 107,751 | - | 964,617 |
| Total operating expenses | 25,319,731 | 5,096,596 | (695,120) | 29,721,207 |
| <i>Operating loss</i> | (1,176,238) | (823,429) | - | (1,999,667) |
| <i>Nonoperating revenues (expenses)</i> | | | | |
| CARES Act Provider Relief Fund | 1,754,569 | 637,467 | - | 2,392,036 |
| COVID-19 grants | 275,188 | 376,668 | - | 651,856 |
| Taxation for maintenance and operations | 503,481 | - | - | 503,481 |
| Taxation for bond principal and interest | 786,182 | - | - | 786,182 |
| Contributions | 283,731 | 57 | - | 283,788 |
| Investment income | 9,364 | 71 | - | 9,435 |
| Interest expense | (288,395) | - | - | (288,395) |
| Total nonoperating revenues, net | 3,324,120 | 1,014,263 | - | 4,338,383 |
| <i>Change in net position before gain on forgiveness of Paycheck Protection Program loan</i> | 2,147,882 | 190,834 | - | 2,338,716 |
| Gain on forgiveness of Paycheck Protection Program loan | 1,851,400 | 648,100 | - | 2,499,500 |
| Change in net position | 3,999,282 | 838,934 | - | 4,838,216 |
| Net position, beginning of year | 15,568,321 | (4,772,439) | - | 10,795,882 |
| Net position, end of year | \$ 19,567,603 | \$ (3,933,505) | \$ - | \$ 15,634,098 |

See accompanying independent auditors' report.

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
Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Tonasket, 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 Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (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 22, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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, 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 is 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 22, 2024



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

Board of Commissioners
Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Tonasket, Washington

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital'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 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 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 (*Government Auditing Standards*); 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 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 programs.

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 GAAS, *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 the 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.

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 22, 2024

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
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:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

| | | | |
|---------------|-----|---------------|---------------|
| <u> X </u> | yes | <u> </u> | no |
| <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 programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

| | | | |
|---------------|-----|--------------|---------------|
| <u> </u> | yes | <u> X </u> | no |
| <u> </u> | yes | <u> X </u> | none reported |

Type of auditors’ report issued on compliance for major federal programs:

Unmodified

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:

Federal Assistance Listing Number

Name of Federal Program or Cluster

93.498

Provider Relief Fund and American
Rescue Plan (ARP) Rural Distribution

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 |
|---------------|-----|--------------|----|

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section II – Financial Statement Findings

2021-001 – Control Environment

| | |
|-------------------------------------|---|
| <i>Criteria</i> | <p>A system of internal controls that is sufficient to prevent or detect material errors in the financial statements should be in place.</p> <p>[] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> |
| <i>Condition</i> | The District did not have a system of internal controls in place that was sufficient to prevent or detect material errors in the financial statements. |
| <i>Context</i> | This finding appears to be a <i>systemic</i> problem. |
| <i>Cause</i> | The District’s controls, including control environment, risk assessment, information/communication, and monitoring were not effectively designed or implemented within the District. |
| <i>Effect</i> | Lack of structure and oversight led to errors in financial reporting, which can affect future funding and the District’s ability to continue operations. These errors included the return of approximately \$589,000 of Provider Relief Funding in excess of the amount that should have been returned, based on the reports submitted to the Provider Relief Fund reporting portal. Additionally, inaccurate or untimely financial statements can limit management and the Board of Commissioners’ ability to make informed decisions on behalf of the District. |
| <i>Recommendation</i> | The District should create and implement policies and procedures to create a system of internal controls that is effective at preventing and detecting errors. In addition, DZA recommends the District contact the U.S. Health Resources & Services Administration in effort to get the excess repayment refunded. |
| <i>Management’s Response</i> | Management is in agreement that due to the changes in personnel and limited staff during the audit period, there have been internal control weaknesses. |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section II – Financial Statement Findings (continued)

2021-002 – Auditor Detected Adjusting Journal Entries

| | |
|-------------------------------------|--|
| <i>Criteria</i> | There should not be any significant or material auditor detected adjusting journal entries made during the audit process. [] Compliance Finding [] Significant Deficiency [X] Material Weakness |
| <i>Condition</i> | During the audit process, numerous adjusting journal entries were both prepared by management and proposed by the audit team to achieve accurate account balances. Several accounts were not reconciled prior to our audit, which caused a significant delay in the audit's completion. |
| <i>Context</i> | This finding appears to be a <i>systemic</i> problem. |
| <i>Cause</i> | Account reconciliations are not completed or reviewed timely and are not being executed with the precision necessary to identify significant adjustments in a timely manner. |
| <i>Effect</i> | Financial reports depended on 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 and adjusted as necessary each month. |
| <i>Management's Response</i> | Management is in agreement that account reconciliations have not been completed or reviewed timely. |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section II – Financial Statement Findings (continued)

