



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

November 21, 2024

Board of Commissioners  
Arbor Health  
Morton, 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 Arbor Health for the fiscal years ended December 31, 2023 and 2022. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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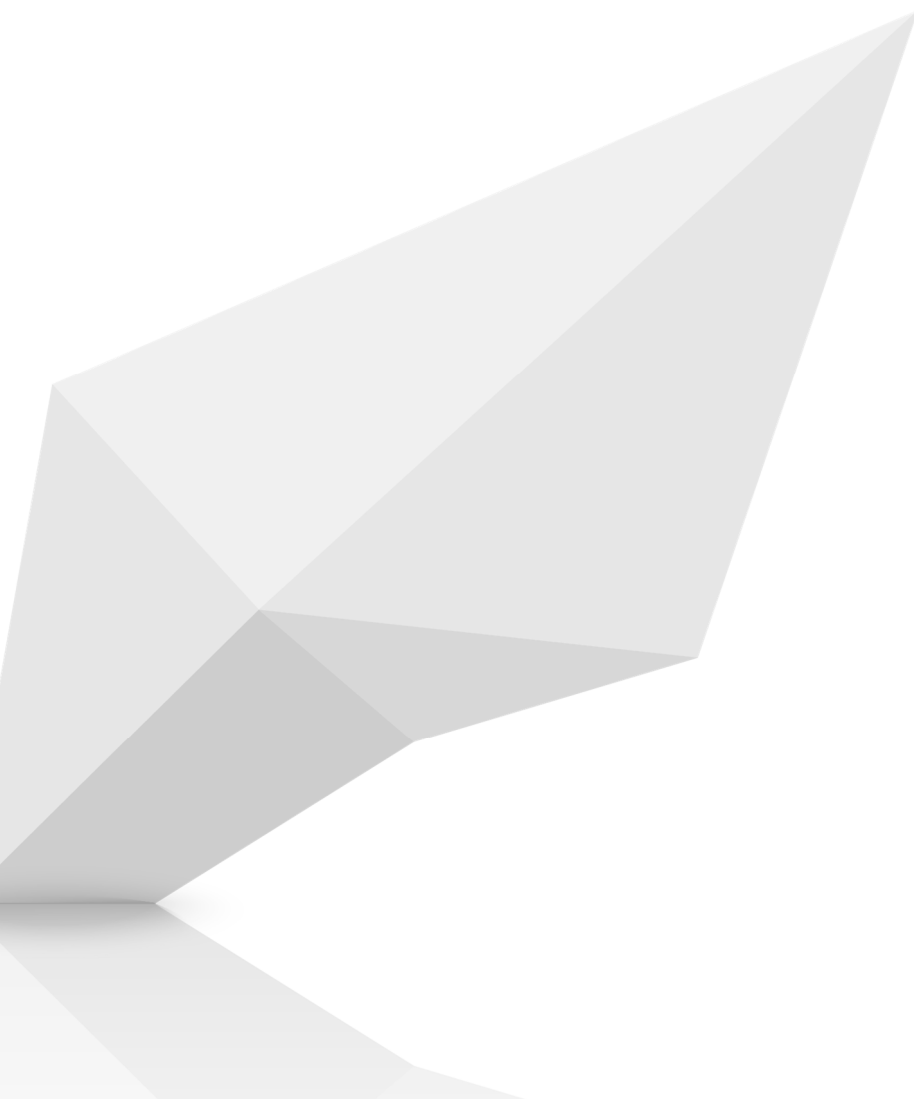
# Lewis County Public Hospital District No. 1 DBA Arbor Health

Financial Statements and Required  
Supplementary Information

Years Ended December 31, 2023 and 2022

The logo for Arbor Health, featuring the word "Arbor" in a dark maroon serif font and the word "Health" in a bright yellow sans-serif font, stacked vertically.

