



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

November 4, 2024

Board of Commissioners
Kittitas Valley Healthcare
Ellensburg, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Kittitas Valley Healthcare for the fiscal year ended December 31, 2023. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2023 and 2022



Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Ellensburg, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare (the District) as of and for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2023, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Accounting principles generally accepted in the United States of America require that the schedule of changes in the District's total other postemployment benefits liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 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, 2023. We issued a similar report for the year ended December 31, 2022, dated May 12, 2023, which has not been included with the 2023 financial compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

D3A PLLC

Spokane Valley, Washington
May 10, 2024

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Statements of Net Position
December 31, 2023 and 2022

ASSETS	2023	2022
<i>Current assets</i>		
Cash and cash equivalents	\$ 15,389,148	\$ 22,724,891
Receivables:		
Patient accounts, net	16,493,939	12,685,818
Estimated third-party payor settlements	1,300,000	897,208
Capital grants and contributions	-	634,998
Current portion of lease	66,499	62,158
Other	599,136	731,304
Inventories	2,824,106	2,690,764
Prepaid expenses	2,096,089	1,512,320
Investments restricted for debt service	1,014,666	963,413
Total current assets	39,783,583	42,902,874
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by bond agreement for capital acquisitions	9,831,358	15,333,913
Lease receivable, net of current portion	519,005	585,504
Investments internally designated for capital acquisitions	37,391,414	36,063,629
Capital assets, net	68,379,096	52,224,319
Total noncurrent assets	116,120,873	104,207,365
Total assets	\$ 155,904,456	\$ 147,110,239

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Statements of Net Position (Continued)
December 31, 2023 and 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2023	2022
<i>Current liabilities</i>		
Accounts payable	\$ 3,892,521	\$ 2,694,887
Capital accounts payable	2,269,790	1,533,538
Accrued payroll and related liabilities	3,168,270	3,637,345
Accrued vacation	2,095,171	1,927,557
Accrued interest	286,510	273,091
Unearned grant revenue	65,000	127,031
Current portion of long-term debt	2,483,277	2,435,801
Current portion of lease liabilities	568,329	1,031,390
Current portion of subscription liabilities	822,741	-
Total current liabilities	15,651,609	13,660,640
<i>Noncurrent liabilities</i>		
Long-term debt, net of current portion	29,292,775	31,107,963
Lease liabilities, net of current portion	2,884,400	3,571,855
Subscription liabilities, net of current portion	3,592,108	-
Other postemployment benefits liability	3,885,811	3,806,216
Total noncurrent liabilities	39,655,094	38,486,034
Total liabilities	55,306,703	52,146,674
<i>Deferred inflows of resources</i>		
Other postemployment benefits	464,743	-
Leases	551,712	628,695
Total deferred inflows of resources	1,016,455	52,775,369
<i>Net position</i>		
Net investment in capital assets	36,010,524	27,604,594
Restricted under bond agreements	1,014,666	963,413
Unrestricted	62,556,108	65,766,863
Total net position	99,581,298	94,334,870
Total liabilities, deferred inflows of resources, and net position	\$ 155,904,456	\$ 147,110,239

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
<i>Operating revenues</i>		
Net patient service revenue	\$ 129,120,867	\$ 120,959,725
Grants	278,694	349,933
Other	1,270,306	1,397,389
Total operating revenues	130,669,867	122,707,047
<i>Operating expenses</i>		
Salaries and wages	59,535,376	54,598,635
Employee benefits	14,961,992	13,048,650
Other postemployment benefits	551,923	3,806,216
Professional fees	5,543,969	2,716,323
Purchased services	14,939,176	17,077,860
Supplies	15,251,946	12,425,161
Insurance	2,093,783	1,211,002
Leases and rentals	227,693	189,039
Depreciation and amortization	7,214,516	5,714,438
Repairs and maintenance	2,535,683	2,966,529
Utilities	1,360,017	1,198,526
Licenses and taxes	1,070,406	756,105
Education and travel	608,516	412,589
Other	1,491,807	1,188,873
Total operating expenses	127,386,803	117,309,946
<i>Operating income</i>	3,283,064	5,397,101
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	29,262	10,242
Investment return	3,157,297	(1,398,189)
Interest expense	(1,428,448)	(777,132)
Bond issuance costs	-	(201,065)
CARES Act Provider Relief Fund	-	2,281,913
Gain (loss) on disposal of capital assets	5,420	(1,460)
Total nonoperating revenues (expenses), net	1,763,531	(85,691)
Change in net position before capital grants and contributions	5,046,595	5,311,410
<i>Capital grants and contributions</i>	199,833	768,380
Change in net position	5,246,428	6,079,790
Net position, beginning of year	94,334,870	88,255,080
Net position, end of year	\$ 99,581,298	\$ 94,334,870

