Office of the Washington State Auditor
Pat McCarthy

December 9, 2024

Board of Commissioners
Mid-Valley Hospital
Omak, 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 Mid-Valley Hospital 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

Pat McCarthy, State Auditor

Olympia, WA

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Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

Financial Statements and Required Supplementary Information

Years Ended December 31, 2023 and 2022

Mid-Valley Hospital & Clinic

WIPFLI

Independent Auditor's Report

Board of Commissioners
Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital
Omak, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital (the "District"), which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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 financial position and its cash flows, for the years 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2023 the District adopted new accounting guidance, GASB Statement No. 96 - *Subscription-Based information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 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.

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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 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 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 may be identified during the audit.

Required Supplementary Information

GAAP requires that a management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 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 the 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.

Wipfli LLP

Wipfli LLP

Spokane, Washington
July 9, 2024

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Management's Discussion and Analysis

Years Ended December 31, 2023, 2022, and 2021

Introduction

Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital (the "District"), offers readers of our financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2023, 2022, and 2021. We encourage readers to consider the information presented here in conjunction with the District's financial statements, including the notes thereto.

The District is a nonprofit, municipal corporation that provides acute care, emergency care, surgical services, and clinical services to patients in Okanogan County. The District is a Critical Access Hospital (CAH) licensed for 44 beds, but held to 25-bed inpatient CAH requirements. CAH status for the hospital has a favorable impact on District finances. Medicare and Medicaid reimbursement is cost based and therefore typically higher than what the District would otherwise receive under a fixed prospective payment system (PPS). The District also received tax revenue representing approximately 1.2% of 2023's gross receipts: $741,106 general hospital levy and $365,472 debt levy. The District is governed by a five-member elected Board of Commissioners. Day-to-day operations are managed by the chief executive officer. The District employed approximately 228 full-time equivalents (FTEs) on December 31, 2023, and had an annual payroll of approximately $23.8 million, including benefits.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The financial statements are comprised of the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the District's finances.

Required Financial Statements

The District's financial statements report information of the District using accounting methods similar to those used by private-sector healthcare organizations. These statements offer short-term and long-term information about its activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the revenue and expenses for the years ended December 31, 2023 and 2022, are accounted for in the statements of revenues, expenses, and changes in net position. These statements can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis, which means the related cash could be received or paid in a different period.

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2023, 2022, and 2021

Required Financial Statements (Continued)

The final required statements are the statements of cash flows, which report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

Overall, the District had an increase in net position of $126,609 in 2023 and a decrease of $1,347,013 in 2022. The statements of net position show that total assets decreased $772,627 from 2022 to 2023 and increased $169,491 from 2021 to 2022. The filed third-party cost reports indicate the Medicare and Medicaid settlements to be receivable $839,761 and $661,083 in 2023 and 2022, respectively, amounts of $145,707 payable in 2021. Noncurrent assets showed a decrease of $1,636,908 in 2023 from 2022 and an increase of $1,440,089 in 2022 from 2021. Noncurrent liabilities decreased $1,430,027 in 2023 from 2022 and increased $1,234,164 in 2022 from 2021. Overall, long-term debt and lease obligations (including current portions) decreased $1,466,707 in 2023 from 2022 and decreased $620,193 in 2022 from 2021.

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2023, 2022, and 2021

Condensed financial information for the years ended December 31, 2023, 2022, and 2021, is as follows:

Condensed Statements of Net Position (In Thousands)

				2023-2022		2022-2021	
December 31,	2023	2022	2021	$ Change	% Change	$ Change	% Change
Assets:							
Capital assets	$ 10,292	$ 11,710	$ 9,732	$ (1,418)	-12.11 %	$ 1,978	20.32 %
Other assets	23,685	23,040	24,847	645	2.80 %	(1,807)	-7.27 %
Total assets	$ 33,977	$ 34,750	$ 34,579	$ (773)	-2.22 %	$ 171	0.49 %
Liabilities:							
Long-term liabilities	$ 7,753	$ 9,456	$ 6,748	$ (1,703)	-18.01 %	$ 2,708	40.13 %
Other liabilities	3,217	2,261	3,292	956	42.28 %	(1,031)	-31.32 %
Total liabilities	$ 10,970	$ 11,717	$ 10,040	$ (747)	-6.38 %	$ 1,677	16.70 %
Deferred inflows of resources	151	303	463	(152)	-50.17 %	(160)	100.00 %
Net position:							
Net investment in capital assets	$ 3,518	$ 3,154	$ 3,413	$ 364	11.54 %	$ (259)	-7.59 %
Restricted	87	184	89	(97)	-52.72 %	95	106.74 %
Unrestricted	19,251	19,392	20,574	(141)	-0.73 %	(1,182)	-5.75 %
Total net position	$ 22,856	$ 22,730	$ 24,076	$ 126	0.55 %	$ (1,346)	-5.59 %

Management's Discussion and Analysis (Continued)

Years Ended December 31, 2023, 2022, and 2021

Financial Analysis of the District (Continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position (In Thousands)