**Arbor**  
**Health**



## **Independent Auditor's Report**

Board of Commissioners  
Lewis County Public Hospital District No.1 DBA Arbor Health  
Morton, Washington

### ***Report on the Audit of the financial statements***

#### ***Opinion***

We have audited the accompanying financial statements of Lewis County Public Hospital District No.1 DBA Arbor Health (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 statements of net position, statements of revenues, expenses, and changes in net position, and cash flows for the years then ended.

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 changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### ***Basis for Opinion***

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

#### ***Prior Period Financial Statements***

The financial statements of the District as of and for the year ended December 31, 2022 were audited by other auditors whose report dated May 10, 2023 expressed an unmodified opinion on those financial statements.

#### ***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 (GAAP), 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the financial statements***

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

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

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

The District has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 July 16, 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. The purpose of that report 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Wipfli LLP

Spokane, Washington  
July 16, 2024

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Statements of Net Position

<i>December 31,</i>	2023	2022
Current assets:		
Cash and cash equivalents	\$ 3,790,601	\$ 5,055,654
Receivables:		
Patient accounts - Net	5,839,555	3,847,526
Estimated third-party payor settlements	299,817	252,311
Taxes	29,247	26,181
Taxes restricted for debt service	9,562	26,426
Other	190,309	478,947
Inventory	241,343	253,658
Prepaid expenses and other	430,473	324,032
Total current assets	10,830,907	10,264,735
Noncurrent assets:		
Cash and cash equivalents - noncurrent reserves	423,611	402,970
Cash and cash equivalents - restricted for debt service	1,438,654	1,308,589
Investments	2,000	167,514
Nondepreciable capital assets	952,748	998,599
Depreciable capital asset - net	9,735,349	10,155,262
Total noncurrent assets	12,552,362	13,032,934
TOTAL ASSETS	\$ 23,383,269	\$ 23,297,669

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Statements of Net Position (Continued)

<i>December 31,</i>	2023	2022
Current liabilities:		
Accounts payable	\$ 1,472,296	\$ 723,709
Accrued compensation and related liabilities	2,110,220	2,028,286
Electronic health records incentive payback	194,689	194,689
Current maturities of long-term debt	592,517	572,676
Current portion of lease obligations	309,088	268,866
Total current liabilities	4,678,810	3,788,226
Noncurrent liabilities:		
Long-term debt - Less current portion	5,226,058	5,842,723
Lease obligations - Less current portion	573,605	431,433
Total noncurrent liabilities	5,799,663	6,274,156
Total liabilities	10,478,473	10,062,382
Net position:		
Net investment in capital assets	3,034,081	3,039,564
Restricted for debt service	1,438,654	1,308,589
Unrestricted	8,432,061	7,862,109
Total net position	12,904,796	13,235,287
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 23,383,269</b>	<b>\$ 23,297,669</b>

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended December 31,</i>	2023	2022
Operating revenue:		
Net patient service revenue	\$ 36,746,672	\$ 33,993,959
Other operating income	697,932	489,117
<b>Total operating revenue</b>	<b>37,444,604</b>	<b>34,483,076</b>
Operating expenses:		
Salaries and wages	17,225,412	16,775,003
Employee benefits	4,453,791	3,914,495
Professional fees and purchased services	9,534,421	9,064,382
Supplies	3,137,051	2,796,004
Utilities	466,841	540,749
Insurance	370,404	308,976
Repairs and maintenance	567,330	587,804
Leases and rentals	57,211	72,324
Other	1,642,443	1,420,956
Depreciation and amortization	1,529,483	1,576,074
<b>Total operating expenses</b>	<b>38,984,387</b>	<b>37,056,767</b>
<b>Loss from operations</b>	<b>(1,539,783)</b>	<b>(2,573,691)</b>
Nonoperating revenues (expenses):		
CARES Act Provider Relief Fund	-	1,252,684
Repayment of grant proceeds	(154,302)	-
Grants	82,660	61,347
Taxation for maintenance and operations	1,044,235	997,886
Taxation for bond principal and interest	-	837,666
Build America bond subsidy	95,021	89,499
Gain on sale of assets	203,690	-
Interest income	346,190	162,902
Interest expense	(408,202)	(438,016)
<b>Total nonoperating revenue - Net</b>	<b>1,209,292</b>	<b>2,963,968</b>
<b>Change in net position</b>	<b>(330,491)</b>	<b>390,277</b>
<b>Net position - Beginning of year</b>	<b>13,235,287</b>	<b>12,845,010</b>
<b>Net position - End of year</b>	<b>\$ 12,904,796</b>	<b>\$ 13,235,287</b>



# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Statements of Cash Flows

<i>Years Ended December 31,</i>	2023	2022
Cash flows from operating activities:		
Cash received from patients services and third-party payors	\$ 34,707,137	\$ 28,911,947
Cash received from other revenue	986,570	263,606
Cash paid for salaries and benefits	(21,597,269)	(20,689,498)
Cash paid for supplies, professional fees, and other operating expenses	(15,121,240)	(14,754,162)
Net cash used in operating activities	(1,024,802)	(6,268,107)
Cash flows from noncapital financing activities:		
Proceeds from Grants	-	61,347
Proceeds from COVID-19 grants	-	252,684
Repayment of Paycheck Protection Program loan	-	(152,685)
Repayment of COVID-19 grants	(71,642)	-
Cash received from Build America Bonds subsidy	95,021	89,499
Cash received from taxation for maintenance and operations	1,041,169	992,538
Net cash provided by noncapital financing activities	1,064,548	1,243,383
Cash flows from capital and related financing activities:		
Cash received from taxation for bond principal and interest	16,864	834,743
Interest paid on long-term debt obligations	(406,883)	(438,016)
Principal payments on long-term debt and lease liabilities	(536,580)	(1,642,914)
Payments for purchase of capital assets	(1,044,444)	(276,084)
Proceeds from the sale of capital assets	305,246	-
Net cash used in capital and related financing activities	(1,665,797)	(1,522,271)
Net cash provided by investing activities:		
Net cash received (paid) of investments	165,514	(167,514)
Interest received	346,190	162,902
Net cash provided by (used in) investing activities	511,704	(4,612)
Change in cash and cash equivalents	(1,114,347)	(6,551,607)
Cash and cash equivalents - Beginning of year	6,767,213	13,318,820
Cash and cash equivalents - End of year	\$ 5,652,866	\$ 6,767,213

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Statements of Cash Flows (Continued)

<i>Years Ended December 31,</i>	2023	2022
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (1,539,783)	\$ (2,573,691)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	1,529,483	1,576,074
Provision for bad debt	860,986	486,053
Changes in assets and liabilities:		
Receivables:		
Patient accounts - Net	(2,853,015)	(272,850)
Other	288,638	(225,511)
Inventories	12,315	98,214
Prepaid expenses and other	(106,441)	(24,313)
Account payable	748,587	(36,868)
Accrued liabilities	81,934	-
Medicare refundable advance	-	(3,343,822)
Estimated third-party payor settlements	(47,506)	(1,951,393)
Total adjustments	514,981	(3,694,416)
Net cash provided used in activities	\$ (1,024,802)	\$ (6,268,107)
Noncash capital, financing activities and investing activities:		
Capital assets acquired under lease obligations	\$ 120,831	\$ 948,502

# **Lewis County Public Hospital District No.1**

## **DBA Arbor Health**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies**

##### **The Entity**

Lewis County Public Hospital District No.1 DBA Arbor Health owns and operates Arbor Health (the "District"), a licensed 25-bed critical access hospital in Morton, Washington, and rural health clinics in Randle, Mossyrock, and Morton, Washington. The District provides healthcare services to patients in eastern Lewis County, Washington. The services provided include acute care, emergency room, physicians' clinic, and the related ancillary services (surgery, laboratory, imaging, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms.

