



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

November 27, 2024

Board of Commissioners
Klickitat Valley Health
Goldendale, Washington

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

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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Klickitat County Public Hospital District No. 1 doing business as Klickitat Valley Health

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2023 and 2022



Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Table of Contents

	Page
<i>INDEPENDENT AUDITORS' REPORT</i>	1-3
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	4-5
Statements of revenues, expenses, and changes in net position	6
Statements of cash flows	7-8
Notes to basic financial statements	9-26
<i>SINGLE AUDIT:</i>	
<i>AUDITORS' SECTION:</i>	
<i>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</i>	27-28
<i>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</i>	29-31
Schedule of findings and questioned costs	32-33
<i>AUDITEE'S SECTION:</i>	
Schedule of expenditures of federal awards	34
Summary schedule of prior audit findings	35



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Goldendale, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Klickitat County Public Hospital District No. 1 doing business as Klickitat Valley 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 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 these 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' Responsibility for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

D3A PLLC

Spokane Valley, Washington
June 12, 2024

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

ASSETS	2023	2022
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,475,250	\$ 4,355,379
Receivables:		
Patient accounts	5,871,451	5,150,139
Collateralized patient accounts	96,649	87,324
Estimated third-party payor settlements	54,321	626,176
Taxes	44,909	35,414
Taxes restricted for debt service	2,169	6,111
Grants	802,939	476,225
Other	94,659	310,652
Cash and cash equivalents, restricted for debt service	273,606	257,469
Cash and cash equivalents, limited as to use for debt service	62,627	87,673
Inventories	541,561	533,675
Prepaid expenses	419,746	195,445
Total current assets	11,739,887	12,121,682
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	1,776,931	864,498
Restricted cash from Local Option Capital Asset Lending contract	3,527,081	-
Collateralized patient accounts receivable	25,694	22,746
Capital assets, net	12,611,477	11,289,420
Total noncurrent assets	17,941,183	12,176,664
Total assets	\$ 29,681,070	\$ 24,298,346

See accompanying notes to basic financial statements.

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

LIABILITIES AND NET POSITION	2023	2022
<i>Current liabilities</i>		
Accounts payable	\$ 2,035,034	\$ 1,633,332
Accrued compensation and related liabilities	1,098,577	888,276
Accrued vacation	1,329,776	1,135,597
Estimated third-party payor payable	91,248	-
Accrued interest payable	22,341	9,954
Unearned grant revenue	-	100,000
Current maturities of long-term debt and other noncurrent liabilities	1,035,427	753,419
Current portion of net pension liability	-	22,920
Total current liabilities	5,612,403	4,543,498
<i>Noncurrent liabilities</i>		
Long-term debt and other liabilities, less current maturities	7,418,124	4,308,584
Total liabilities	13,030,527	8,852,082
<i>Net position</i>		
Net investment in capital assets	8,416,050	6,630,729
Restricted for debt service	275,775	263,580
Unrestricted	7,958,718	8,551,955
Total net position	16,650,543	15,446,264
Total liabilities and net position	\$ 29,681,070	\$ 24,298,346

See accompanying notes to basic financial statements.

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
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	\$ 36,420,782	\$ 32,373,891
Grants	1,115,742	1,643,402
Other	276,713	297,555
Total operating revenues	37,813,237	34,314,848
<i>Operating expenses</i>		
Salaries and wages	18,940,923	17,378,824
Employee benefits	3,870,217	3,693,155
Professional fees	5,458,193	5,637,535
Supplies	3,791,928	3,384,848
Utilities	366,093	335,643
Purchased services	2,923,294	2,846,647
Leases and rentals	415,142	287,973
Repairs and maintenance	209,972	80,256
Depreciation and amortization	1,417,527	1,285,096
Insurance	281,547	322,656
Other	854,276	828,612
Total operating expenses	38,529,112	36,081,245
<i>Operating loss</i>	(715,875)	(1,766,397)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	973,574	932,166
Interest income	254,719	111,843
Interest expense	(250,808)	(169,730)
CARES Act Provider Relief Fund	-	188,242
Total nonoperating revenues, net	977,485	1,062,521
Excess of revenues over expenses (expenses over revenues) before capital grants	261,610	(703,876)
<i>Capital grants</i>	942,669	563,199
Change in net position	1,204,279	(140,677)
Net position, beginning of year	15,446,264	15,586,941
Net position, end of year	\$ 16,650,543	\$ 15,446,264

See accompanying notes to basic financial statements.