Years Ended December 31,	2023	2022	2021	2023-2022 $ Change		2022-2021 $ Change	
Operating revenue:							
Net patient service revenue	$ 44,157	$ 39,566	$ 39,387	$ 4,591	11.60 %	$ 179	0.45 %
Other operating revenue	567	480	817	87	18.13 %	(337)	-41.25 %
Total operating revenue	44,724	40,046	40,204	4,678	11.68 %	(158)	-0.39 %
Operating expenses:							
Salaries, wages, and benefits	23,818	21,625	22,270	2,193	10.14 %	(645)	-2.90 %
Supplies	6,200	5,592	5,745	608	10.87 %	(153)	-2.66 %
Professional fees and purchased services	12,161	11,725	7,993	436	3.72 %	3,732	46.69 %
Other operating expenses	2,098	1,939	1,800	159	8.20 %	139	7.72 %
Depreciation	1,946	2,473	2,229	(527)	-21.31 %	244	10.95 %
Total operating expenses	46,223	43,354	40,037	2,869	6.62 %	3,317	8.28 %
Operating gain (loss)	(1,499)	(3,308)	167	1,809	-54.69 %	(3,475)	2,080.84 %
Nonoperating revenue - Net	1,626	1,961	8,502	(335)	-17.08 %	(6,541)	-76.93 %
Capital contributions	-	-	7	-	DIV/0 %	(7)	-100.00 %
Change in net position	127	(1,347)	8,676	1,474	-109.43 %	(10,023)	-115.53 %
Net position at beginning of year	22,729	24,077	15,400	(1,348)	-5.60 %	8,677	56.34 %
Net position at end of year	$ 22,856	$ 22,730	$ 24,076	$ 126	0.55 %	$ (1,346)	-5.59 %

Capital Assets and Debt Administration

The District spent $15,066 and $1,275,550 on capital expenditures in 2023 and 2022, respectively. The majority of the expenditures in 2023 and 2022 were related to new equipment for radiology department, hospital beds, ventilator and flooring at Mid-Valley Clinic.

The District incurred $139,421 and $1,004,152 in new debt and lease obligations and decreased its long-term debt obligations by $797,454 during 2023 while increased by $620,193 in 2022. The resulting total outstanding long-term debt and lease obligation balances were $4,661,506 and $6,128,213 (including current portions). The District also included subscription-based liabilities during 2023 and 2022, for $2,112,708 and $2,427,897, respectively, as a result of adopting GASB Statement No. 96.

More information about the District's capital assets, debt instruments, SBITA's, and commitments is presented in Notes 6, 7, 8, and 9 to the financial statements.

Contacting the District's Finance Management

This financial report provides the District's patients, citizens, taxpayers, investors, and creditors with a general overview of the District's finances and shows the District's accountability for the money it receives. For questions regarding this report or for additional financial information, please contact the District's administrative office at 810 Jasmine Street, Omak, Washington 98841.

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Statements of Net Position

December 31,	2023	2022
Current assets:		
Cash and cash equivalents	$ 15,180,044	$ 15,206,910
Cash and investments - Limited for future debt service payments	272,886	249,157
Receivables:		
Patient - Net	5,570,536	4,993,393
Other	154,320	160,371
Taxes	50,700	50,765
Estimated third-party payor settlements	839,761	661,083
Current portion - Lease receivable	138,492	165,219
Inventories	1,079,301	960,461
Prepaids	275,224	249,624
Total current assets	23,561,264	22,696,983
Noncurrent assets:		
Cash and investments - Restricted	86,623	184,258
Lease receivable - Less current portion	36,607	157,931
Nondepreciable capital assets	339,227	305,845
Depreciable capital assets - Net	9,952,870	11,404,201
Total noncurrent assets	10,415,327	12,052,235
TOTAL ASSETS	$ 33,976,591	$ 34,749,218

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Statements of Net Position (Continued)

December 31,	2023	2022
Current liabilities:		
Accrued payroll expenses	$ 916,858	$ 806,389
Accrued interest	1,815	2,028
Accounts payable	2,042,785	1,329,222
Other payables	30,242	29,457
Current portion of long-term debt	797,454	771,399
Current portion of lease obligations	426,950	826,297
Current portion of subscription-based liability	422,576	373,567
Current portion of compensated absences	271,948	219,918
Unearned revenue	225,174	94,302
Total current liabilities	5,135,802	4,452,579
Noncurrent liabilities:		
Long-term debt - Less current portion	2,876,031	3,673,485
Long term leases - Less current portion	561,071	857,032
Subscription-based liability - Less current portion	1,690,132	2,054,330
Compensated absences - Less current portion	707,204	679,618
Total noncurrent liabilities	5,834,438	7,264,465
Total liabilities	10,970,240	11,717,044
Deferred inflows of resources - Lease	150,886	303,318
Net position:		
Net investment in capital assets	3,517,883	3,153,936
Restricted	86,623	184,258
Unrestricted	19,250,959	19,390,662
Total net position	22,855,465	22,728,856
TOTAL LIABILITIES AND NET POSITION	$ 33,976,591	$ 34,749,218