##### **Financial Statement Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 Revised Code of Washington (RCW) and the Department of Health in the Accounting and Reporting Manual for Hospitals.

The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue, as soon as eligibility requirements imposed by the provider have been met.

##### **Use of Estimates in Preparation of Financial Statements**

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

# **Lewis County Public Hospital District No.1**

## **DBA Arbor Health**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Cash, Cash Equivalents, and Investments**

All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Lewis County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Lewis County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

##### **Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the average-cost method.

##### **Noncurrent Cash Reserves**

Assets restricted or limited as to use include assets set aside by the Board of Commissioners for future capital improvements over which the Board retains control and could subsequently use for other purposes, and assets set aside for repayment of principal and interest on bond indebtedness and capital acquisitions.

##### **Bond Discounts**

The straight-line method is used to amortize the bond discounts over the period the related obligation is outstanding, which approximates the effective interest method.

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

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#### **Note 1: Summary of Significant Accounting Policies** (Continued)

##### **Capital Assets**

The District capitalizes assets whose costs exceed \$5,000 and with estimated useful lives of at least one year; lesser amounts are expensed. The capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. When such assets are disposed of, the related costs and accumulated depreciation 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 are depreciated by the straight-line method of depreciation using these asset lives:

Land improvements	8 to 25 years
Buildings and improvements	5 to 40 years
Equipment	3 to 25 years
Lease right-of-use equipment	2 to 10 years

##### **Compensated Absences**

Compensated absences consist of absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Accrued vacation, which may be accumulated up to 360 hours, is payable upon resignation, retirement, or death. There is no limit to the amount of sick leave employees may accumulate; however, it is not payable to the employees upon conclusion of their employment under any circumstance.

##### **Net Position**

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

# **Lewis County Public Hospital District No.1**

## **DBA Arbor Health**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Patient Accounts Receivables**

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

The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts. The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year.

##### **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 did not change significantly from the prior year.

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

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#### **Note 1: Summary of Significant Accounting Policies** (Continued)

##### **Patient Service Revenue** (Continued)

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 hospital has been designated a critical access hospital and the clinic a rural health clinic by Medicare and they are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. 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. Nonrural health clinic physician services are reimbursed on a fee schedule.

*Medicaid* – The majority of Medicaid beneficiaries are covered through health maintenance organizations operated by commercial insurance companies. The District is reimbursed for inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses of the District. Reimbursement for inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. Medicaid swing-bed and nursing home services are reimbursed on a prospectively set rate per day. Rural health clinic services are reimbursed on a prospective rate per visit. Nonrural health clinic physician services are reimbursed on a fee schedule.

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

##### **Operating Revenue and Expense**

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

##### **Restricted Resources**

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

##### **Grants and Contributions**

# **Lewis County Public Hospital District No.1**

## **DBA Arbor Health**

### **Notes to Financial Statements**

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#### **Note 1: Summary of Significant Accounting Policies (Continued)**

##### **Grants and Contributions (Continued)**

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

##### **Change in Accounting Principles**

In July 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District adopted Statement No. 87 during the year ended December 31, 2022.



# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

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#### Note 2: Cash, Cash Equivalents, and Investments

*The Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2023 and 2022, were approximately \$388,000 and \$5,885,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

*Custodial credit risk* - 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 (FDIC) or by collateral held in a multiple-financial institution collateral pool 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 at qualified public depositories. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

*Credit risk* - 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 not have a policy specifically requiring or limiting investments of this 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 not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

*Interest rate risk* - The possibility that an interest rate change could adversely affect an investment's fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

#### Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

	2023	2022
Patient accounts receivable	\$ 8,967,489	\$ 7,210,094
Less:		
Contractual allowance	(2,824,803)	(2,868,492)
Allowance for doubtful accounts	(303,131)	(494,076)
Patient accounts receivable - Net	\$ 5,839,555	\$ 3,847,526