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
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 patient services	\$ 36,151,292	\$ 31,465,835
Cash received from grants	1,276,511	2,481,915
Cash received from other revenue	276,713	297,555
Cash paid to and on behalf of employees	(22,429,580)	(21,342,703)
Cash paid to suppliers and contractors	(13,914,937)	(13,677,498)
Net cash from operating activities	1,359,999	(774,896)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	964,079	928,377
Proceeds from recourse financing	209,339	182,117
Payments for Medicare accelerated payments	-	(4,556,072)
Net cash from noncapital financing activities	1,173,418	(3,445,578)
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	4,057	5,324
Cash received from capital contributions	355,186	305,503
Interest paid	(255,445)	(182,991)
Costs associated with the issuance of LTD	32,745	-
Principal payments on long-term debt	(361,483)	(349,085)
Principal payments on lease liabilities	(440,730)	(211,425)
Purchase of capital assets	(2,098,956)	(1,493,215)
Proceeds from sale of capital assets	32,142	13,719
Net cash from capital and related financing activities	(2,732,484)	(1,912,170)
<i>Cash flows from investing activities</i>		
Interest received	222,462	96,886
Net change in cash and cash equivalents	23,395	(6,035,758)
Cash and cash equivalents, beginning of year	5,565,019	11,600,777
Cash and cash equivalents, end of year	\$ 5,588,414	\$ 5,565,019

See accompanying notes to basic financial statements.

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

	2023	2022
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 3,475,250	\$ 4,355,379
Cash and cash equivalents, restricted for debt service	273,606	257,469
Cash and cash equivalents, limited as to use for debt service	62,627	87,673
Cash and cash equivalents, limited as to use for capital acquisitions	1,776,931	864,498
Total cash and cash equivalents	\$ 5,588,414	\$ 5,565,019
<i>Reconciliation of Operating Loss to Net Cash from Operating Activities</i>		
Operating loss	\$ (715,875)	\$ (1,766,397)
<i>Adjustments to reconcile operating loss to net cash from operating activities</i>		
Depreciation and amortization	1,417,527	1,285,096
Provision for bad debts	1,412,445	733,885
(Increase) decrease in current assets:		
Receivables:		
Patient accounts	(2,345,038)	(1,918,084)
Estimated third-party payor settlements	571,855	276,143
Grants	160,769	838,513
Other	215,993	(302,736)
Inventories	(7,886)	19,958
Prepaid expenses	(224,301)	(70,932)
Increase (decrease) in current liabilities:		
Accounts payable	401,702	400,382
Accrued compensation and related liabilities	210,301	(300,023)
Accrued vacation	194,179	102,826
Estimated third-party payor settlements	91,248	-
Net pension liability	(22,920)	(73,527)
Net cash from operating activities	\$ 1,359,999	\$ (774,896)

Noncash Capital and Noncapital Financing Activities:

The District's recourse financing obligation was reduced by patient payments made to a third-party service organization in the amount of \$160,287 and \$166,474 in 2023 and 2022, respectively.

During the year ended December 31, 2023, the District recorded \$640,628 of right-of-use assets and subscription liabilities from the implementation of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

During the year ended December 31, 2022, the District recorded \$1,441,645 of right-of-use assets and lease liabilities from the implementation of Governmental Accounting Standards Board Statement No. 87.

See accompanying notes to basic financial statements.

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

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Klickitat County Public Hospital District No. 1 owns and operates Klickitat Valley Health (the District), a licensed 25-bed critical access hospital and rural health clinic in Goldendale, Washington. The District provides healthcare services to patients in Goldendale, Washington, and the surrounding areas. The services provided include acute care hospital, emergency room, rural health clinic, hospice, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington 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. The District has no material component units.