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 124,909,954	\$ 116,392,685
Cash received from other revenue	1,406,668	1,001,748
Cash received from operating grants	216,663	226,964
Cash paid to and on behalf of employees	(74,805,551)	(66,635,466)
Cash paid to suppliers and contractors	(44,643,336)	(40,962,336)
Net cash from operating activities	7,084,398	10,023,595
<i>Cash flows from noncapital financing activities</i>		
Taxes received for maintenance and operations	10,243	11,125
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(17,902,574)	(7,603,659)
Proceeds from sale of capital assets	-	2,386
Proceeds from the issuance of long-term debt	-	15,310,000
Payments for bond issuance costs	-	(201,065)
Principal payments on long-term debt	(1,767,712)	(1,203,805)
Principal payments on lease liabilities	(977,758)	(1,112,786)
Principal payments on subscription liabilities	(482,956)	-
Interest paid	(1,415,029)	(789,641)
Proceeds from capital grants and contributions	834,831	133,382
Net cash from capital and related financing activities	(21,711,198)	4,534,812
<i>Cash flows from investing activities</i>		
Purchase of investments	(16,566,781)	(13,753,868)
Proceeds from sale and maturity of investments	16,576,170	2,119,721
Interest received	1,768,870	355,618
Net cash from investing activities	1,778,259	(11,278,529)
Net change in cash and cash equivalents	(12,838,298)	3,291,003
Cash and cash equivalents, beginning of year	38,058,804	34,767,801
Cash and cash equivalents, end of year	\$ 25,220,506	\$ 38,058,804

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 15,389,148	\$ 22,724,891
Cash and cash equivalents restricted by bond agreement for capital acquisitions	9,831,358	15,333,913
Total cash and cash equivalents	\$ 25,220,506	\$ 38,058,804
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	\$ 3,283,064	\$ 5,397,101
<i>Adjustments to reconcile operating income to net cash from operating activities</i>		
Depreciation and amortization	7,214,516	5,714,438
Provision for bad debts	6,447,689	5,954,254
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(10,255,810)	(7,277,086)
Estimated third-party payor settlements	(402,792)	(897,208)
Other	151,187	(376,674)
Lease	62,158	(647,662)
Inventories	(133,342)	(208,399)
Prepaid expenses	(583,769)	(693,454)
Deferred outflows of resources, other postemployment benefits	(863)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	1,197,634	81,524
Accrued payroll and related liabilities	(469,075)	1,297,364
Accrued vacation	167,614	(285,545)
Estimated third-party payor settlements	-	(2,347,000)
Unearned grant revenue	(62,031)	(122,969)
Other postemployment benefits liability	79,595	3,806,216
Deferred inflows of resources, other postemployment benefits	465,606	-
Deferred inflows of resources, leases	(76,983)	628,695
Net cash from operating activities	\$ 7,084,398	\$ 10,023,595

Noncash Investing, Capital, and Financing Activities

During the year ended December 31, 2023, the District recorded \$5,170,103 of subscription assets and \$4,897,805 of subscription liabilities from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*.

During the year ended December 31, 2022, the District recorded \$5,716,031 of right-of-use assets and lease liabilities from the implementation of GASB No. 87, *Leases*.

The District also recorded lease receivable and deferred inflows of resources in the amount of \$705,679 during the year ended December 31, 2022, from the implementation of GASB No. 87, *Leases*.

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements
Years Ended December 31, 2023 and 2022

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare (the District) is organized as a municipal corporation pursuant to the laws of the state of Washington for municipal corporations.

The District is a critical access hospital with 25 acute-care, critical care, and birthing place beds. Services offered by the District include medical, surgical, labor/delivery and nursery care, 24-hour emergency, 24-hour pharmacy, laboratory, imaging services, physical therapy, occupational therapy, speech therapy, wound care, infusion care, respiratory care, home health, hospice, and clinics. Members of the medical staff include specialists in emergency medicine, family practice, pediatrics, internal medicine, general surgery; vascular surgery, cardiology, neurology, ear, nose, and throat surgery, gynecology, orthopedics, radiology, pathology, dermatology, behavioral health, and inpatient hospitalization. The District owns and operates three rural health clinics, an occupational medicine clinic, a retail pharmacy, two provider-based clinics, and an urgent care center.

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

The Board of Commissioners consists of five community members elected to six-year terms.

Related organization – The Foundation at Kittitas Valley Healthcare (the Foundation) is a legally separate organization exempt from federal income tax under Section 501(c)(3) of the Code that acts primarily as a fundraising organization to supplement the resources that are available to the District in support of its programs. The Board consists of 15 to 25 members, of which no more than 25 percent can be associated with Kittitas Valley Healthcare as an employee or medical staff member. At all times, a majority of the Foundation Board of Directors shall be directly appointed by the Board of Commissioners of Kittitas County Public Hospital District No. 1 and the balance by the Foundation Board of Directors. The Foundation is not material to the District and is therefore not reported as a component unit of the District.

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, liabilities, deferred inflows and outflows of resources, and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Cash receipts are deposited directly to the District's depository accounts at banks. Periodically, such cash is transferred to the operating accounts and warrants are issued against these accounts.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

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

b. Summary of Significant Accounting Policies (continued)

Investments – Investments are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

Fair value measurement – The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs.

The District has recurring fair value measurements for bonds, which are valued using a matrix pricing model (Level 2 inputs).

Inventories – Inventories consist of medical supplies, drugs, and food and are stated at cost using the first-in, first-out method.

Assets restricted as to use – Assets restricted as to use include assets set aside for future capital improvements as required by bond agreements.

Investments internally designated for capital acquisitions – Assets internally designated for capital acquisitions are assets set aside by the Board of Commissioners in a funded depreciation account for future capital improvements, over which the Board retains control and could subsequently use for other purposes.

