Office of the Washington State Auditor
Pat McCarthy

December 2, 2024

Board of Commissioners
Jefferson Healthcare
Port Townsend, 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 Jefferson Healthcare for the fiscal year ended December 31, 2023. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or Jefferson Healthcare'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

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

Jefferson County
Public Hospital District No. 2
doing business as
Jefferson Healthcare

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2023 and 2022

ACCOUNTANTS | ADVISORS

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Table of Contents

ACCOUNTANTS | ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Port Townsend, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Jefferson County Public Hospital District No. 2 doing business as Jefferson Healthcare (the District) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023 and 2022, and the changes in 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 Agreements.* Our opinion is not modified with respect to this matter.

12015 E Main Ave | Spokane Valley, WA 99206 | 509.242.0874 | www.dza.cpa

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the 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 15, 2023, which has not been included with the 2023 financial compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DZA PLLC

Spokane Valley, Washington
June 12, 2024

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Statements of Net Position
December 31, 2023 and 2022

ASSETS	**2023**	**2022**
Current assets		
Cash and cash equivalents	**$ 19,037,414**	$ 6,166,145
Receivables:		
Patient accounts, net	**22,942,858**	18,375,200
Estimated third-party payor settlements	**913,769**	3,019,074
Pharmacies	**835,542**	860,462
Grants	**292,929**	299,950
Other	**341,331**	235,578
Inventories	**4,727,937**	5,940,865
Prepaid expenses	**2,062,646**	1,956,750
Cash and cash equivalents restricted or limited as to use	**25,186,172**	40,682,655
Taxes receivable restricted or limited as to use	**-**	10,682
Total current assets	**76,340,598**	77,547,361
Noncurrent assets		
Cash and cash equivalents restricted or limited as to use	**89,658,292**	-
Capital assets, net	**49,897,574**	39,933,595
Total noncurrent assets	**139,555,866**	39,933,595
Total assets	**$ 215,896,464**	$ 117,480,956

See accompanying notes to basic financial statements.

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Statements of Net Position (Continued)
December 31, 2023 and 2022

LIABILITIES AND NET POSITION	**2023**	**2022**
Current liabilities		
Accounts payable	**$ 3,091,383**	$ 2,101,121
Accrued payroll and related liabilities	**5,550,436**	5,117,332
Accrued paid time off	**4,441,271**	4,165,446
Accrued interest payable	**276,994**	350,455
Electronic health records incentive payback	**-**	276,085
Refunds to patient accounts	**2,167,412**	1,203,675
Current maturities of long-term debt	**275,000**	1,416,068
Current maturities of lease and subscription liabilities	**1,623,644**	1,151,577
Total current liabilities	**17,426,140**	15,781,759
Noncurrent liabilities		
Capital accounts payable	**3,273,780**	-
Long-term debt, net of current maturities	**117,325,068**	23,122,811
Lease and subscription liabilities, net of current maturities	**1,067,539**	1,686,314
Total noncurrent liabilities	**121,666,387**	24,809,125
Total liabilities	**139,092,527**	40,590,884
Net position		
Net investment in capital assets	**15,713,841**	12,206,370
Restricted under bond agreements	**22,917**	616,203
Unrestricted	**61,067,179**	64,067,499
Total net position	**76,803,937**	76,890,072
Total liabilities and net position	**$ 215,896,464**	$ 117,480,956

See accompanying notes to basic financial statements.