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.

b. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – All cash receipts are deposited directly to the District’s depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Klickitat 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.

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

Assets restricted and limited as to use – Assets limited as to use include assets under bond indenture agreements for bond service fund and assets set aside by the Board of Commissioners for specific purposes over which the Board retains control and could subsequently use for other purposes.

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
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)

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

Capital assets – Capital assets are assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets, other than lease assets and subscription assets, are recorded at historical cost if purchased or constructed. Donated capital assets are stated at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are charged to operations as incurred. Lease assets and subscription assets are stated at the present value of the future payments under the agreement plus any payments made at or before the start of the contract and costs to place the asset in service. Lease assets and subscription assets are amortized on the straight-line method over the shorter period of the lease or subscription term or the estimated useful life of the assets. Gains or losses on sales and retirements are included in nonoperating revenues and expenses. Depreciation is provided over the estimated useful lives of assets as determined from the American Hospital Association's published tables and management's estimate by the straight-line method using these asset lives:

Land improvements	4 to 40 years
Buildings and improvements	5 to 40 years
Equipment	2 to 26 years
Subscription assets	10 years
Right-of-use assets - equipment	2 to 5 years

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Compensated absences – The District's policy is to permit employees to accumulate earned but unused paid time off (PTO) and holiday benefits up to a maximum range of 352 to 592 hours, depending on their years of service. The District also permits employees to accumulate earned paid sick leave up to 40 hours. All PTO and paid sick leave are accrued and expensed when earned.

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, including amounts deposited with trustees as required by bond indentures. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
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)

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other 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 – 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 principle – In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-of-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The District adopted Statement No. 96 during the year ended December 31, 2023. See Note 7 for additional information on the subscription assets and liabilities recorded by the District.

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 subscription assets totaling approximately \$185,000 as of January 1, 2023. The adoption had no material impact on the statement of revenues, expenses, and changes in net position.

Subsequent events – Subsequent events have been reviewed through June 12, 2024, the date on which the financial statements were available to be issued.

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

2. Bank Deposits and Investments:

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

All cash, cash equivalents, and cash investments held by the County Treasurer are insured by the State of Washington Public Deposit Protection Commission (PDPC), as provided by Chapter 39.58 of *The Revised Code of Washington* and are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. Qualified public depositories, including Umpqua Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington.

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 \$3,951,000 and \$4,837,000, 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.

3. Patient Accounts Receivable:

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.

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

3. Patient Accounts Receivable (continued):

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. 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.

The District utilizes Access One as a resource for patient financing options. Access One funds discounted patient accounts to the District upon approval of a financial application and payment plan. The District no longer accepts payment plans directly with patients for more than 120 days.

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

	2023	2022
Receivables from patients and their insurance carriers	\$ 3,427,384	\$ 3,231,333
Receivables from Medicare	2,719,043	2,010,628
Receivables from Medicaid	787,856	960,069
Total patient accounts receivable	6,934,283	6,202,030
Less allowance for uncollectible accounts	1,062,832	1,051,891
Patient accounts receivable, net	\$ 5,871,451	\$ 5,150,139

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

4. Capital Assets:

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	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	1,799,085	1,928,474	-	(785,086)	2,942,473
Total capital assets not being depreciated or amortized	2,002,791	1,928,474	-	(785,086)	3,146,179
<i>Capital assets being depreciated or amortized</i>					
Buildings and improvements	21,159,825	-	(5,847)	125,204	21,279,182
Land improvements	1,848,602	-	-	-	1,848,602
Equipment	6,555,162	202,624	(1,508,309)	659,882	5,909,359
Leased right-of-use equipment	1,441,645	455,599	(61,787)	-	1,835,457
Subscription assets	-	185,029	-	-	185,029
Total capital assets being depreciated or amortized	31,005,234	843,252	(1,575,943)	785,086	31,057,629
<i>Less accumulated depreciation or amortization for</i>					
Buildings and improvements	(14,310,165)	(669,314)	-	-	(14,979,479)
Land improvements	(1,558,092)	(43,218)	-	-	(1,601,310)
Equipment	(5,437,343)	(358,318)	1,493,732	-	(4,301,929)
Leased right-of-use equipment	(413,005)	(345,135)	50,069	-	(708,071)
Subscription assets	-	(1,542)	-	-	(1,542)
Total accumulated depreciation or amortization	(21,718,605)	(1,417,527)	1,543,801	-	(21,592,331)
Total capital assets being depreciated or amortized, net	9,286,629	(574,275)	(32,142)	785,086	9,465,298
Capital assets, net	\$ 11,289,420	\$ 1,354,199	\$ (32,142)	\$ -	\$ 12,611,477