Investments restricted for debt service – Such assets are set aside for repayment of bond principal and interest as required by bond indenture.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least three years; lesser amounts are expensed. Capital assets are stated at cost or 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 are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

Compensated absences – The District's nonunion contract employees earn paid time off (PTO) based upon years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, PTO accrues from 200 to 360 hours per year. The District's policy is to permit employees to carry up to 200 of these hours from one year to the next.

Teamsters union contract employees and respiratory therapists earn PTO based on years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, PTO accrues from 200 to 320 hours per year. The collective bargaining agreement permits employees to carry up to 500 of these hours from one year to the next. After using at least 80 hours of PTO, employees may cash out between 40 and 120 hours of PTO, as long as they leave 24 hours in their PTO bank.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

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

b. Summary of Significant Accounting Policies (continued)

Compensated absences (continued) – Washington State Nursing Association (WSNA) union contract employees earn vacation instead of PTO, which is also earned based upon years of service. WSNA union contract employees also receive time off for nine holidays and may choose to save the holiday and instead accrue up to 72 hours per year of holiday time. On termination of employment, an employee or union contract employee shall be paid all accrued, but unused, hours provided they have given the notice required by personnel policies and the employee has not been terminated for cause.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *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.

Grants and contributions – From time to time, the District receives grants from the state of Washington and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to specific 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.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

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

b. Summary of Significant Accounting Policies (continued)

Change in accounting principles – 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.

When the District adopted GASB No. 96, *Subscription-Based Information Technology Arrangements*, the District elected the transition option to apply the new guidance as of that effective date without adjusting comparative periods presented. Adoption of the standard required the District to recognize \$5,170,103 of subscription assets and \$4,897,805 of subscription liabilities as of January 1, 2023. The adoption had no material impact on the statement of revenues, expenses, and changes in net position.

Subsequent events – The District has evaluated subsequent events through May 10, 2024, the date on which the financial statements were available to be issued.

2. Deposits and Investments:

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

Amounts held in the Washington State Local Government Investment Pool at December 31, 2023 and 2022, were \$21,137,231 and \$25,052,076, respectively.

The District maintains an investment policy designed to maximize return and limit the following types of risks:

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in multiple financial institution collateral pools administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does have a policy specifically requiring or limiting investments by type.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

2. Deposits and Investments (continued):

Interest rate risk – Interest rate risk is the risk that changes in market interest rates could adversely affect an investment's fair value. The District does have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District had the following investments:

	2023					
	Investment Maturities (in Years)					
	Fair Value	Less Than One	One to Five	More Than Five		Investment Ratings*
Federal Farm Credit Banks	\$ 997,017	\$ -	\$ 997,017	\$ -		AAA
Federal Home Loan Bank	9,084,672	-	9,084,672	-		AAA
Federal Home Loan Mortgage Corporation	7,740,339	-	7,740,339	-		AAA
Federal National Mortgage Association	2,366,699	-	2,366,699	-		AAA
US Treasury Securities	18,217,353	16,807,755	1,409,598	-		AAA
Total	\$ 38,406,080	\$ 16,807,755	\$ 21,598,325	\$ -		

	2022					
	Investment Maturities (in Years)					
	Fair Value	Less Than One	One to Five	More Than Five		Investment Ratings*
Federal Farm Credit Banks	\$ 3,473,814	\$ -	\$ 3,473,814	\$ -		AAA
Federal Home Loan Bank	8,737,749	-	8,737,749	-		AAA
Federal Home Loan Mortgage Corporation	9,356,842	1,917,574	7,439,268	-		AAA
Federal National Mortgage Association	2,277,151	-	2,277,151	-		AAA
US Treasury Securities	13,181,486	11,821,056	1,360,430	-		AAA
Total	\$ 37,027,042	\$ 13,738,630	\$ 23,288,412	\$ -		

*The District's bond investment ratings are based on Moody's Investor's Service ratings. AAA is the highest credit quality rating issued by Moody's Investor's Service.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

2. Deposits and Investments (continued):

The carrying amounts of deposits and investments shown above are included in the District's statements of net position as follows:

	2023	2022
Deposits:		
Cash and cash equivalents	\$ 15,389,148	\$ 22,724,891
Cash and cash equivalents restricted by bond agreement for capital acquisitions	9,831,358	15,333,913
Total deposits	25,220,506	38,058,804
Investments:		
Restricted for debt service	1,014,666	963,413
Designated for capital acquisitions	37,391,414	36,063,629
Total investments	38,406,080	37,027,042
Total deposits and investments	\$ 63,626,586	\$ 75,085,846

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts. The District's allowance for uncollectible accounts has not significantly changed from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

3. Patient Accounts Receivable (continued):

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

	2023	2022
Receivables from patients and their insurance carriers	\$ 12,713,195	\$ 10,409,992
Receivables from Medicare	5,678,641	3,434,099
Receivables from Medicaid	1,547,212	825,935
Total patient accounts receivable	19,939,048	14,670,026
Less allowance for uncollectible accounts	3,445,109	1,984,208
Patient accounts receivable, net	\$ 16,493,939	\$ 12,685,818

4. Lease Receivable:

The District entered into a lease agreement with Canyon View Physical Therapy, Inc. (the Lessee) for the use of a space in the District's Medical Arts Center, effective April 2015. The lease is receivable in monthly installments between \$7,015 and \$ 8,339, including interest at 3.5 percent, through February 2031.