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31,	2023	2022
Operating revenue:		
Net patient service revenue	$ 44,157,497	$ 39,566,086
Other operating income	566,827	480,104
Total operating revenue	44,724,324	40,046,190
Operating expenses:		
Salaries and wages	19,584,938	17,568,880
Employee benefits	4,232,920	4,055,919
Professional fees	9,588,546	9,280,474
Supplies	6,199,699	5,591,705
Purchased services	2,572,298	2,444,915
Utilities	507,293	514,679
Insurance	831,659	710,616
Rent	96,408	115,291
Other	663,619	599,231
Depreciation	1,946,219	2,472,669
Total operating expenses	46,223,599	43,354,379
Loss from operations	(1,499,275)	(3,308,189)
Nonoperating revenue (expenses):		
Interest income	515,582	100,592
Interest expense	(361,657)	(379,108)
Noncapital grants and contributions	152,906	988,457
Gain on disposal of assets	62,403	11,553
Taxes for operations	741,106	725,995
Taxes for debt	365,472	372,687
Other	150,072	141,000
Total nonoperating revenue - Net	1,625,884	1,961,176
Change in net position	126,609	(1,347,013)
Net position at beginning of year	22,728,856	24,075,869
Net position at end of year	$ 22,855,465	$ 22,728,856

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Statements of Cash Flows

Years Ended December 31,	2023	2022
Cash flows from operating activities:		
Received from patient services	$ 43,401,676	$ 38,777,327
Received from other operating revenue	533,539	431,135
Paid for salaries and benefits	(23,627,773)	(21,539,701)
Paid for supplies, professional fees, and other operating expenses	(19,889,614)	(19,050,797)
Net cash from operating activities	417,828	(1,382,036)
Cash flows from noncapital financing activities:		
Received from property taxes for operations	741,171	721,588
Received from grants, contributions, and other nonoperating	468,808	632,070
Net cash from noncapital financing activities	1,209,979	1,353,658
Cash flows from capital and related financing activities:		
Principal paid on long-term debt obligations	(771,399)	(717,195)
Principal paid on lease obligations	(1,099,460)	(907,150)
Principal paid on subscription-based liabilities	(394,079)	(369,399)
Interest paid on long-term debt, lease, and SBITA obligations	(361,870)	(378,998)
Received from property taxes for debt	365,472	372,687
Proceeds from sale of capital assets	32,241	-
Received from issuance of bonds	-	600,000
Paid for purchases of capital assets	(15,066)	(1,275,550)
Net cash from capital and related financing activities	(2,244,161)	(2,675,605)
Cash flows from investing activities - Interest received	515,582	100,592
Net decrease in cash and cash equivalents	(100,772)	(2,603,391)
Cash and cash equivalents - Beginning of year	15,640,325	18,243,716
Cash and cash equivalents - End of year	$ 15,539,553	$ 15,640,325
Reconciliation of cash and cash equivalents to the statements of cash flows:		
Cash	$ 15,180,044	$ 15,206,910
Board designated	272,886	249,157
Restricted	86,623	184,258
Total cash and cash equivalents	$ 15,539,553	$ 15,640,325

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Statements of Cash Flows (Continued)

Years Ended December 31,	2023	2022
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$ (1,499,275)	$ (3,308,189)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation	1,946,219	2,472,669
Provision for bad debt	919,554	1,666,321
Changes in assets and liabilities:		
Patient accounts receivable	(1,496,697)	(1,648,290)
Other accounts receivable	(33,288)	(48,969)
Estimated third-party payor settlements	(178,678)	(806,790)
Inventories	(118,840)	(131,655)
Prepaids	(25,600)	(65,196)
Accounts payable	713,563	405,540
Accrued payroll expenses	110,469	175,485
Other payables	785	(2,575)
Compensated absences	79,616	(90,387)
Total adjustments	1,917,103	1,926,153
Net cash from operating activities	$ 417,828	$ (1,382,036)
Noncash investing, capital, and financing activities:		
Lease obligations for new equipment	$ 139,421	$ 404,152

Note 1: Summary of Significant Accounting Policies

The Entity

Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital (the "District"), is a licensed 44-bed (25 set up beds) acute care hospital in Omak, Washington. The District provides acute care and clinical services to patients in the Omak and Okanogan County market. The services include acute care, hospital inpatient and outpatient surgery, emergency room, obstetrics, orthopedics, and the related ancillary procedures (lab, anesthesia, x-ray, therapy, etc.) associated with those services.

Basis of Accounting and Financial Statement Presentation

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States for establishing governmental accounting and financial reporting principles. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under 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.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly 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 may differ from these estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of 90 days or less as cash and cash equivalents.

Restricted Assets

Restricted assets are comprised of certain cash and cash equivalents and other resources set aside for specific purposes due to external restrictions placed on them. Assets that are designated or restricted for obligations classified as noncurrent liabilities are reported as noncurrent assets.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy

Patient receivables are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position, net of contractual adjustments and an allowance for uncollectible accounts, which reflect management's estimate of the amounts that will not be collected. The carrying amounts of patient accounts receivable are reduced by allowances that reflect managements' best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowances for uncollectible accounts.

In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. Specifically, 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 for expected uncollectible deductibles and copayments on accounts that 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 includes 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

The District has the authority to impose taxes on property within the boundaries of the healthcare district. Taxes are received from Okanogan County (the "County"). Ad valorem taxes and per-parcel assessments are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same year. Taxes are payable in two equal installments on April 30 and October 31.

Inventories

Inventories, consisting of pharmaceutical, medical-surgical, and other supplies, are stated at the lower of cost, determined on the average cost method, or net realizable value.

Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition value at date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating gains and losses.

Depreciation and amortization have been computed on the straight-line method over the following estimated useful service lives:

Land improvements	5 to 25 years
Buildings and building improvements	5 to 40 years
Major movable equipment	3 to 20 years
Software	3 to 5 years

Property held for future expansion is stated at cost and is recorded as land in capital assets.