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

4. Capital Assets (continued):

	Balance December 31, 2021	Additions	Retirements	Transfers	Balance December 31, 2022
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	792,099	1,504,288	-	(497,302)	1,799,085
Total capital assets not being depreciated or amortized	995,805	1,504,288	-	(497,302)	2,002,791
<i>Capital assets being depreciated or amortized</i>					
Buildings and improvements	21,058,892	15,757	-	85,176	21,159,825
Land improvements	1,771,953	76,649	-	-	1,848,602
Equipment	7,182,253	152,067	(341,192)	(437,966)	6,555,162
Leased right-of-use equipment	-	591,553	-	850,092	1,441,645
Total capital assets being depreciated or amortized	30,013,098	836,026	(341,192)	497,302	31,005,234
<i>Less accumulated depreciation or amortization for</i>					
Buildings and improvements	(13,614,243)	(695,922)	-	-	(14,310,165)
Land improvements	(1,520,321)	(37,771)	-	-	(1,558,092)
Equipment	(5,626,418)	(308,681)	327,473	170,283	(5,437,343)
Leased right-of-use equipment	-	(242,722)	-	(170,283)	(413,005)
Total accumulated depreciation or amortization	(20,760,982)	(1,285,096)	327,473	-	(21,718,605)
Total capital assets being depreciated or amortized, net	9,252,116	(449,070)	(13,719)	497,302	9,286,629
Capital assets, net	\$ 10,247,921	\$ 1,055,218	\$ (13,719)	\$ -	\$ 11,289,420

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

- Community Vision Project, which includes a new inpatient wing and surgery unit, repurposing the current inpatient unit for long-term care, and increasing specialty and outpatient services. The project is expected to be completed in 2026, with an estimated cost to complete of approximately \$18,700,000. The District is exploring funding options for this project.
- Central Utility Plant Project to upgrade the furnace, electrical systems, and energy efficiency of the main hospital building. The project is expected to be completed in December 2024, with an estimated cost to complete of approximately \$7,700,000. The District plans to fund the project using funds from the state of Washington Department of Commerce appropriation of approximately \$3,440,000, the US Department of Energy of approximately \$2,500,000, and other funding sources.
- A kitchen remodel project is expected to be completed in 2024 with an estimated cost to complete of approximately \$600,000.

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

5. Employee Health Self-insurance:

The District participates in a self-insured health insurance plan administered by Regence BlueShield (the Third-party Administrator). The District records plan expenses as incurred. The District also has an agreement with Sun Life Assurance Company of Canada to provide excess loss insurance coverage. Coverage under the excess loss plan is effective when individual claims exceed \$100,000. The calculation of loss coverage is based upon a set dollar amount per covered employee. The District accrues an incurred but not reported liability for plan claims that have been incurred but that have not yet been reported to the Third-party Administrator. This liability is included in accrued compensation and related liabilities in the accompanying statements of net position. Activity in the District's accrued employee health claims liability was as follows:

	2023	2022
Estimated claims liability - beginning of year	\$ 160,000	\$ 250,000
Current year contributions and changes in estimates	1,834,098	1,860,362
Claims payments	(1,744,098)	(1,950,362)
Estimated claims liability - end of year	\$ 250,000	\$ 160,000

6. Line of Credit:

The District has a line of credit outstanding with Bank of the West of \$1,000,000 at December 31, 2023. There were no draws or payments associated with this line of credit during the year and no balance outstanding at year end.