The District has recorded a lease receivable measured at the present value of lease payments expected to be received during the lease term. Deferred inflows of resources have been recorded for the lease representing the future inflows of resources over the term of the lease. The deferred inflows of resources is recorded at the initiation of the lease in an amount equal to the initial lease receivable. The deferred inflows of resources is amortized on a straight-line basis over the term of the lease.

The schedule of future lease payments to be collected is as follows:

Years Ending			
December 31,	Principal	Interest	Total
2024	\$ 66,499	\$ 19,438	\$ 85,937
2025	71,047	17,038	88,085
2026	75,811	14,475	90,286
2027	80,801	11,743	92,544
2028	86,026	8,831	94,857
2029-2031	205,320	8,246	213,566
	\$ 585,504	\$ 79,771	\$ 665,275

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

5. Capital Assets:

All capital assets, other than land and construction in progress, are being depreciated using the straight-line method over the estimated useful life of the asset. Assets under leases and subscriptions are amortized over the shorter of the lease or subscription term or their respective estimated useful lives. Amortization of assets subject to leases and subscriptions is reported with depreciation expense. Useful lives have been estimated as follows:

Land improvements	5 to 25 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years
Leased right-of-use buildings	3 to 11 years
Leased right-of-use equipment	1 to 4 years
Subscription assets	5 to 6 years

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

	Balance December 31, 2022	Additions	Retirements	Transfers	Balance December 31, 2023
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 3,212,912	\$ 121,426	\$ -	\$ -	\$ 3,334,338
Construction in progress	8,119,115	15,538,109	-	(6,987,944)	16,669,280
Total capital assets not being depreciated or amortized	11,332,027	15,659,535	-	(6,987,944)	20,003,618
<i>Capital assets being depreciated or amortized</i>					
Land improvements	211,345	-	-	841,418	1,052,763
Buildings and improvements	48,482,067	229,297	-	2,989,077	51,700,441
Fixed equipment	6,980,569	-	-	2,591,573	9,572,142
Major movable equipment	33,367,301	2,483,116	(749,060)	565,876	35,667,233
Leased right-of-use buildings	4,171,766	-	-	-	4,171,766
Leased right-of-use equipment	1,544,263	-	(1,205,267)	-	338,996
Subscription assets	-	5,170,103	-	-	5,170,103
Total capital assets being depreciated or amortized	94,757,311	7,882,516	(1,954,327)	6,987,944	107,673,444
<i>Less accumulated depreciation and amortization for</i>					
Land improvements	(220,006)	(48,288)	-	-	(268,294)
Buildings and improvements	(22,210,502)	(2,593,651)	-	-	(24,804,153)
Fixed equipment	(4,691,980)	(412,734)	-	-	(5,104,714)
Major movable equipment	(25,516,990)	(2,523,748)	748,949	-	(27,291,789)
Leased right-of-use buildings	(520,318)	(520,319)	-	-	(1,040,637)
Leased right-of-use equipment	(705,223)	(520,535)	1,032,620	-	(193,138)
Subscription assets	-	(595,241)	-	-	(595,241)
Total accumulated depreciation and amortization	(53,865,019)	(7,214,516)	1,781,569	-	(59,297,966)
Total capital assets being depreciated or amortized, net	40,892,292	668,000	(172,758)	6,987,944	48,375,478
Capital assets, net	\$ 52,224,319	\$ 16,327,535	\$ (172,758)	\$ -	\$ 68,379,096

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

5. Capital Assets (continued):

	Balance December 31, 2021		Additions	Retirements	Transfers	Balance December 31, 2022				
<i>Capital assets not being depreciated or amortized</i>										
Land	\$	2,808,860	\$	404,052	\$	-	\$	3,212,912		
Construction in progress		1,652,275		6,656,818		-	(189,978)	8,119,115		
Total capital assets not being depreciated or amortized		4,461,135		7,060,870		-	(189,978)	11,332,027		
<i>Capital assets being depreciated or amortized</i>										
Land improvements		429,006		-		(217,661)	-	211,345		
Buildings and improvements		47,774,316		534,367		-	173,384	48,482,067		
Fixed equipment		6,963,975		-		-	16,594	6,980,569		
Major movable equipment		32,745,184		1,540,502		(918,385)	-	33,367,301		
Leased right-of-use buildings		-		4,171,766		-	-	4,171,766		
Leased right-of-use equipment		-		1,544,263		-	-	1,544,263		
Total capital assets being depreciated or amortized		87,912,481		7,790,898		(1,136,046)	189,978	94,757,311		
<i>Less accumulated depreciation and amortization</i>										
Land improvements		(434,951)		(2,716)		217,661	-	(220,006)		
Buildings and improvements		(20,290,809)		(1,919,693)		-	-	(22,210,502)		
Fixed equipment		(4,463,103)		(228,877)		-	-	(4,691,980)		
Major movable equipment		(24,095,378)		(2,337,611)		915,999	-	(25,516,990)		
Leased right-of-use buildings		-		(520,318)		-	-	(520,318)		
Leased right-of-use equipment		-		(705,223)		-	-	(705,223)		
Total accumulated depreciation and amortization		(49,284,241)		(5,714,438)		1,133,660	-	(53,865,019)		
<i>Total capital assets being depreciated or amortized, net</i>		38,628,240		2,076,460		(2,386)	189,978	40,892,292		
Capital assets, net	\$	43,089,375	\$	9,137,330	\$	(2,386)	\$	-	\$	52,224,319

Significant construction in progress at December 31, 2023, consisted of the following:

- An energy efficiency upgrade project completed in April 2024 with costs to complete of approximately \$800,000.
- An imaging, surgery, and central supply sterile storage expansion. The surgical expansion is expected to be completed in January 2025 and the imaging area will be in operation June 2024. The estimated costs to complete are approximately \$15,450,000, funded through bond financing and the District's cash reserves.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

6. Long-term Debt:

A schedule of changes in the District's long-term debt, lease liabilities, and subscription liabilities follows:

	Balance December 31,			Balance December 31,		
	2022	Additions	Reductions	2023	Amounts Due Within One Year	
<i>Long-term debt</i>						
2017A Tax Exempt Revenue Bonds	\$ 11,667,554	\$ -	\$ (473,459)	\$ 11,194,095	\$ 991,260	
2018 Hospital Revenue Bonds	5,280,000	-	(180,000)	5,100,000	360,000	
2018 Limited Tax General Obligation and Revenue Refunding Bonds	898,152	-	(442,352)	455,800	455,800	
2022 Hospital Revenue Bond	15,310,000	-	(530,000)	14,780,000	530,000	
Valley Medical Properties financed purchase	388,058	-	(141,901)	246,157	146,217	
Total long-term debt	33,543,764	-	(1,767,712)	31,776,052	2,483,277	
<i>Lease liabilities</i>						
MRI equipment	468,305	-	(468,305)	-	-	
Occupational and speech therapy building	610,662	-	(125,869)	484,793	132,380	
Physical therapy building	280,822	-	(92,676)	188,146	96,130	
KVH Family Medicine - Cle Elum Clinic building	2,728,050	-	(204,277)	2,523,773	217,766	
Other lease liabilities	515,406	-	(259,389)	256,017	122,053	
Total lease liabilities	4,603,245	-	(1,150,516)	3,452,729	568,329	
<i>Subscription liabilities</i>	-	4,897,805	(482,956)	4,414,849	822,741	
Total noncurrent liabilities	\$ 38,147,009	\$ 4,897,805	\$ (3,401,184)	\$ 39,643,630	\$ 3,874,347	
	Balance December 31,			Balance December 31,		
	2021	Additions	Reductions	2022	Amounts Due Within One Year	
<i>Long-term debt</i>						
2017A Tax Exempt Revenue Bonds	\$ 11,896,345	\$ -	\$ (228,791)	\$ 11,667,554	\$ 961,548	
2017B Taxable Revenue Bonds	228,000	-	(228,000)	-	-	
2018 Hospital Revenue Bonds	5,460,000	-	(180,000)	5,280,000	360,000	
2018 Limited Tax General Obligation and Revenue Refunding Bonds	1,327,454	-	(429,302)	898,152	442,352	
2022 Hospital Revenue Bond	-	15,310,000	-	15,310,000	530,000	
Valley Medical Properties financed purchase	525,770	-	(137,712)	388,058	141,901	
Total long-term debt	19,437,569	15,310,000	(1,203,805)	33,543,764	2,435,801	
<i>Lease liabilities</i>						
MRI equipment	-	805,491	(337,186)	468,305	349,179	
Occupational and speech therapy building	-	698,479	(87,817)	610,662	92,676	
Physical therapy building	-	400,419	(119,597)	280,822	125,869	
KVH Family Medicine - Cle Elum Clinic building	-	2,919,425	(191,375)	2,728,050	204,278	
Other lease liabilities	-	892,217	(376,811)	515,406	259,388	
Total lease liabilities	-	5,716,031	(1,112,786)	4,603,245	1,031,390	
Total noncurrent liabilities	\$ 19,437,569	\$ 21,026,031	\$ (2,316,591)	\$ 38,147,009	\$ 3,467,191	

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

6. Long-term Debt (continued):

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

- Tax Exempt Revenue Bonds, dated August 15, 2017, in the original amount of \$12,500,000, for the purpose of improvements and expansion of District facilities. The bonds are payable annually on December 31 in the remaining principal amounts ranging from \$503,171 to \$8,200,000 through 2027. Interest at 3.09 percent is due semiannually on June 30 and December 31.
- Taxable Revenue Bonds, dated August 15, 2017, in the original amount of \$1,000,000, for the purpose of improvements and expansion of District facilities. The final payment, due December 31, 2021, was completed in January 2022.
- Limited Tax General Obligation and Revenue Refunding Bonds, dated July 11, 2018, in the original amount of \$2,913,789. The bonds are payable annually on December 1 in the remaining principal amount of \$455,800 in 2024. Interest at 3.04 percent is due semiannually on June 1 and December 1. The District has irrevocably pledged to include in its budget and levy taxes annually on all of the property within the District subject to taxation in amounts that will be sufficient to pay the principal and interest on the bonds as they become due.
- Hospital Revenue Bonds, dated May 2, 2018, in the original amount of \$6,000,000, for the purpose of improvements and expansion of District facilities. The bonds are payable annually on December 31 in the remaining principal amounts ranging from \$180,000 to \$4,020,000 through 2029. Interest at 3.43 percent is due semiannually on June 30 and December 31.
- Hospital Revenue Bonds, dated December 29, 2022, in the original amount of \$15,310,000, for the purpose of improvements and expansion of District facilities. The bonds are payable annually on December 15 in the remaining principal amounts ranging from \$530,000 to \$1,085,000. Interest at 4.05 percent is due semiannually on June 15 and December 15.
- Financed purchase of a building used by the Family Medical Clinic in Ellensburg, Washington, in the original amount of \$559,558 through an agreement with Valley Medical Properties, payable in monthly installments of \$12,634, including interest at 0.25 percent, through August 2025.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