Unearned Revenue

Unearned revenue arise when resources are unearned by the District and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized.

Unearned revenue consists of receipts of grant receipts for which the earnings process was not yet completed at December 31, 2023 and 2022 because the eligibility requirements were not yet met.

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

The annual leave (AL) program at the District provides eligible personnel with appropriate compensation during holidays and vacation time. The District accrues AL for compensated absences as an expense and liability when earned based on the employee's status. AL balances that have been accrued in a prior calendar year but not used during a subsequent calendar year will be paid to the employee in a lump sum the following January with the option through written request to defer payout until June the following year and are classified as current portion of compensated absences. All employees who terminate their employment will be paid unused AL hours at the regular rate of pay. The sick leave program provides employees with appropriate compensation for illnesses for themselves or an eligible family member. The maximum allowable balance of sick leave is 480 hours. The District does not accrue a liability for sick leave.

The District has entered into physician and other professional employee contracts in which the individual receives a benefit bank upon employment date and includes vacation, sick, holiday, and continuing education. Individual contracts address the number of days accrued, payout methods, and whether days carry over to next employment year.

Operating Revenue and Expenses

The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the District’s primary business. Nonexchange revenue, including taxes, grants and contributions received for purposes other than capital assets acquisition are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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 debt related to uninsured patients in the period the services are provided.

Note 1: Summary of Significant Accounting Policies (Continued)

Charity Care

The District provides healthcare services to patients who meet certain criteria under its healthcare assistance program without charge or at amounts less than its established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Net Position

Net position is reported in three categories:

Net investment in capital assets - This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any liabilities incurred to acquire, or improve those assets.

Restricted - This category consists of the net position that has limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This category consists of the remaining net position that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, at the discretion of the District and in compliance with provisions outlined as such.

Grants and Contributions

From time to time, the District receives grants and contributions from Federal, State, Local and private organizations and individuals. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

Lease-related amounts are recognized at the inception of leases in which the District is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner of the term of the lease.

Leases

The District is a lessee in multiple noncancelable leases. If the contract provides the District the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The discount rate used is the implicit rate in the lease contract, if it is readily determinable, or the District’s incremental borrowing rate.

The ROU asset for leases is amortized on a straight-line basis over the lease term. For leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straightline basis over the lease term. For all underlying classes of assets, the District has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The District recognizes short-term leases with lease costs included in short-term lease expense. The District recognizes short-term lease cost on a straightline basis over the lease term.

For leases or groups of leases whose net present value is less than $30,000, the District's policy is to recognize the payments as an expense in the period incurred.

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In May 2023, GASB issued Statement No. 96 (GASB 96) - *Subscription-Based Information Technology Arrangements* (SBITAs). This statement improves financial reporting by establishing a definition of SBITAs and providing uniform guidance for accounting and reporting for SBITA transactions. The statement enhances the relevance and reliability of the District's financial statements by requiring the District to report a subscription asset and subscription liability for SBITAs and disclose essential information about the arrangements. The requirements of this statement are effective for the District's year ended December 31, 2023, and were applied retroactively. The adoption of this guidance did not affect beginning net position for the year ended December 31, 2022, and, accordingly, restatement of beginning December 31, 2022, net position was not necessary. Ending December 31, 2022, net position decreased by $52,942 from $22,781,798 to $22,728,856.

Note 2: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to $250,000 for demand deposits and up to an additional $250,000 for time deposits.

RCW, Chapter 39, authorized local 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. All final decisions regarding the purchase and sale of investment securities remain with the District Board. The District maintains an investment policy designed to maximize return and limit the following types of risks:

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

Credit risk - Credit risk is the risk that an issuer of an investment will not fulfill the 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 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.

Note 2: Cash and Cash Equivalents (Continued)

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.

Cash and cash equivalents consisted of the following at December 31:

	2023	2022
Cash - Unrestricted	$ 15,180,044	$ 15,206,910
Board designated - Deposits designated by board resolution for future debt service payments	272,886	249,157
Restricted - Restricted by donors or grant agreements	86,623	89,361
Restricted - Unspent bond proceeds, restricted by bond agreements	-	94,897
Totals	$ 15,539,553	$ 15,640,325

The District deposits cash with the Okanogan County Treasurer. At times, excess deposits are moved to pooled investments.

The Okanogan County Treasurer transacts with its investment pool participants at a stable net asset value per share of $1.00, the same method used for reporting. Participants may contribute and withdraw invested funds on a monthly basis.

$16,577,881 was held in deposits with the Okanogan County Treasurer at December 31, 2023, of which $14,000,000 was invested in pooled investment accounts.

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

	2023	2022
Patient accounts receivable	$ 12,464,277	$ 12,430,475
Less:		
Contractual adjustments	5,353,323	5,620,064
Allowance for uncollectible accounts	1,540,418	1,817,018
Patient accounts receivable - Net	$ 5,570,536	$ 4,993,393

Note 4: Property Taxes

The District received approximately 2.37% and 2.59% of its financial support from property taxes for the years ended December 31, 2023 and 2022, respectively. The District is permitted by law to levy up to $0.75 per $1,000 of assessed value for general district purposes. The 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 voters of the District.

For 2023, the District's regular tax levy was $0.537553 per $1,000 on the total assessed valuation of $1,326,801,988 for a total regular levy of $741,106. The District's debt service tax levy was $0.279335 per $1,000 on the total assessed valuation of $1,312,184,874, for a total debt service levy of $365,472.