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

7. Long-term Debt, Subscription Liabilities, and Lease Liabilities:

Changes in the District's long-term debt, subscription liabilities, and lease liabilities are as follows:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
<i>Long-term debt</i>					
Government obligation contract	\$ 117,992	\$ -	\$ (55,639)	\$ 62,353	\$ 57,479
2018 LTGO bonds	889,229	-	(25,844)	863,385	26,407
2007 LTGO bonds	2,000,000	-	(185,000)	1,815,000	195,000
Series 2014B COP	755,000	-	(95,000)	660,000	100,000
Local Option Capital Asset Lending contract	-	3,130,000	-	3,130,000	145,000
Recourse financing, collateralized patient notes receivable	155,570	209,339	(199,008)	165,901	108,808
Bond premiums and discounts	83,188	429,826	(17,024)	495,990	-
Total long-term debt	4,000,979	3,769,165	(577,515)	7,192,629	632,694
<i>Subscription liabilities</i>					
Galen Legacy System	-	185,029	(80,625)	104,404	29,581
<i>Lease liabilities</i>					
Canon Medical Systems, Inc. (CT)	321,345	-	(111,290)	210,055	124,810
Hologic, Inc.	226,217	-	(39,715)	186,502	50,783
CareFusion Solutions, LLC.	438,205	-	(88,249)	349,956	93,227
Canon Medical Systems, Inc. (Portable Xray)	-	148,077	(21,947)	126,130	27,569
Other lease liabilities	75,257	307,522	(98,904)	283,875	76,763
Total subscription and lease liabilities	1,061,024	640,628	(440,730)	1,260,922	402,733
Total long-term debt, subscription, and lease liabilities	\$ 5,062,003	\$ 4,409,793	\$ (1,018,245)	\$ 8,453,551	\$ 1,035,427
	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
<i>Long-term debt</i>					
Government obligation contract	\$ 171,848	\$ -	\$ (53,856)	117,992	55,638
2018 LTGO bonds	914,458	-	(25,229)	889,229	25,871
2007 LTGO bonds	2,180,000	-	(180,000)	2,000,000	185,000
Series 2014B COP	845,000	-	(90,000)	755,000	95,000
Recourse financing, collateralized patient notes receivable	172,800	182,117	(199,347)	155,570	108,746
Bond premiums and discounts	95,437	-	(12,249)	83,188	-
Total long-term debt	4,379,543	182,117	(560,681)	4,000,979	470,255
<i>Lease liabilities</i>					
Canon Medical Systems, Inc.	439,069	-	(117,724)	321,345	121,235
Hologic, Inc.	-	241,504	(15,287)	226,217	37,802
CareFusion Solutions, LLC.	-	480,547	(42,342)	438,205	88,249
Other lease liabilities	-	111,329	(36,072)	75,257	35,878
Total lease liabilities	439,069	833,380	(211,425)	1,061,024	283,164
Total long-term debt and lease liabilities	\$ 4,818,612	\$ 1,015,497	\$ (772,106)	\$ 5,062,003	\$ 753,419

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

7. Long-term Debt, Subscription Liabilities, and Lease Liabilities (continued):

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

- A government obligation contract with KS State Bank dated January 22, 2018, in the original amount of \$366,683 payable on the 22nd of each month with payments of \$4,888 including interest at 3.26 percent per annum through January 22, 2025. The District issued the general obligation contract to finance the HVAC upgrade and lighting in conjunction with an energy grant from the Washington State Department of Commerce.
- A USDA limited tax general obligation (LTGO) bond fund note dated June 1, 2018, in the original amount of \$1,000,000, payable monthly starting July 1, 2018, with variable principal payments ranging from \$1,937 to \$3,885, with an interest rate of 2.375 percent per annum, through June 1, 2048. The District issued the bond to provide to finance the remodel the District’s physical therapy space.
- LTGO bonds dated April 12, 2007, in the original amount of \$4,185,000, payable annually on December 1, with variable principal payments ranging from \$195,000 to \$265,000. Variable rate interest of 4.1 percent to 4.5 percent is payable semiannually through December 2031. The District issued the bonds to purchase an assisted living facility (now the physician clinic building), previously owned by Klickitat Valley Hospital Memorial Foundation.