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
Operating revenues		
Net patient service revenue	**$ 160,919,159**	$ 148,928,689
Pharmacies	**5,390,391**	4,461,541
Grants	**270,680**	297,516
Other	**1,411,324**	1,435,998
Total operating revenues	**167,991,554**	155,123,744
Operating expenses		
Salaries and wages	**78,786,190**	73,833,253
Employee benefits	**17,654,434**	16,248,274
Professional fees	**9,384,974**	6,879,970
Purchased services	**11,319,626**	8,675,536
Supplies	**36,234,026**	32,788,506
Insurance	**1,631,953**	1,389,602
Leases and rentals	**605,941**	700,246
Depreciation and amortization	**5,248,300**	5,005,267
Repairs and maintenance	**1,205,143**	1,123,808
Utilities	**1,390,258**	1,404,708
Licenses and taxes	**1,165,083**	1,014,306
Other	**3,296,908**	2,484,961
Total operating expenses	**167,922,836**	151,548,437
Operating income	**68,718**	3,575,307
Nonoperating revenues (expenses)		
Taxation for maintenance and operations	**531,604**	512,765
Investment income	**1,889,710**	735,256
Interest expense	**(1,067,360)**	(950,648)
Contributions	**66,093**	52,215
Bond issuance cost	**(1,574,900)**	-
CARES Act Provider Relief Fund and other COVID-19 grants	**-**	2,200,653
Total nonoperating revenues, net	**(154,853)**	2,550,241
Change in net position	**(86,135)**	6,125,548
Net position, beginning of year	**76,890,072**	70,764,524
Net position, end of year	**$ 76,803,937**	$ 76,890,072

See accompanying notes to basic financial statements.

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from and on behalf of patients	**$ 159,420,543**	$ 139,822,956
Cash received from pharmacies	**5,415,311**	4,339,329
Cash received from other revenue	**1,029,486**	1,460,908
Cash received from operating grants	**277,701**	295,545
Cash paid to and on behalf of employees	**(95,731,695)**	(90,320,779)
Cash paid to suppliers and contractors	**(64,136,618)**	(57,250,056)
Net cash from operating activities	**6,274,728**	(1,652,097)
Cash flows from noncapital financing activities		
Taxes received for maintenance and operations	**542,286**	512,559
Cash received from contributions	**66,093**	52,215
Cash received from CARES Act Provider Relief Fund and other COVID-19 grants	**-**	236,797
Cash recoupments of Medicare accelerated payments	**-**	(8,966,970)
Net cash from noncapital financing activities	**608,379**	(8,165,399)
Cash flows from capital and related financing activities		
Purchase of capital assets	**(10,605,311)**	(5,107,587)
Principal payments on long-term debt, lease liabilities, and subscription liabilities	**(20,221,241)**	(2,504,131)
Proceeds from issuance of long-term debt	**111,812,768**	-
Bond issuance costs paid	**(1,574,900)**	-
Interest paid	**(1,151,055)**	(912,676)
Net cash from capital and related financing activities	**78,260,261**	(8,524,394)
Cash flows from investing activities, interest received	**1,889,710**	735,256
Net change in cash and cash equivalents	**87,033,078**	(17,606,634)
Cash and cash equivalents, beginning of year	**46,848,800**	64,455,434
Cash and cash equivalents, end of year	**$ 133,881,878**	$ 46,848,800

See accompanying notes to basic financial statements.

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	**$ 19,037,414**	$ 6,166,145
Current cash and cash equivalents restricted or limited as to use	**25,186,172**	40,682,655
Noncurrent cash and cash equivalents restricted or limited as to use	**89,658,292**	-
Total cash and cash equivalents	**$ 133,881,878**	$ 46,848,800
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	**$ 68,718**	$ 3,575,307
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	**5,248,300**	5,005,267
Provision for bad debts	**2,073,065**	3,772,732
(Increase) decrease in assets:		
Receivables:		
Patient accounts, net	**(6,640,723)**	(5,200,510)
Estimated third-party payor settlements	**2,105,305**	(3,019,074)
Pharmacies	**24,920**	(122,212)
Grants	**7,021**	(1,971)
Other	**(105,753)**	24,910
Inventories	**1,212,928**	(744,983)
Prepaid expenses	**(105,896)**	(443,703)
Increase (decrease) in liabilities:		
Accounts payable	**990,262**	400,273
Accrued payroll and related liabilities	**433,104**	(506,842)
Accrued paid time off	**275,825**	267,590
Estimated third-party payor settlements	**-**	(4,600,412)
Electronic health records incentive payback	**(276,085)**	-
Refunds of patient accounts	**963,737**	(58,469)
Net cash from operating activities	**$ 6,274,728**	$ (1,652,097)

Noncash Capital and Related Financing Activities

During the year ended December 31, 2023, the District implemented Government Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Agreements,* which resulted in recognizing several subscription assets and liabilities totaling $545,441.

During the years ended December 31, 2023 and 2022, the District recognized several right-of-use assets and lease liabilities totaling $787,747 and $3,089,809, respectively.