For 2022, the District's regular tax levy was $0.586978 per $1,000 on the total assessed valuation of $1,188,008,547, for a total regular levy of $725,995. The District's debt service tax levy was $0.317319 per $1,000 on the total assessed valuation of $1,174,400,996, for a total debt service levy of $372,687.

Note 5: Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. Gross hospital revenue billed under the Medicare and Medicaid programs totaled approximately $65.9 million in 2023 and $59.5 million in 2022. A summary of the basis of reimbursement with major third-party payors follows:

Medicare **-** The District is designated as a CAH. As a CAH, the District's inpatient and outpatient services provided to Medicare program beneficiaries are paid for based on a cost-reimbursement methodology. Professional services provided by physicians and other clinicians are reimbursed on prospectively determined fee schedules or a cost-reimbursement methodology depending on the type of professional services provided. The District has one clinic designated as a Provider Based Rural Health Clinic (RHC), and it is paid on a cost-per-visit basis. The District is reimbursed for cost at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. 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 on by the Medicare fiscal intermediary. Medicare has final settled cost reports for the years through 2021.

Medicaid - Medicaid reimbursement for inpatient and outpatient hospital services is paid based on cost as defined and limited by the Washington State Health Care Authority. The District is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. Medicaid pays RHC services on a prospectively set rate. Medicaid hospital cost reports have been final settled for the years through 2019.

Note 5: Reimbursement Arrangements With Third-Party Payors (Continued)

Accountable Care Organizations - The District, along with other parties, formed an accountable care organization (ACO) to participate in the Medicare Shared Savings Program (MSSP) effective January 1, 2018. The original term of the MSSP is three years. As of December 31, 2022 the terms continue thereafter until December 31, 2027. The ACO participants coordinate care for assigned Medicare fee-for-service members. Based on terms of the agreement with CMS, the ACO has the potential to receive a portion of the cost savings for services provided for assigned members.

Other Payors - The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment to the District under these agreements includes prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Laws and 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, accreditation, government healthcare program participation requirements, reimbursement for patient services, and billing regulations. 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. While no significant regulatory inquiries have been made of the District, 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.

CMS uses recovery audit contractors (RAC) as part of CMS's efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to healthcare providers and not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District has not been notified by the RAC of any potential significant reimbursement adjustments.

Note 6: Capital Assets

Capital asset activity for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable capital assets:					
Land	$ 256,528	$ -	$ -	$ -	$ 256,528
Construction in progress	49,317	82,699	-	(49,317)	82,699
Total nondepreciable capital assets	305,845	82,699	-	(49,317)	339,227
Depreciable capital assets:					
Land improvements	1,164,734	-	-	-	1,164,734
Buildings and fixed equipment	15,355,370	52,949	(58,201)	-	15,350,118
Equipment	5,639,638	163,281	(433,943)	88,746	5,457,722
Software	2,299,980	36,500	-	(39,429)	2,297,051
Total depreciable capital assets	24,459,722	252,730	(492,144)	49,317	24,269,625
Total capital assets	24,765,567	335,429	(492,144)	-	24,608,852
Total accumulated depreciation	(17,656,775)	(966,372)	477,094	-	(18,146,053)
Right of use assets:					
Buildings and fixed equipment	1,062,949	-	-	-	1,062,949
Equipment	3,723,487	146,372	(52,734)	-	3,817,125
SBITAs	2,797,296	78,890	-	-	2,876,186
Total right of use assets, being amortized	7,583,732	146,372	(52,734)	-	7,756,260
Accumulated amortization:					
Right of use assets	(2,982,478)	(979,847)	35,363	-	(3,926,962)
Capital assets - Net	$ 11,710,046	$ (1,464,418)	$ (32,421)	$ -	$ 10,292,097

Note 6: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable capital assets:					
Land	$ 202,528	$ -	$ -	$ 54,000	$ 256,528
Construction in progress	42,620	612,934	-	(606,237)	49,317
Total nondepreciable capital assets	245,148	612,934	-	(552,237)	305,845
Depreciable capital assets:					
Land improvements	1,164,734	-	-	-	1,164,734
Buildings and fixed equipment	14,853,605	34,487	(17,555)	484,833	15,355,370
Equipment	5,203,399	566,719	(130,480)	-	5,639,638
Software	2,197,956	34,620	-	67,404	2,299,980
Total depreciable capital assets	23,419,694	635,826	(148,035)	552,237	24,459,722
Total capital assets	23,664,842	1,248,760	(148,035)	-	24,765,567
Total accumulated depreciation	(16,261,510)	(1,543,300)	148,035	-	(17,656,775)
Right of use assets:					
Buildings and fixed equipment	1,062,949	-	-	-	1,062,949
Equipment	3,319,173	404,314	-	-	3,723,487
SBITAs	-	2,797,296	-	-	2,797,296
Total right of use assets, being amortized	4,382,122	3,201,610	-	-	7,583,732
Accumulated amortization:					
Right of use assets	(2,053,109)	(929,369)	-	-	(2,982,478)
Capital assets - Net	$ 9,732,345	$ 1,977,701	$ -	$ -	$ 11,710,046