All LTGO bonds are general obligations of the District and 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.
- State of Washington Certificates of Participation (COP), Series 2014B dated August 12, 2014, in the original amount of \$1,350,000, payable semiannually on June 1 and December 1, with variable principal payments ranging from \$100,000 to \$120,000, plus semiannual interest of 2.78 percent through June 2029. The state of Washington issued the COP for the District’s physician clinic building remodel and is collateralized by the physician clinic building.
- Local Option Capital Asset Lending (Local) loan dated June 28, 2023, in the original amount of \$3,130,000, with an additional premium of \$429,826, payable semiannually on June 1 and December 1, with variable principal payments ranging from \$145,000 to \$285,000, plus annual interest of 3.28 percent through June 2038.

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

7. Long-term Debt, Subscription Liabilities, and Lease Liabilities (continued):

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

- Lease liability payable to Canon Medical Systems, Inc. (CT) in the amount of \$601,000 is due in monthly installments of \$10,772, including interest of 0.24 percent, through August 2025.
- Lease liability payable to Hologic, Inc., in the amount of \$241,504, was completed and paid in full in July 2023.
- Lease liability payable to Carefusion Solutions, LLC, in the amount of \$480,547 is due in monthly installments of \$9,179, including interest of 5.5 percent, through June 2027.
- Lease liability payable to Canon Medical Systems, Inc.(Portable Xray) in the amount of \$148,077 is due in monthly installments of \$2,828, including interest of 5.5 percent, through March 2028.
- Other lease liabilities payable to various lenders in the amount of \$359,330, due in monthly installments between \$600 and \$2,574, with interest of 5.5 percent, through September 2026.

Subscription liabilities – Subscription liabilities payable to Galen Healthcare Solutions, Inc., in the amount of \$185,029, due in monthly installments between \$10,000 and \$22,500, including interest at 5.607 percent, through November 2032.

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.

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

7. Long-term Debt, Subscription Liabilities, and Lease Liabilities (continued):

Schedules of principal and interest payments on long-term debt, subscription liabilities, and lease liabilities are as follows:

Years Ending December 31,	LTGO Bonds			Certificate of Participation		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2024	\$ 221,407	\$ 100,706	\$ 322,113	\$ 100,000	\$ 23,900	\$ 123,900
2025	232,098	91,727	323,825	105,000	18,775	123,775
2026	237,749	81,851	319,600	110,000	13,400	123,400
2027	248,415	71,735	320,150	110,000	9,000	119,000
2028	259,047	61,203	320,250	235,000	7,575	242,575
2029-2033	911,258	144,682	1,055,940	-	-	-
2034-2038	175,948	57,452	233,400	-	-	-
2039-2043	198,119	35,281	233,400	-	-	-
2044-2048	194,344	10,498	204,842	-	-	-
	\$ 2,678,385	\$ 655,135	\$ 3,333,520	\$ 660,000	\$ 72,650	\$ 732,650

Years Ending December 31,	Government Obligation Contract			Recourse Financing		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2024	\$ 57,479	\$ 1,179	\$ 58,658	\$ 108,808	\$ -	\$ 108,808
2025	4,875	13	4,888	57,092	-	57,092
	\$ 62,354	\$ 1,192	\$ 63,546	\$ 165,900	\$ -	\$ 165,900

Years Ending December 31,	Local Option Capital Asset Lending Contract		
	Principal	Interest	Total Payments
2024	\$ 145,000	\$ 152,875	\$ 297,875
2025	150,000	145,500	295,500
2026	160,000	137,750	297,750
2027	170,000	129,500	299,500
2028	175,000	120,875	295,875
2029-2033	1,025,000	459,375	1,484,375
2034-2038	1,305,000	169,375	1,474,375
	\$ 3,130,000	\$ 1,315,250	\$ 4,445,250