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 4: Net Patient Service Revenue

The following table sets forth the detail of patient service revenue - net of contractual adjustments, discounts, and provision for bad debt for the years ended December 31:

	2023	2022
Gross patient service revenue:		
Medicare	\$ 31,353,201	\$ 25,239,489
Medicaid	11,234,455	11,245,866
Commercial and other	13,689,899	13,082,895
Private pay	1,233,385	1,043,190
<b>Total gross patient service revenue</b>	<b>57,510,940</b>	<b>50,611,440</b>
Less:		
Contractual adjustments	19,903,282	16,131,428
Provision for bad debt	860,986	486,053
<b>Total deductions in revenue</b>	<b>20,764,268</b>	<b>16,617,481</b>
<b>Net patient service revenue</b>	<b>\$ 36,746,672</b>	<b>\$ 33,993,959</b>

The following table reflects the percentage of gross patient service revenue by payor source for the year ended December 31:

	2023	2022
Medicare	55 %	50 %
Medicaid	19	22
Commercial and other	24	26
Private pay	2	2
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 5: Capital Assets

Capital asset balances and activity were as follows at December 31, 2023:

	Balance January 1, 2023	Additions	Retirements	Transfers	Balance December 31, 2023
Nondepreciable capital assets:					
Land	\$ 998,599	\$ -	\$ (45,851)	\$ -	\$ 952,748
Depreciable capital assets:					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	20,755,410	681,741	(369,661)	-	21,067,490
Equipment	11,783,112	-	(4,689)	-	11,778,423
Total depreciable capital assets	33,965,261	681,741	(374,350)	-	34,272,652
Total capital assets	34,963,860	681,741	(420,201)	-	35,225,400
Accumulated depreciation:					
Capital assets	24,491,064	1,211,511	(318,645)	-	25,383,930
Right of use assets:					
Buildings	-	362,703	-	-	362,703
Equipment	948,502	120,831	-	-	1,069,333
Total ROU asset amortized	948,502	483,534	-	-	1,432,036
Accumulated amortization	267,437	317,972	-	-	585,409
Capital assets - Net	\$ 11,153,861	\$ (364,208)	\$ (101,556)	\$ -	\$ 10,688,097

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 5: Capital Assets (Continued)

Capital asset balances and activity were as follows at December 31, 2022:

	Balance January 1, 2022	Additions	Retirements	Transfers	Balance December 31, 2022
Nondepreciable capital assets:					
Land	\$ 998,599	\$ -	\$ -	\$ -	\$ 998,599
Construction in progress	112,334	-	-	(112,334)	-
Total nondepreciable capital assets	1,110,933	-	-	(112,334)	998,599
Depreciable capital assets:					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	20,685,975	69,435	-	-	20,755,410
Equipment	11,464,129	206,649	-	112,334	11,783,112
Total depreciable capital assets	33,576,843	276,084	-	112,334	33,965,261
Total capital assets	34,687,776	276,084	-	-	34,963,860
Accumulated depreciation:					
Capital assets	23,182,427	1,308,637	-	-	24,491,064
Right of use assets:					
Equipment	-	948,502	-	-	948,502
Accumulated amortization	-	267,437	-	-	267,437
Capital assets - Net	\$ 11,505,349	\$ (351,488)	\$ -	\$ -	\$ 11,153,861

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 6: Long-Term Debt

Long-term debt and other noncurrent liabilities consisted of the following at December 31, 2023:

	Balance January 1, 2023	Additions	Reductions	Balance December 31, 2023	Amounts due Within One Year
<b>Bonds payable:</b>					
2005 LTGO bonds	\$ 645,000	\$ -	\$ (205,000)	\$ 440,000	\$ 213,906
2010 LTGO A bonds	255,000	-	(90,000)	165,000	95,000
2010 LTGO B bonds	4,130,000	-	-	4,130,000	-
Discount on bonds	(3,302)	-	1,319	(1,983)	-
<b>Total bonds payable</b>	<b>5,026,698</b>	<b>-</b>	<b>(293,681)</b>	<b>4,733,017</b>	<b>308,906</b>
<b>Direct borrowing:</b>					
GE Government Finance, Inc note payable	1,388,701	-	(303,143)	1,085,558	283,611
<b>Total bonds payable and direct borrowing</b>	<b>\$ 6,415,399</b>	<b>\$ -</b>	<b>\$ (596,824)</b>	<b>\$ 5,818,575</b>	<b>\$ 592,517</b>

Long-term debt and other noncurrent liabilities consisted of the following at December 31, 2022:

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Amounts due Within One Year
<b>Bonds payable:</b>					
2005 LTGO bonds	\$ 840,000	\$ -	\$ (195,000)	\$ 645,000	\$ 205,000
2010 LTGO A bonds	340,000	-	(85,000)	255,000	90,000
2010 LTGO B bonds	4,130,000	-	-	4,130,000	-
2012 LTGO bonds	815,000	-	(815,000)	-	-
Discount on bonds	(382)	-	(2,920)	(3,302)	-
<b>Total bonds payable</b>	<b>6,124,618</b>	<b>-</b>	<b>(1,097,920)</b>	<b>5,026,698</b>	<b>295,000</b>
<b>Direct borrowing:</b>					
GE Government Finance, Inc note payable	1,685,492	-	(296,791)	1,388,701	277,676
<b>Total bonds payable and direct borrowing</b>	<b>\$ 7,810,110</b>	<b>\$ -</b>	<b>\$ (1,394,711)</b>	<b>\$ 6,415,399</b>	<b>\$ 572,676</b>

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

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#### **Note 6: Long-Term Debt** (Continued)

The terms of the District's long-term debt at December 31, 2023 and 2022, were as follows:

##### Bonds payable

- Limited tax general obligation (LTGO) bonds dated February 18, 2005, in the original amount of \$3,000,000; payable annually on December 1, with variable principal payments ranging from \$205,000 to \$225,000. Interest of 4.69 percent is payable semiannually through December 2025.
- LTGO series A bonds, dated October 28, 2010, in the original amount of \$1,090,000, payable annually on December 1, with variable principal payments ranging from \$70,000 to \$95,000. Interest of 4 percent is payable semiannually through December 2025. The District issued the bonds for an addition and remodel to the hospital.
- LTGO series B bonds (federally taxable Build America Bonds), dated October 28, 2010, in the original amount of \$4,130,000, payable annually on December 1, with variable principal payments starting in 2025, ranging from \$25,000 to \$495,000. Variable rate interest of 6.675 percent to 6.875 percent is payable semiannually through December 2035. The District issued the bonds for an addition and remodel to the hospital.

All 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.

The UTGO bond is a direct and general obligation and is 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. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year. During the year ending December 31, 2022, the District fully paid off the Unlimited tax general obligation (UTGO) bond in the original amount of \$7,265,000.

##### Direct borrowing

- GE Government Finance, Inc., note payable dated May 29, 2020, in the original amount of \$2,000,000, for the upgrade to the emergency power system and the heating, ventilation, and air conditioning system in the operating room. The note is due in monthly installments of \$27,471, including interest at 2.12 percent, through June 2027.

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 6: Long-Term Debt (Continued)

Maturities of long-term debt are as follows for the years ending December 31:

<i>Bonds payable</i>	Principal	<u>2005 LTGO bonds</u>		Total	Principal	<u>2010 LTGO bonds</u>		Total
		Interest				Interest		
2024	\$ 213,906	\$ 20,535	\$	234,441	\$ 95,000	\$ 287,034	\$	382,034
2025	226,094	10,503		236,597	95,000	283,116		378,116
2026	-	-		-	335,000	278,559		613,559
2027	-	-		-	350,000	256,198		606,198
2028	-	-		-	365,000	232,835		597,835
2029 - 2033	-	-		-	2,085,000	773,827		2,858,827
2034 - 2035	-	-		-	970,000	100,719		1,070,719
Total	\$ 440,000	\$ 31,038	\$	471,038	\$ 4,295,000	\$ 2,212,288	\$	6,507,288