Okanogan County Public Hospital District No. 3
d/b/a Mid-Valley Hospital

Notes to Financial Statements

Note 7: Long-Term Liabilities

Bonds payable activity for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
2015 LTGO Bond	$ 2,135,000	$ -	$ (275,000)	$ 1,860,000	$ 284,000
2017 LTGO Bond	1,126,822	-	(267,938)	858,884	276,914
2022 LTGO Bond	600,000	-	(28,955)	571,045	30,246
Total bonds payable	3,861,822	-	(571,893)	3,289,929	591,160
Direct borrowings -					
Cerner Corporation	583,062	-	(199,506)	383,556	206,294
Total direct borrowings	583,062	-	(199,506)	383,556	206,294
Total long-term debt	$ 4,444,884	$ -	$ (771,399)	$ 3,673,485	$ 797,454

Bonds payable and direct borrowings activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
2015 LTGO Bond	$ 2,400,000	$ -	$ (265,000)	$ 2,135,000	$ 275,000
2017 LTGO Bond	1,386,075	-	(259,253)	1,126,822	267,938
2022 LTGO Bond	-	600,000	-	600,000	28,955
Bonds payable	3,786,075	600,000	(524,253)	3,861,822	571,893
Direct borrowings:					
Cerner Corporation	776,004	-	(192,942)	583,062	199,506
Total direct borrowings	776,004	-	(192,942)	583,062	199,506
Total long-term debt	$ 4,562,079	$ 600,000	$ (717,195)	$ 4,444,884	$ 771,399

Note 7: Long-Term Liabilities (Continued)

The terms and due dates of the District's noncurrent liabilities, including bonds payable and direct borrowings at December 31, 2023, are as follows:

Bonds payable:

Unlimited Tax General Obligation (UTGO) Bond, series 2015 - Bond dated October 15, 2015, due in semiannual interest payments from approximately $5,800 to $82,800 and annual principal payments from approximately $200,000 to $337,000, beginning June 2016 through 2029, including interest at 3.47%, secured by tax revenue.

LTGO Bond, series 2017 - Bond dated May 15, 2017, due in semiannual interest payments from approximately $4,954 to $47,421 and annual principal payments from approximately $258,266 to $295,778, beginning December 2017 through 2026, including interest at 3.35%. The bond is not subject to acceleration upon the occurrence of a payment default. The District may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of and interest on the Bond, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund or defease all of the principal amount of the Bond and to pay the costs of the refunding or defeasance. The District irrevocably covenants and pledges that it shall levy taxes annually, within the constitutional and statutory tax limitations provided by law without a vote of the electors of the District, upon all the taxable property within the District in an amount sufficient, together with other revenue of the District available for such purpose, to pay the principal of and interest on the Bond as the same shall become due, and the full faith, credit and resources of the District are pledged irrevocably for the prompt payment of such principal and interest.

LTGO Bond, series 2022 - Bond dated October 11, 2022, due in semiannual interest payments from approximately $1,189 to $16,428 and annual principal payments from approximately $28,955 to $53,336, beginning June 2023 through December 2037, including interest at 4.46%. The bond is not subject to acceleration upon the occurrence of a payment default. The District may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of and interest on the Bond, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund or defease all of the principal amount of the Bond and to pay the costs of the refunding or defeasance. The District irrevocably covenants and pledges that it shall levy taxes annually, within the constitutional and statutory tax limitations provided by law without a vote of the electors of the District, upon all the taxable property within the District in an amount sufficient, together with other revenue of the District available for such purpose, to pay the principal of and interest on the Bond as the same shall become due, and the full faith, credit and resources of the District are pledged irrevocably for the prompt payment of such principal and interest.

Direct borrowings:

Cerner Corporation - Agreement dated January 15, 2020, due in monthly installments varying from $14,934 to $21,066, including imputed annual interest of 3.35%.

Note 7: Long-Term Liabilities (Continued)

Scheduled future payments of principal and interest on long-term debt are as follows:

	Bonds Payable		Direct Borrowings	
Years Ending December 31,	Principal	Interest	Principal	Interest
2024	$ 591,160	$ 111,171	$ 206,294	$ 3,526
2025	611,786	90,690	177,262	2,733
2026	632,783	69,492	-	-
2027	349,476	55,175	-	-
2028	362,014	42,707	-	-
2029-2033	542,644	84,623	-	-
2034-2038	200,066	22,794	-	-
Total	$ 3,289,929	$ 476,652	$ 383,556	$ 6,259

Long-Term Compensated Absences

All compensated absences with accumulations greater than the minimum annual benefit are considered long term. The compensated absences activity for the District and estimated liability outstanding are as follows:

December 31,	Beginning Liability	Additions	Reductions	Ending Liability	Current Portion
2023	$ 899,536	$ 1,187,089	$ (1,107,473)	$ 979,152	$ 271,948
2022	989,923	1,252,041	(1,342,428)	899,536	219,918

Note 8: Leases

Changes in leases payable consisted of the following for the year ended December 31, 2023:

	Balance 1/1/2023	Additions	Reductions	Balance 12/31/23	Amounts due Within One Year
Toshiba MRI	$ 311,400	$ -	$ (311,400)	$ -	$ -
GE Mammography	119,059	-	(78,544)	40,515	40,515
GE Monitors	56,538	-	(39,662)	16,876	16,875
GE Philips Monitors	109,590	-	(49,507)	60,083	51,344
GE Siemens Symbia EVO	269,161	-	(66,923)	202,238	69,200
GE Stryker Hospital Beds	148,117	-	(26,262)	121,855	28,105
Siemens Sequoia Ultrasound	218,781	-	(66,535)	152,246	68,861
EVO CT	55,129	139,421	(63,564)	130,986	52,073
DxM Microscan Walkaway	31,443	-	(14,581)	16,862	15,481
Pyxis Med Station & Anes System	170,244	-	(46,236)	124,008	49,088
Spectrum IQ Infusion Pump	148,821	-	(30,014)	118,807	31,865
Canon Digital Xray	45,046	-	(41,501)	3,545	3,543
Leases payable	$ 1,683,329	$ 139,421	$ (834,729)	$ 988,021	$ 426,950