Years Ending December 31,	Total Long-term Debt		
	Principal	Interest	Total Payments
2024	\$ 632,694	\$ 278,660	\$ 911,354
2025	549,065	256,015	805,080
2026	507,749	233,001	740,750
2027	528,415	210,235	738,650
2028	669,047	189,653	858,700
2029-2033	1,936,258	604,057	2,540,315
2034-2038	1,480,948	226,827	1,707,775
2039-2043	198,119	35,281	233,400
2044-2048	194,344	10,498	204,842
	\$ 6,696,639	\$ 2,044,227	\$ 8,740,866

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

7. Long-term Debt, Subscription Liabilities, and Lease Liabilities (continued):

Years Ending December 31,	Operation Lease Liabilities		
	Principal	Interest	Total Payments
2024	\$ 373,152	\$ 50,960	\$ 424,112
2025	347,595	33,427	381,022
2026	256,320	17,888	274,208
2027	157,701	5,186	162,887
2028	21,750	353	22,103
	\$ 1,156,518	\$ 107,814	\$ 1,264,332

Years Ending December 31,	Subscription Liability		
	Principal	Interest	Total Payments
2024	\$ 29,581	\$ 4,794	\$ 34,375
2025	18,279	4,221	22,500
2026	6,810	3,190	10,000
2027	7,195	2,805	10,000
2028	7,601	2,400	10,001
2029	34,938	5,062	40,000
	\$ 104,404	\$ 22,472	\$ 126,876

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
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 or uninsured discount policies during fiscal years 2023 or 2022.

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	\$ 17,779,630	\$ 14,074,734
Medicaid	7,423,998	7,831,948
Other third-party payors	6,856,726	6,022,478
Patients	3,482,332	2,631,997
340B contract pharmacy	574,582	771,950
Retail pharmacy	2,523,454	2,223,329
	38,640,722	33,556,436
Less:		
Charity care	807,495	448,660
Provision for bad debts	1,412,445	733,885
Net patient service revenue	\$ 36,420,782	\$ 32,373,891

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

8. Net 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 District has been designated a critical access hospital by Medicare and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The rural health clinic is also paid under a cost reimbursement method. Nonrural health clinic physician services are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- **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 that is 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, 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 decreased by approximately \$115,000 and increased by approximately \$10,000 in 2023 and 2022, respectively, 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 \$526,000 and \$416,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2023 and 2022.

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

9. Property Taxes:

The Klickitat 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 same date and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Klickitat 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.

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 people.

For 2023, the District's regular tax levy was \$0.57 per \$1,000 on a total assessed valuation of \$1,594,178,842 for a total regular levy of \$900,806. For 2022, the District's regular tax levy was \$0.62 per \$1,000 on a total assessed valuation of \$1,405,214,406 for a total regular levy of \$876,045.

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

10. Defined Contribution Retirement Plan:

403(b) Plan – The District contributes to the Klickitat Valley Hospital Retirement Plan II (the 403(b) Plan), a defined contribution pension plan, for its employees who have completed 12 months of service (1,000 hours in the preceding 12-month period) and have attained age 21. This employer-sponsored 403(b) Plan is administered by Nationwide. Benefit terms, including contribution requirements, for the 403(b) Plan are established and may be amended by the District. The District has approved for all employees who are members of a recognized bargaining unit, a 2.5 percent contribution on all eligible compensation until further notice. For employees who do not belong to a recognized bargaining unit, the District will match up to 4 percent of an employee's compensation. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2023 and 2022, employee contributions were approximately \$678,000 and \$539,000, respectively, and the District's contributions to the 403(b) Plan were approximately \$426,000 and \$384,000, respectively.

All contributions to the 403(b) Plan are 100 percent vested at all times. The District had no material liability to the 403(b) Plan at December 31, 2023 and 2022.

457(b) Plan – The District also sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457, called the Klickitat Valley Health 457 Employee Savings Plan (the 457(b) Plan). This 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 their first day of employment. For the years ended December 31, 2023 and 2022, employee contributions were approximately \$138,000 and \$98,000, respectively.

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

11. Risk Management and Contingencies:

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.

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 \$4,000,000. 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 may exceed coverage available in any given year.