6. Long-term Debt (continued):

Lease liabilities – The terms and due dates of the District’s lease liabilities are as follows:

- Lease liability for MRI equipment in the original amount of \$805,395. The lease was paid in full in 2023.
- Lease liability for the occupational and speech therapy building in the original amount of \$698,479, payable in monthly installments ranging from \$9,381 to \$9,699, including interest at 3.5 percent, through November 2028.
- Lease liability for the physical therapy building in the original amount of \$400,419, payable in monthly installments ranging from \$11,169 to \$11,336, including interest at 3.5 percent, through February 2025.
- Lease liability for the KVH Family Medicine – Cle Elum Clinic in the original amount of \$2,919,425, payable in monthly installments ranging from \$25,219 to \$29,699, including interest at 3.5 percent, through December 2032.
- Other lease liabilities for various purposes in the original amount of \$892,217, due in monthly installments ranging from \$2,374 to \$4,733, including interest at 3.5 percent, through July 2027.

Subscription liabilities – Subscription liabilities payable to various vendors in the amount of \$4,414,849, due in monthly installments between \$5,134 and \$77,048, including interest at 4.1 percent, through December 2028.

The District’s lease and subscription agreements do not contain any material residual value guarantees or material restrictive covenants. Lease and subscription liabilities are reflected in the District’s assets and liabilities.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

6. Long-term Debt (continued):

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

Years Ending December 31,	Long-term Debt		
	Principal	Interest	Total Payments
2024	\$ 2,483,277	\$ 1,117,403	\$ 3,600,680
2025	1,821,121	1,056,104	2,877,225
2026	1,771,654	995,851	2,767,505
2027	8,980,000	839,957	9,819,957
2028	805,000	651,120	1,456,120
2029-2033	7,535,000	2,204,103	9,739,103
2034-2038	4,280,000	1,364,040	5,644,040
2039-2043	4,100,000	423,225	4,523,225
	\$ 31,776,052	\$ 8,651,803	\$ 40,427,855

Years Ending December 31,	Lease Liabilities		
	Principal	Interest	Total Payments
2024	\$ 568,329	\$ 111,735	\$ 680,064
2025	440,179	93,608	533,787
2026	382,330	79,458	461,788
2027	391,467	65,788	457,255
2028	382,891	52,207	435,098
2029-2033	1,287,533	95,338	1,382,871
	\$ 3,452,729	\$ 498,134	\$ 3,950,863

Years Ending December 31,	Subscription Liabilities		
	Principal	Interest	Total Payments
2024	\$ 822,741	\$ 163,645	\$ 986,386
2025	859,206	129,652	988,858
2026	897,277	94,153	991,430
2027	931,016	57,081	988,097
2028	904,609	19,967	924,576
	\$ 4,414,849	\$ 464,498	\$ 4,879,347

The 2017A Tax Exempt Revenue Bonds and 2018 Hospital Revenue Bonds have annual principal and interest payments due on December 31. The Bond Trustees transfer the payments subsequent to year end. The aggregate annual principal and interest payments presented above for 2023 include both the scheduled payments for December 31, 2023 and 2022.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

7. Deferred Compensation Plan and Pension Plan:

The District sponsors a deferred compensation plan called the Kittitas Valley Healthcare Employees' Pension Plan (the Plan). The Plan is a defined contribution plan. Benefits depend solely on amounts contributed by the District to the Plan plus investment earnings. The Plan is administered by the District. Employees over the age of 21 are eligible to participate after two years of service. Currently, the District contributes 7 percent of the nonphysician employee's monthly base salary to the Plan. Employees vest 25 percent after two years of service with an additional 25 percent each year thereafter until fully vested after five years of service. Benefit terms, including contribution amounts for the Plan, are established and may be amended by the District's Board of Commissioners. Additionally, contribution amounts are negotiated as part of the union contracts and would have to be re-negotiated in order to change for these employees. Non-vested District contributions and accumulated interest for employees who leave employment before five years of service are used to reduce the District's current period contribution requirement.

The District also sponsors a deferred compensation plan called the Kittitas Valley Healthcare Physician Pension Plan (the Physicians' Plan) for all employed physicians. The Physicians' Plan is a defined contribution plan. Benefits depend solely on amounts contributed by the District to the Physicians' Plan plus investment earnings. The Physicians' Plan is administered by the District. All employed physicians are eligible to participate after their first hour of service. Currently, the District contributes 10 percent of the employed physician's base salary to the Physicians' Plan. Employees are vested immediately, and all contributions to the Physicians' Plan are considered 100 percent vested. Benefit terms, including contribution amounts for the Physicians' Plan, are established and may be amended by the District's Board of Commissioners.

The District contributed approximately \$3,484,000 and \$3,318,000 for 2023 and 2022, respectively, to the Plan and the Physicians' Plan. It is the District's policy to currently fund pension contributions accrued.

The District also sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The name of the plan is Kittitas Valley Community Hospital Deferred Compensation Plan. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Employees become eligible to participate in the plan beginning on the first day of employment. Employee contributions to the plan totaled approximately \$1,944,000 and \$1,821,000 for the years ended December 31, 2023 and 2022, respectively.