<i>Direct borrowing</i>	Principal	Interest	Total
2024	\$ 283,611	\$ 20,528	\$ 304,139
2025	315,729	13,921	329,650
2026	322,478	7,172	329,650
2027	163,740	1,010	164,750
Total	\$ 1,085,558	\$ 42,631	\$ 1,128,189

#### Note 7: Leases

Changes in leases payable consisted of the following as of December 31:

	Balance January 1, 2023	Additions	Reductions	Balance December 31, 2023	Amounts due Within One Year
Building lease payable	\$ -	\$ 362,703	\$ (27,076)	\$ 335,627	\$ 43,184
Equipment leases payable	700,299	120,831	(274,064)	547,066	265,904
Leases payable	\$ 700,299	\$ 483,534	\$ (301,140)	\$ 882,693	\$ 309,088

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 7: Leases (Continued)

Changes in leases payable consisted of the following as of December 31:

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Amounts due Within One Year
Equipment leases payable	\$ -	\$ 948,502	\$ (248,203)	\$ 700,299	\$ 268,866

#### *District as Lessee*

The terms and expiration dates of the District's leases payable at December 31, 2023, follow:

Building lease - Payable is monthly installments from \$5,540 and interest at 7.37% with expiration dated from May 1, 2023 through April 1, 2030.

Equipment leases - Payable is monthly installments from \$200 to \$13,000 and interest at 6.00% with expiration dated from March 1, 2024 through July 25, 2028.

Future minimum lease payments for the years ending December 31 are:

	Principal	Interest	Total
2024	\$ 309,088	\$ 48,426	\$ 357,514
2025	208,394	30,604	238,998
2026	114,636	21,528	136,164
2027	86,935	14,520	101,455
2028	77,513	8,775	86,288
2029 - 2030	86,127	4,462	90,589
<b>Total</b>	<b>\$ 882,693</b>	<b>\$ 128,315</b>	<b>\$ 1,011,008</b>



# **Lewis County Public Hospital District No.1**

## **DBA Arbor Health**

### **Notes to Financial Statements**

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#### **Note 8: Defined Contribution Retirement Plan**

The District has a tax-sheltered annuity (TSA) plan that is available to substantially all employees. The plan has been established by the District under Section 403(b) of the Internal Revenue Code and is administered by Nationwide. The name of the plan is Lewis County Hospital District No. 1 doing business as Morton General Hospital 403(b) Plan (the Plan). The Plan is a defined contribution plan funded from both employee and employer contributions that are deposited in employee-controlled accounts. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the District. Employees may contribute to the TSA immediately upon employment. After employees have completed 12 months of service (1,000 hours in the preceding 12-month period), have attained age 18, and are in the eligible class, the District will make contributions to the employee's account. The District's contribution is on a matching basis at a rate to be determined annually by the District, and the District maintains sole discretion of how much, if any, it will make as an employer contribution. Employee and employer contributions are 100 percent vested at the time they are paid. Pension expenses for the years ended December 31, 2023 and 2022, were approximately \$593,000 and \$566,000, respectively. Employee contributions to the Plan for the years ended December 31, 2023 and 2022, were approximately \$880,000 and \$1,023,000, respectively.

The District owed approximately \$57,000 and \$107,000 to the Plan at December 31, 2023 and 2022, respectively.

#### **Note 9: Charity Care**

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 \$726,000 and \$719,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2023 and 2022.