Changes in leases payable consisted of the following for the year ended December 31, 2022:

	Balance 1/1/2022	Additions	Reductions	Balance 12/31/22	Amounts due Within One Year
Toshiba MRI	$ 637,415	$ -	$ (326,015)	$ 311,400	$ 311,400
GE Mammography	194,401	-	(75,342)	119,059	78,544
GE Monitors	99,490	-	(42,952)	56,538	39,663
GE Philips Monitors	157,325	-	(47,735)	109,590	49,507
GE Siemens Symbia EVO	333,882	-	(64,721)	269,161	66,923
Siemens Sequoia Ultrasound	295,483	-	(76,702)	218,781	66,535
EVO CT	124,635	-	(69,506)	55,129	55,129
DxM Microscan Walkaway	45,177	-	(13,734)	31,443	14,581
Pyxis Med Station & Anes System	213,794	-	(43,550)	170,244	46,236
GE Stryker Hospital Beds	-	241,250	(93,133)	148,117	26,262
Spectrum IQ Infusion Pump	-	162,902	(14,081)	148,821	30,015
Canon Digital Xray	84,725	-	(39,679)	45,046	41,502
Leases payable	$ 2,186,327	$ 404,152	$ (907,150)	$ 1,683,329	$ 826,297

Note 8: Leases (Continued)

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

Toshiba MRI Lease - Lease agreement with the original principal amount of $928,179 (from implementation date), due in monthly installments of $29,212, including imputed interest at 6.00%, through November 2023, collateralized by leased premises (asset). The lease was paid in full during 2023.

GE Mammography - Lease agreement with the original principal amount of $254,256 (from implementation date), due in monthly installments of $6,835, including annual interest at 4.17%, through June 2024, collateralized by leased premises (asset).

GE Monitors -Lease agreement with the original principal amount of $123,682 (from implementation date), due in monthly installments of $3,400, including annual interest at 2.95%, through May 2024, collateralized by leased premises (asset).

GE Philips Monitors - Lease agreement with the original principal amount of $191,455 (from implementation date), due in monthly installments of $4,390, including annual interest at 3.65%, through February 2025, collateralized by leased premises (asset).

Canon Digital Xray - Lease agreement with the original principal amount of $118,438 (from implementation date), due in monthly installments of $3,583, including annual interest at 4.50%, through January, 2024, collateralized by leased premises (asset).

GE Siemens Symbia EVO - Lease agreement with the original principal amount of $319,964 (from implementation date), due in monthly installments of $6,243, including annual interest at 3.35%, through October 2026, collateralized by leased premises (asset).

Siemens Sequoia Ultrasound - Lease agreement with the original principal amount of $312,694 (from implementation date), due in monthly installments of $6,085, including annual interest at 3.44%, through February 2026, collateralized by leased premises (asset).

GE Stryker Hospital Beds - Lease agreement with the original principal amount of $241,250 (from implementation date), due in monthly installments of $2,961, including annual interest at 5.75%, through November 2027, collateralized by leased premises (asset).

EVO CT - Lease agreement with the original principal amount of $191,053 (from implementation date), due in monthly installments of $6,258, including imputed interest at 6.00%, through October, 2023, collateralized by leased premises (asset).

DxM Microsan Walkaway - Lease agreement with the original principal amount of $58,404 (from implementation date), due in monthly installments of $1,339, including imputed interest at 6.00%, through February 2025, collateralized by leased premises (asset).

Note 8: Leases (Continued)

Pyxis Med Station & Anes Systems - Lease agreement with the original principal amount of $235,784 (from implementation date), due in monthly installments of $4,599, including imputed interest at 6.00%, through June 2026, collateralized by leased premises (asset).

Spectrum IQ Infusion Pump - Lease agreement with the original principal amount of $162,902 (from implementation date), due in monthly installments of $3,177, including imputed interest at 6.00%, through June 2027, collateralized by leased premises (asset).

Future minimum lease payments for the years ending December 31, 2023, are as follows:

	Principal	Interest	Total
2024	$ 426,950	$ 36,669	$ 463,619
2025	330,558	19,644	350,202
2026	177,922	6,664	184,586
2027	52,591	1,277	53,868
Totals	$ 988,021	$ 64,254	$ 1,052,275

Note 9: SBITAs

Changes in subscription-based liabilities consisted of the following for the year ended December 31, 2023:

	Balance 1/1/2023	Additions	Reductions	Balance 12/31/23	Amounts due Within One Year
Cerner	$ 2,382,979	$ -	$ (351,761)	$ 2,031,218	$ 373,458
DNV SAAS	44,918	-	(21,805)	23,113	23,113
Tiegra	-	78,890	(20,513)	58,377	26,005
Total	$ 2,427,897	$ 78,890	$ (394,079)	$ 2,112,708	$ 422,576