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Jefferson County Public Hospital District No. 2 doing business as Jefferson Healthcare (the District) is organized as a municipal corporation pursuant to the laws of the state of Washington for municipal corporations. The primary purpose of the District is to operate Jefferson Healthcare (the Hospital), the principal provider of acute healthcare services for Port Townsend and surrounding communities. Port Townsend is located on Washington State Highway 20 at the northeast corner of the Olympic Peninsula. The District also operates six rural health clinics, one of which offers dental services. Four of these clinics are in Port Townsend, and the remaining two are located in Quilcene and Port Ludlow, Washington. The District also operates a retail pharmacy in Port Ludlow, Washington.

The Hospital is a critical access hospital with 25 set-up acute care beds. Members of the medical staff include specialists in each of the service lines provided by the District.

The District is not a component unit of Jefferson County. The District does not have any material component units.

As organized, the District is exempt from federal income tax. The Board of Commissioners is made up of five community members elected to six-year terms.

On December 21, 2022, the District Board voted to develop an accountable care organization (ACO) called Jefferson Accountable Care, LLC (JAC), a non-profit, wholly-owned subsidiary. The goal of the organization is to improve the overall health of the community by providing coordinated, high-quality care to the lives covered by the organization. All District providers are participants in the ACO. As of December 31, 2023, there were approximately 8,000 lives covered by the organization. JAC was formed for purposes of participating as a Medicare Shared Savings program. The District is the sole member of the ACO.

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

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

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

Grants receivable – Receivables arising from revenue from government agencies are stated at net realizable value. Management believes the amounts to be fully collectible.

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

b. Summary of Significant Accounting Policies (continued)

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

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

Compensated absences – The District's employees earn paid time off (PTO) for vacation, holidays, and short-term illnesses based upon years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, PTO accrues from .0711 to .1365 per hour worked each year. The District's policy is to permit employees to accumulate up to a maximum of 428 hours. Upon reaching 428 hours, any excess PTO earned that would extend an employee over the stated maximum is not paid to the employee.

In November of each year, employees can elect to cash out up to 60 hours of PTO the following May and December for an annual maximum of 120 hours, as long as a minimum of 200 hours of PTO is retained. Employees can also elect to defer up to 60 hours of PTO into their 457 plan, as long as a minimum of 200 hours of PTO is retained.

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

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

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

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

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

b. Summary of Significant Accounting Policies (continued)

Change in accounting principle – In May 2020, the Government 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 Notes 5 and 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 recognize subscription liabilities and subscription assets totaling $545,441 as of January 1, 2023. The adoption had no material impact on the statement of revenues, expenses, and changes in net position.

Subsequent events – The District has evaluated subsequent events through June 12, 2024, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

The *Revised Code of Washington* (RCW), Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. The District has elected to use the County Treasurer to be its treasurer to issue warrants and make investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2023 and 2022, were $125,495,993 and $40,532,892, 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.

All cash and cash equivalents held by the County Treasurer or deposited with qualified public depositories are protected against loss by the State of Washington Public Deposit Protection Commission, as provided by RCW Chapter 39.58, subject to certain limitations. Qualified public depositories, including First Federal and Union Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington. The cash on deposit with these banks is also insured through the Federal Deposit Insurance Corporation (FDIC).

2. Bank Deposits and Investments (continued):

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

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

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

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

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

3. Patient Accounts Receivable (continued):

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

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

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

	2023	2022
Patients and their insurance carriers	**$ 15,359,512**	$ 13,797,251
Medicare	**10,669,405**	7,890,729
Medicaid	**2,820,941**	1,749,220
	28,849,858	23,437,200
Less allowance for uncollectible accounts	**(5,907,000)**	(5,062,000)
Patient accounts receivable, net	**$ 22,942,858**	$ 18,375,200

4. Assets Restricted or Limited as to Use:

The composition of assets restricted or limited as to use was as follows:

	2023	2022
Cash and cash equivalents		
Restricted under 2013 limited tax general obligation bond agreement for principal and interest payment	**$ -**	$ 47,282
Restricted under 2017 limited tax general obligation bond agreement for principal and interest payment	**22,917**	564,187
Internally designated by Board for replacement of depreciable assets	**25,163,255**	40,071,186
Total cash and cash equivalents restricted or limited as to use	**$ 25,186,172**	$ 40,682,655
Noncurrent cash and cash equivalents		
Restricted by 2023 bond agreement for project fund	**$ 72,705,706**	$ -
Restricted by 2023 bond agreement for debt service reserve fund	**9,799,123**	-
Restricted by 2023 bond agreement for capitalized interest fund	**7,153,463**	-
Total noncurrent cash and cash equivalents restricted or limited as to use	**$ 89,658,292**	$ -
Taxes receivable		
Restricted under 2013 limited tax general obligation bond agreement for principal and interest payment	**$ -**	$ 4,734
Internally designated by the Board for replacement of depreciable assets	**-**	5,948
Total taxes receivable restricted or limited as to use	**$ -**	$ 10,682

5. 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. 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 are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses. 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.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the shorter period of the lease or subscription term, or the estimated useful life of the equipment. Useful lives have been estimated as follows:

Land improvements	5 to 25 years
Buildings and improvements	5 to 40 years
Equipment	3 to 25 years
Leasehold improvements	3 to 15 years
Subscription assets	3 years
Leased assets – buildings	2 to 5 years
Leased assets – equipment	2 to 5 years

5. Capital Assets (continued):

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

	Balance December 31, 2022	Additions	Retirements	Transfers	Balance December 31, 2023
Capital assets not being depreciated					
Land	$ 2,164,252	$ -	$ -	$ -	**$ 2,164,252**
Construction in progress	4,096,920	11,359,023	-	(1,524,458)	**13,931,485**
Total capital assets not being depreciated or amortized	6,261,172	11,359,023	-	(1,524,458)	**16,095,737**
Capital assets being depreciated					
Land improvements	4,028,158	63,965	-	-	**4,092,123**
Buildings and improvements	41,964,378	175,881	(832,272)	-	**41,307,987**
Equipment	33,928,275	2,361,643	(478,854)	1,524,458	**37,335,522**
Leasehold improvements	1,369,286	43,257	-	-	**1,412,543**
Subscription assets	-	545,441	-	-	**545,441**
Lease right-of-use assets					
Buildings	8,852,706	45,826	-	-	**8,898,532**
Equipment	2,665,847	741,921	(94,029)	-	**3,313,739**
Total capital assets being depreciated or amortized	92,808,650	3,977,934	(1,405,155)	1,524,458	**96,905,887**
Less accumulated depreciation for					
Land improvements	(2,259,320)	(245,156)	-	-	**(2,504,476)**
Buildings and improvements	(24,992,880)	(1,561,076)	832,271	-	**(25,721,685)**
Equipment	(22,041,450)	(2,002,349)	361,084	-	**(23,682,715)**
Leasehold improvements	(1,088,957)	(48,715)	-	-	**(1,137,672)**
Subscription assets	-	(202,011)	-	-	**(202,011)**
Lease right-of-use assets					
Buildings	(7,785,420)	(511,423)	-	-	**(8,296,843)**
Equipment	(968,200)	(677,570)	87,122	-	**(1,558,648)**
Total accumulated depreciation	(59,136,227)	(5,248,300)	1,280,477	-	**(63,104,050)**
Total capital assets being depreciated, net	33,672,423	(1,270,366)	(124,678)	1,524,458	**33,801,837**
Capital assets, net	**$ 39,933,595**	**$ 10,088,657**	**$ (124,678)**	**$ -**	**$ 49,897,574**

Construction in progress as of December 31, 2023, primarily consisted of the beginning stages of the construction of a new main hospital building. The estimated cost to complete this project is $86,566,000 and is expected to be completed in July 2025. This project will be funded through the use of funds from the 2023 revenue bonds financing, approximately $72,000,000, federal and state grant appropriations awarded in 2024, approximately $8,500,000, contributions from the Jefferson Healthcare Foundation, approximately $2,500,000, and the remainder using the District's cash reserves.