The plans are administered by the District. Compensation deferred under the plans and all income attributable to the plans are held in trust for the exclusive benefit of the participants and their beneficiaries and are not subject to claims by the District's creditors. While the District has no liability for losses under the plans, it does have the duty of due care that would be required of an ordinary prudent investor.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

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 writeoffs have not changed significantly between 2023 and 2022. The District has not changed its charity care and uninsured discount policies during the year ended December 31, 2023.

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

	2023	2022
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 54,517,557	\$ 46,912,854
Medicaid	19,134,760	18,939,074
Other third-party payors	58,186,685	56,641,770
Patients	5,824,453	5,655,940
	137,663,455	128,149,638
Less:		
Charity care	2,094,899	1,235,659
Provision for bad debts	6,447,689	5,954,254
Net patient service revenue	\$ 129,120,867	\$ 120,959,725

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

- **Medicare** – The District is paid on a cost reimbursement method for substantially all hospital and rural health clinic services provided to Medicare beneficiaries. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Nonrural health clinic physicians are paid under a fee schedule. Home health and hospice services are paid under prospective payment systems.

Kittitas County Public Hospital District No. 1
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

8. Net Patient Service Revenue (continued):

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

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$1,592,000 in 2023 and \$2,907,000 in 2022 due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2023 and 2022, were approximately \$1,118,000 and \$681,000, respectively.

Kittitas County Public Hospital District No. 1
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. Other Postemployment Benefits (OPEB) Other than Pensions:

Plan description – As of January 1, 2022, the District provides healthcare programs for employees through the Public Employees Benefits Board (PEBB). Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the PEBB. The PEBB was created within the HCA to administer medical, dental, and life insurance plans for public employees and retirees. The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee. No assets are accumulated in a qualifying trust. The District can cease providing healthcare through the PEBB with a 60-day notice. The other postemployment benefits liability would be eliminated at this time without any cash obligation.

Benefits provided – The District’s retirees may elect coverage through state health and dental insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The healthcare premiums for active employees, which are paid by the District during the employees’ working careers, subsidize the health and dental plans of retirees.

The subsidies provided by PEBB include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$183 or 50 percent of the monthly premiums. The retirees and spouses currently pay the premiums minus \$183 when the premium is over \$366 per month and pay half the premium when the premium is lower than \$366.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. Other Postemployment Benefits (OPEB) Other than Pensions (continued):

Employees covered by the benefit terms – As of July 1, 2022, there were 472 active plan members and no inactive plan members.

Total OPEB liability – In 2023 and 2022, the District’s total OPEB liability of \$3,885,811 and \$3,806,216 was measured as of November 30, 2023 and 2022, respectively, and was determined by an actuarial valuation as of July 1, 2022.

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.35 percent
Discount rate	3.49 percent
Projected salary changes	3.25 percent + service-based increases

Healthcare cost trend rates are as follows:

Year	Claims and Contributions	Claims	Contributions
	Pre-65	Post-65	Post-65
2023	5.4%	7.7%	11.4%
2024	5.7%	6.8%	9.4%
2025	5.5%	6.9%	9.0%
2026	5.0%	4.9%	5.2%
2027	4.9%	4.8%	5.1%
2037	4.5%	4.5%	4.6%
2047	4.4%	4.3%	4.4%
2057	4.4%	4.3%	4.3%
2067	4.2%	4.2%	4.2%
2077+	3.8%	3.8%	3.8%

The trend assumptions are used to project medical claims costs. For the non-Medicare group, the same trends are used to project medical contributions. For the Medicare group, the assumptions are adjusted for the post-65 contribution trend to account for the aging of the Medicare population by one year every five years. It is also adjusted for the post-65 contribution trend in the first three years to account for the set explicit Medicare subsidy in 2020 through 2023. In 2022 and 2023, the Medicare subsidy amount was \$183.

The discount rate of 3.49 percent was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. Other Postemployment Benefits (OPEB) Other than Pensions (continued):

Demographic assumptions regarding retirement, mortality, disability mortality, turnover, and marriage are based on assumptions used in the 2022 actuarial valuation for the Washington State retirement systems and modified for the District are as follows:

<i>Retirement Eligibility</i>	Members are eligible for service retirement at age 55 with 20 years of service or age 65 with 5 years of service.
<i>Healthy Mortality after Retirement</i>	PubG.H-2010 Mortality
<i>Election Assumption (Members)</i>	40 percent of members are assumed to elect medical benefits upon retirement. 30 percent of members are assumed to elect dental benefits upon retirement.
<i>Election Assumption (Spouses)</i>	40 percent of members are assumed to enroll eligible spouses in medical benefits as of the retirement date. 40 percent of members are assumed to enroll eligible spouses in medical benefits as of the retirement date.
<i>Medicare Coverage</i>	100 percent of members are assumed to enroll in Medicare, once eligible, after initial participation.
<i>Spouse Age</i>	Male members are assumed to be three years older than their wives, and female members are assumed to be two years younger than their husbands.
<i>Selection of Carrier</i>	All current and future retirees who elect medical and dental coverage are assumed to elect carriers based on the weighted average of selection of carriers by current PEBB retirees.