Changes in subscription-based liabilities consisted of the following for the year ended December 31, 2022:

	Balance 1/1/2022	Additions	Reductions	Balance 12/31/22	Amounts due Within One Year
Cerner	$ 2,727,877	$ -	$ (344,898)	$ 2,382,979	$ 351,762
DNV SAAS	69,418	-	(24,500)	44,918	21,805
Total	$ 2,797,295	$ -	$ (369,398)	$ 2,427,897	$ 373,567

Note 9: SBITAs (Continued)

Future minimum subscription-based liability payments for the years ending December 31 are as follows:

	Principal	Interest
2024	422,576	$ 115,896
2025	424,101	89,871
2026	425,711	54,261
2027	446,910	38,262
2028	393,410	10,900
Total	$ 2,112,708	$ 309,190

The terms of the District's subscription-based liabilities are as follows:

Cerner - Subscription-based liability arrangement in the original principal amount of $2,727,877 (from implementation date), due in monthly installments ranging from of $26,994 to $40,431, including interest imputed at 6%, through October 2028 collateralized by the subscription-based technology.

DNV SAAS - Subscription-based liability arrangement in the original principal amount of $69,418 (from implementation date), due in annual installments ranging from $21,804 to $24,500, including imputed interest at 6%, through 2024 collateralized by the subscription-based technology.

Tegria - Subscription-based liability arrangement in the original principal amount of $78,890, beginning February 2023, due in monthly installments ranging from $2,006 to $2,388, including interest imputed at 6%, through February 2026 collateralized by the subscription-based technology.

Note 10: Risk Management

The District has an insurance policy with a commercial carrier. The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies.

Although there exists the possibility of claims arising from services provided to patients through December 31, 2023, which have not yet been asserted, the District is unable to determine the ultimate cost if any, of such possible claims, and accordingly no provision has been made.

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

Note 10: Risk Management (Continued)

The policy provides $1,000,000 per claim of primary coverage with a $5,000,000 annual aggregate limit. The policy also provides excess coverage of $4,000,000 per claim with $4,000,000 annual aggregate. There are no significant deductible or coinsurance clauses for this policy.

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

Workers' Compensation

The District participates in the self-insured Public Hospital District Workers' Compensation Trust, which is administered by the Washington State Hospital Association. The District pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reinsurance premiums. Payments by the District charged to workers' compensation expense were $333,967 in 2023 and $271,033 in 2022.

Unemployment

The District participates in the self-insured Public Hospital District Unemployment Compensation Fund, which is administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to unemployment expense were $22,460 in 2023 and $46,151 in 2022.

Note 11: Pension Plans

Defined Contribution Plan - The District sponsors and contributes to the Okanogan County Public Hospital District #3 Profit Sharing Plan (the "Plan"), a defined contribution pension plan, for its employees. The Plan covers District employees who have attained the age of 18 years and have been employed one full year. The Plan was created under section 401(a) of the Internal Revenue Code and maintains the assets at Nationwide Financial. The District pension contributions are vested to the employee's account at 20% after two years of service, with annual 20% increases until fully vested after six years of service. The District complies with federal funding requirements. The Plan has adopted a December 31 year-end. For the years ended December 31, 2023 and 2022, the District's contributions to the Plan totaled $390,131 and $383,463, respectively, and forfeitures totaled $18,363 and $152 in 2023 and 2022. The District's pension liability was $403,942 in 2023 and $388,898 in 2022.

Voluntary Deferred Compensation Plans - In addition to the defined contribution plan above, the District provides voluntary deferred compensation plans to eligible employees under Sections 457 and 403(b) of the Internal Revenue Code. These plans are funded solely from employee contributions totaling $495,971 in 2023 and $356,633 in 2022.

Note 12: Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended December 31:

	2023	2022
Gross patient service revenue:		
Inpatient services	$ 14,963,800	$ 13,799,289
Outpatient services	78,210,363	68,437,600
Total gross patient service revenue	93,174,163	82,236,889
Revenue deductions:		
Contractual allowances	48,097,112	41,004,482
Provision for bad debt	919,554	1,666,321
Total revenue deductions	49,016,666	42,670,803
Net patient service revenue	$ 44,157,497	$ 39,566,086

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

	2023	2022
Medicare	40 %	39 %
Medicaid	29 %	32 %
Other third-party payors	27 %	26 %
Self-pay	4 %	3 %
Totals	100 %	100 %

Note 13: Charity Care

The District provides healthcare services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided financial assistance based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated approximately $2,047,164 and $2,342,867 for the years ended December 31, 2023 and 2022, respectively.

Note 14: DSH Revenue

The District received Disproportionate Share (DSH) funds from the Washington State Department of Social and Health Services (DSHS). The District recorded payments of $365,922 and $365,809 for the years ended December 31, 2023 and 2022, respectively. DSH revenue is included in net patient service revenue.

Note 15: Concentration of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. No single patient composes more than 5% of the total receivables at year-end.

The mix of receivables from patients and third-party payors consisted of the following at December 31:

	2023	2022
Medicare	25 %	30 %
Medicaid	27 %	21 %
Other third-party payors	34 %	33 %
Self-pay	14 %	16 %
Totals	100 %	100 %

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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
Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital
Omak, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital (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 9, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 reasonable possibility that a material misstatement of the District’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital'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 the 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

Wipfli LLP

Spokane, Washington
July 9, 2024