Self-insurance risk pools – The District has a self-insured workers’ compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust and the Public Hospital District Unemployment Trust, which are self-insurance risk pools administered by the Washington State Hospital Association. The District pays a share of actual workers’ compensation claims, unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$184,000 and \$199,000 (net of \$47,019 in dividends) in 2023 and 2022, respectively. Payments by the District charged to unemployment expense were approximately \$30,000 and \$32,000 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.

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

11. Risk Management and Contingencies (continued):

Collateralized patient accounts receivable – The District transfers to a financial institution certain patient receivable balances; however, these transfers are subject to recourse and as a result, do not meet the criteria for a sale in accordance with current accounting standards. Accordingly, the transfer of these receivables is accounted for as a collateralized borrowing. Related collateralized receivables and notes payable are shown on the statements of net position.

Collateralized accounts receivable, net of allowances, are as follows:

	2023	2022
Collateralized patient accounts receivable	\$ 165,900	\$ 155,570
Less allowance for uncollectible accounts	43,557	45,500
Net collateralized patient accounts receivable	\$ 122,343	\$ 110,070

During 2023 and 2022, the District transferred \$209,339 and \$182,117, respectively, of such receivables.

12. Concentration of Risks:

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

The mix of receivables from patients was as follows:

	2023	2022
Medicare	41 %	32 %
Medicaid	16	23
Other third-party payors	21	26
Patients	22	19
	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 unit – As of December 31, 2023 and 2022, approximately 60 percent and 50 percent, respectively, of the District's employees were represented by the union under a collective bargaining agreement with Service Employees International Union 1199NW. The contract is effective through October 1, 2025.

SINGLE AUDIT

AUDITORS' SECTION



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

Board of Commissioners
Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Goldendale, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Klickitat County Public Hospital District No. 1 doing business as Klickitat Valley Health (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 as listed in the table of contents, and have issued our report thereon dated June 12, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 basic 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
June 12, 2024



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

Board of Commissioners
Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Goldendale, Washington

Report on Compliance for the Major Federal Program

Opinion on the District's Major Federal Program

We have audited Klickitat County Public Hospital District No. 1 doing business as Klickitat Valley Health's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2023. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

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

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

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

D3A PLLC

Spokane Valley, Washington
June 12, 2024

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 yes X no

Identification of major programs:

Federal Assistance Listing Number

Name of Federal Program or Cluster

10.766

Community Facilities Loans and Grants

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

Auditee qualified as low-risk auditee?

 X yes no

**Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2023**

Section II – Summary of Auditors’ Results

There are no matters reported for 2023. Therefore, no corrective action plan is necessary, nor has one been prepared.

Section III – Federal Award Findings and Questioned Costs

There are no matters reported for 2023. Therefore, no corrective action plan is necessary, nor has one been prepared.

AUDITEE'S SECTION

Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Total Federal Expenditures
U.S. Department of Health and Human Services Direct Programs:				
Rural Communities Opioid Response-Implementation	93.912			\$ 375,686
Total U.S. Department of Health and Human Services Direct Programs				375,686
U.S. Department of Health and Human Services Pass-through Programs From:				
<i>Washington State Department of Health</i>				
Small Rural Hospital Improvement Grant Program	93.301	HSP26280-0		12,598
<i>Washington State Health Care Authority</i>				
Opioid STR	93.788	K6464		546,459
Total U.S. Department of Health and Human Services Pass-through Programs				559,057
Total U.S. Department of Health and Human Services				934,743
U.S. Department of Agriculture Direct Programs:				
<i>Community Facilities Loans and Grants Cluster</i>				
Community Facilities Loans and Grants	10.766			889,229
U.S. Department of Homeland Security Pass-through Programs From:				
<i>Washington State Department of Health</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Not provided	COVID-19	4,496
Total expenditures of federal awards				\$ 1,828,468

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

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

2. Summary of Significant Accounting Policies:

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

3. Direct Loan:

Nonmonetary assistance in the form of a USDA direct loan is included in the Schedule. The balance of the USDA direct loan at December 31, 2023 was \$863,385.

**Klickitat County Public Hospital District No. 1
doing business as Klickitat Valley Health
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.