2021-003 – Segregation of Duties

| | |
|-------------------------------------|--|
| <i>Criteria</i> | <p>An effective system of internal control over financial reporting requires closely related duties be segregated. In general, the principal incompatible duties to be segregated are: custody of assets, authorization or approval of related transactions affecting those assets, and recording or reporting of related transactions</p> <p>[] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> |
| <i>Condition</i> | <p>The Chief Financial Officer (CFO) has access to the District’s assets, the ability to authorize and approve transactions, and the ability to post transactions and journal entries to the financial system. In addition, the District’s CFO is responsible for approving all manual journal entries posted while also maintaining the ability to post journal entries.</p> |
| <i>Context</i> | <p>This finding appears to be a <i>systemic</i> problem.</p> |
| <i>Cause</i> | <p>Due to turnover in the District, there was not sufficient staff available to properly segregate the duties.</p> |
| <i>Effect</i> | <p>The concentration of closely related duties and responsibilities performed by the CFO does not allow for an adequate system of internal controls to deter fraud and ensure the accuracy and reliability of the accounting records. The ability to post and approve journal entries by the same person provides the opportunity to hide fraudulent transactions and increases the risk material misstatements will not be prevented or detected and corrected in a timely manner. Inaccurate or untimely financial statements can limit management and the Board of Commissioners’ abilities to make informed decisions on behalf of the District.</p> |
| <i>Recommendation</i> | <p>We recommend the District evaluate the responsibilities assigned to staff and management to properly segregate the control of assets, approval of transactions, and recording of transactions as much as possible. Where these duties cannot be completely segregated, we recommend the implementation of compensating controls, including management review and Board oversight, to further mitigate the related risks.</p> |
| <i>Management’s Response</i> | <p>Management is in agreement that due to the changes in personnel and limited staff during the audit period, there was a lapse in segregation of duties.</p> |

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Section III – Federal Award Findings and Questioned Costs

No matters were reported for 2021.

AUDITEE'S SECTION

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal Assistance Listing Number | Pass-through Entity Identifying Number | Additional Award Identification | Total Federal Expenditures |
|---|-----------------------------------|--|---------------------------------|----------------------------|
| U.S. Department of Health and Human Services Direct Programs: | | | | |
| Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution | 93.498 | | COVID-19 | \$ 3,757,850 |
| COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund | 93.461 | | COVID-19 | 85,496 |
| Total U.S. Department of Health and Human Services Direct Programs | | | | 3,843,346 |
| U.S. Department of Health and Human Services Pass-through Programs from: | | | | |
| <i>Washington Department of Health</i> | | | | |
| Small Rural Hospital Improvement Grant Program | 93.301 | HSP25253 | COVID-19 | 83,136 |
| Small Rural Hospital Improvement Grant Program | 93.301 | HSP25518 | | 10,878 |
| Total U.S. Department of Health and Human Services Pass-through Programs | | | | 94,014 |
| Total expenditures of federal awards | | | | \$ 3,937,360 |

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 Okanogan County Public Hospital District No. 4 doing business as North Valley Hospital (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, and December 31, 2021, Provider Relief Fund reports. 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 position, 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 elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Corrective Action Plan
Year Ended December 31, 2021**



203 S. Western Ave., Tonasket WA 98855
PH: 509-486-2151 • www.nvhospital.org

The current year Schedule of Audit Findings and Questioned Costs reported three 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 Control Environment

Corrective action planned:

Management will review current processes and establish appropriate internal controls.

Implement controls to separate duties related to asset custody, authorization, recording, and reconciliation. Increase automated processes through the new accounting software to reduce the potential for human error.

Provide training to accounting staff on the importance of segregation of duties and their role in maintaining effective controls.

Evaluate current documentation and reporting practices and establish a plan for report retention, consistent naming conventions, and file organization.

Management will inquire with U.S. Health Resources & Services Administration in an effort to get the excess repayment refunded.

Anticipated completion date:

June 30, 2024

Contact person responsible for corrective action:

Matthew Matthiessen, Chief Financial Officer

**Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Corrective Action Plan (Continued)
Year Ended December 31, 2021**



203 S. Western Ave., Tonasket WA 98855
PH: 509-486-2151 • www.nvhospital.org

2021-002 Auditor Detected Adjusting Journal Entries

Corrective action planned: Statement of net position accounts will be reconciled and adjusted monthly. Management will work with the accounting team to get all account reconciliations caught up and responsible individuals trained.

Document the reconciliation procedures and research ways the accounting system can be used to improve or automate the process.

Implement additional review and approval steps in the reconciliation process. All adjustment entries will be reviewed and authorized by the Controller with final approval by the CFO.

Establish a process for ongoing monitoring and review, identifying delays or issues that have contributed to falling behind schedule.

Anticipated completion date: June 30, 2024

Contact person responsible for corrective action: Melissa Thompson, Controller

2021-003 – Segregation of Duties

Corrective action planned: Management will review current accounting and asset management processes to address the issue of individuals having both custody of assets and the ability to record transactions related to those assets.

Establish dual control and approvals where necessary and utilize the new accounting software to ensure appropriate workflows for each transaction type.

The CFO will have final approval of all journal entries but will not have the access to post transactions.

Document segregation of duties policies, procedures, and controls implemented within the accounting functions of the District, and continuously evaluate.

Anticipated completion date: April 1, 2024

Contact person responsible for corrective action: Melissa Thompson, Controller

Okanogan County Public Hospital District No. 4
doing business as North Valley Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

2020-001 Control Environment

Status: Not corrected, repeated as 2021-001.
Fiscal year of initial occurrence: 2020
Planned corrective action: See corrective action plan, anticipated completion date, and contact person(s) for corrective action on finding 2021-001 above.

2020-002 Auditor Detected Adjusting Journal Entries

Status: Not corrected, repeated as 2021-002.
Fiscal year of initial occurrence: 2020
Planned corrective action: See corrective action plan, anticipated completion date, and contact person(s) for corrective action on finding 2021-002 above.