#### **Note 10: Property Taxes**

The Lewis County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values assessed as of the prior January 1 and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Lewis County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

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

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 10: Property Taxes (Continued)

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

Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as nonoperating revenue. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

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

2023				
		<u>Assessed Value</u>		
	Levy Rate	Real and Personal	Timber	Total Levy Amount
Maintenance and operation	0.2917	\$2,409,576,522	\$1,170,248,641	\$1,044,235

2022				
		<u>Assessed Value</u>		
	Levy Rate	Real and Personal	Timber	Total Levy Amount
Bond	0.3594	\$1,803,577,464	\$972,955,647	\$997,886
Maintenance and operation	0.3725	\$2,248,767,785	\$ -	\$837,666

As stated in note 6, during 2023 the District paid off the Unlimited tax general obligation (UTGO) bond. As a result, the District will no longer be receiving tax levies for bond repayment.

#### Note 11: Risk Management

*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.

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

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#### **Note 11: Risk Management** (Continued)

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

The District also has excess professional liability insurance with Physicians Insurance on a "claims-made" basis. The excess malpractice insurance provides \$4,000,000 per claim of primary coverage with an aggregate limit of \$5,000,000. The policy has no deductible per claim.

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

*Self-insurance risk pools* - The District has a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Unemployment Trust, which is a risk transfer pool administered by the Washington State Hospital Association. The District recognized a \$0 dividend from the Public Hospital District Unemployment Compensation Trust in 2023 and 2022, which was offset against unemployment expense. Payments by the District charged to unemployment expense prior to the dividend were approximately \$33,000 and \$35,000 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, 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.

#### **Note 12: Medical Self-Funded Health Plan**

In February 2018, the District began partially self-insuring the cost of employee healthcare benefits. The District self-insures the first \$80,000 in claims per eligible participant. The District also purchases annual stop-loss insurance coverage for all claims in excess of \$80,000 per participant. Accrued compensation and related liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

# Lewis County Public Hospital District No.1

## DBA Arbor Health

### Notes to Financial Statements

#### Note 12: Medical Self-Funded Health Plan (Continued)

Changes in the District's incurred but not reported liability are as follows:

<i>December 31,</i>	2023	2022
Claim liability, beginning of year	\$ 150,186	\$ 151,723
Current year claims and changes in estimates	2,445,132	1,803,683
Claims payments	(2,395,658)	(1,805,220)
<b>Total</b>	<b>\$ 199,660</b>	<b>\$ 150,186</b>

#### Note 13: Concentration of Credit Risk

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

The mix of receivables from patients and third-party payors was as follows at December 31:

	2023	2022
Medicare	48 %	48 %
Medicaid	15	14
Commercial and others	33	31
Private pay	4	7
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

*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* - Effective July 1, 2021, the District renewed its contract with Carpenters' Industrial Council Local Union No. 2767. Approximately 43 percent of the District's employees are represented by the labor union under this collective bargaining agreement. The contract is effective through June 30, 2024.

Effective July 8, 2022, the District renewed its contracts with Washington State Nurses Association for registered nurses and licensed practical nurses. Approximately 11 percent of the District's employees are represented by the labor union under these collective bargaining agreements. The contracts are effective through March 31, 2025. Negotiations remain ongoing.

# **Lewis County Public Hospital District No.1**

## **DBA Arbor Health**

### **Notes to Financial Statements**

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#### **Note 14: COVID-19 Relief Funds and Grant Revenue**

Since the start of the program the District received \$5,491,422 of funding from the CARES Act Provider Relief Fund, respectively. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned revenue until eligible expenses or lost revenues are recognized. During the years ended December 31, 2023 and 2022, the District recognized \$0 and \$1,000,000 of grant revenue from these funds, respectively. The District had no remaining funds as of December 31, 2023.

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Commissioners  
Lewis County Public Hospital District No.1 DBA Arbor Health  
Morton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lewis County Public Hospital District No.1 DBA Arbor Health (the "District"), which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated July 16, 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 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 the 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 were not 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, 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Wipfli LLP  
Spokane, Washington

July 16, 2024