The valuation date is July 1, 2022. This is the date as of which the census is gathered, and the actuarial valuation is performed. The measurement date is November 30, 2023. This is the date as of which the total OPEB liability is determined. Note that GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. Other Postemployment Benefits (OPEB) Other than Pensions (continued):

The District's total OPEB liability at December 31, 2022, was \$3,806,216. Changes of assumptions and other inputs were not applicable as 2022 was the first year the District participated in PEBB. The District's total OPEB liability at December 31, 2023, is as follows:

	Total OPEB Liability 2023
Balance, at beginning of year	\$ 3,806,216
Service cost	438,899
Interest	157,794
Changes of assumptions and other inputs	(510,376)
Benefit payments	(6,722)
Net changes	79,595
Balance, at end of year	\$ 3,885,811

Changes of assumptions and other inputs reflect the effect of changes in the discount rate, election, demographic, and health assumptions each period.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. Other Postemployment Benefits (OPEB) Other than Pensions (continued):

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the District, as well as what the District's liability would be if it were calculated using a discount rate for the years ended December 31, 2023 and 2022, that is one percentage point lower, or one percentage point higher than the current discount rate:

2023			
	1% Decrease	Discount Rate	1% Increase
	2.49%	3.49%	4.49%
Total OPEB liability	\$ 4,777,961	\$ 3,885,811	\$ 3,186,755

2022			
	1% Decrease	Discount Rate	1% Increase
	2.72%	3.72%	4.72%
Total OPEB liability	\$ 4,696,431	\$ 3,806,216	\$ 3,110,297

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

2023			
	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 3,006,226	\$ 3,885,811	\$ 5,095,943

2022			
	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 2,963,935	\$ 3,806,216	\$ 4,956,983

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. Other Postemployment Benefits (OPEB) Other than Pensions (continued):

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the years ended December 31, 2023 and 2022, the District recognized OPEB expense of \$551,923 and \$3,806,216, respectively. The District did not have material deferred outflows of resources or deferred inflows of resources related to OPEB in 2022. In 2023, the District reported deferred inflows of resources related to OPEB from the following sources:

2023	
	Deferred Inflows of Resources
Changes of assumptions and other inputs	\$ (465,606)
Contributions made subsequent to the measurement date	863
Total	\$ (464,743)

Contributions made subsequent to the measurement date will be charged to OPEB expense in 2024. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be charged (credited) to OPEB expense as follows:

Years Ending December 31,	Amount
2024	\$ (44,770)
2025	(44,770)
2026	(44,770)
2027	(44,770)
2028	(44,770)
Thereafter	(241,756)

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

10. Risk Management and Contingencies:

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

The District also has excess professional liability insurance with National Fire & Marine Insurance Company on a “claims-made” basis. The excess malpractice insurance provides \$5,000,000 per claim of primary coverage with an aggregate limit of \$5,000,000. The policy has a \$10,000 deductible per claim.

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.

Workers’ compensation – The District has a self-insured workers’ compensation plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust, administered by the Washington State Hospital Association. The District pays its share of actual workers’ compensation claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$502,000 and \$385,000 in 2023 and 2022, respectively.

The District has a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Unemployment Compensation Fund, administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Unemployment expense was approximately \$39,000 and \$51,000 in 2023 and 2022, respectively.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and 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.

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

11. 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 Kittitas County.

The mix of receivables from patients was as follows:

	2023	2022
Medicare	44 %	36 %
Medicaid	9	8
Other third-party payors	38	45
Patients	9	11
	100 %	100 %

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

Collective bargaining units – The District has collective bargaining agreements with the WSNA and Teamsters Local 760 (Teamsters).

The District has a contract with the WSNA for its nursing employees, which is effective through December 31, 2025.

The District has a contract with Teamsters which applies to all registered respiratory therapists, which is effective through June 30, 2026.

The District has a contract with Teamsters which applies to all Central Sterile employees, which is effective through December 31, 2025.

The District has a contract with Teamsters which applies to all hospital employees except the following positions: supervisors, confidential employees, RNs, LPNs, office clerical, security, laboratory, imaging, surgical technicians, home care, clinics, engineering, physical rehabilitation, central supply, pharmacy, informatics, and information services. The contract is effective through December 31, 2024.

As of December 31, 2023 and 2022, approximately 29 percent and 31 percent of the District's employees were represented by the union under these collective bargaining agreements with the WSNA and Teamsters, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Years Ended December 31, 2023 and 2022

	2023	2022
<i>Total OPEB liability</i>		
Service cost	\$ 438,899	\$ -
Interest on total OPEB liability	157,794	-
Effect of assumptions, changes, or other inputs	(510,376)	-
Expected benefit payments	(6,722)	-
Net change in total OPEB liability	79,595	-
Total OPEB liability - beginning	3,806,216	-
Total OPEB liability - ending	\$ 3,885,811	\$ 3,806,216
Covered-employee payroll	\$ 51,389,722	\$ 40,485,000
Total OPEB liability as a percentage of covered-employee payroll	8%	9%

Notes to Schedule:

Changes in benefit terms – There are no changes in benefit terms.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic, and health assumptions each period.

*Government Accounting Standards Board Statement No. 75 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

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
Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Ellensburg, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 10, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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*.

Purpose of this Report

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

D3A PLLC

Spokane Valley, Washington
May 10, 2024

**Kittitas County Public Hospital District No. 1
doing business as Kittitas Valley Healthcare
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2023**

The audit for the year ended December 31, 2022, reported no audit findings, nor were there any unresolved findings from periods ended December 31, 2021, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2023.