5. Capital Assets (continued):

	Balance December 31, 2021	Additions	Retirements	Transfers	Balance December 31, 2022
Capital assets not being depreciated					
Land	$ 1,722,171	$ 442,081	$ -	$ -	**$ 2,164,252**
Construction in progress	1,394,976	3,355,794	-	(653,850)	**4,096,920**
Total capital assets not being depreciated or amortized	3,117,147	3,797,875	-	(653,850)	**6,261,172**
Capital assets being depreciated					
Land improvements	4,028,158	-	-	-	**4,028,158**
Buildings and improvements	40,757,241	1,207,137	-	-	**41,964,378**
Equipment	41,643,336	125,091	-	(7,840,152)	**33,928,275**
Leasehold improvements	1,361,180	8,106	-	-	**1,369,286**
Lease right-of-use assets					
Buildings	-	1,575,976	-	7,276,730	**8,852,706**
Equipment	-	1,448,575	-	1,217,272	**2,665,847**
Total capital assets being depreciated or amortized	87,789,915	4,364,885	-	653,850	**92,808,650**
Less accumulated depreciation for					
Land improvements	(2,013,984)	(245,336)	-	-	**(2,259,320)**
Buildings and improvements	(23,433,158)	(1,559,722)	-	-	**(24,992,880)**
Equipment	(27,710,435)	(1,988,568)	-	7,657,553	**(22,041,450)**
Leasehold improvements	(1,008,019)	(80,938)	-	-	**(1,088,957)**
Lease right-of-use assets					
Buildings	-	(508,690)	-	(7,276,730)	**(7,785,420)**
Equipment	-	(622,013)	-	(346,187)	**(968,200)**
Total accumulated depreciation	(54,165,596)	(5,005,267)	-	34,636	**(59,136,227)**
Total capital assets being depreciated, net	33,624,319	(640,382)	-	688,486	**33,672,423**
Capital assets, net	**$ 36,741,466**	**$ 3,157,493**	**$ -**	**$ 34,636**	**$ 39,933,595**

6. Long-term Debt:

A schedule of changes in the District's long-term debt is as follows:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
Note payable to individuals	$ 2,591,898	$ -	$ (2,591,898)	$ -	$ -
2013 LTGO bonds	220,000	-	(220,000)	-	-
2017 LTGO bonds	4,522,569	-	(3,527,369)	995,200	47,200
2017 Revenue bonds	17,194,178	-	(12,402,078)	4,792,100	227,800
Hospital revenue and refunding bonds, 2023A		66,740,000	-	66,740,000	-
Hospital revenue bond, 2023B		25,000,000	-	25,000,000	-
Hospital revenue bond, 2023C	-	21,650,000	-	21,650,000	-
Bond discount	-	(1,577,232)	-	(1,577,232)	-
Bond premiums	10,234	-	(10,234)	-	-
Total long-term debt	**$ 24,538,879**	**$ 111,812,768**	**$ (18,751,579)**	**$ 117,600,068**	**$ 275,000**

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
Note payable to individuals	$ 3,080,398	$ -	$ (488,500)	$ 2,591,898	$ 514,388
2013 LTGO bonds	425,000	-	(205,000)	220,000	220,000
2017 LTGO bonds	4,656,357	-	(133,788)	4,522,569	138,011
2017 Revenue bonds	17,721,323	-	(527,145)	17,194,178	543,669
Bond premiums	21,399	-	(11,165)	10,234	-
Total long-term debt	**$ 25,904,477**	**$ -**	**$ (1,365,598)**	**$ 24,538,879**	**$ 1,416,068**

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

- 2017 LTGO Bonds, 2017A, dated July 26, 2017, in the original amount of $1,250,000, for the purpose of refinancing the District's interim financing LTGO Bond, dated May 6, 2015, for the construction of the District's emergency and specialty services building. The bond is payable annually on July 26 in the remaining principal amount of $47,200. Interest at a rate of 2.89 percent is due semiannually on January 26 and July 26. The bond is subject to a mandatory tender for purchase by the District on July 26, 2025, for the remaining principal balance of $948,000. The registered owner of the bond is Key Government Finance, Inc.

- 2017 Revenue Bond, 2017B, dated July 26, 2017, in the original amount of $6,030,000, for the purpose of refinancing the District's interim financing revenue bond anticipation note, dated May 6, 2015, for the construction of the District's emergency and specialty services building. The bond is payable annually on July 26 in the remaining principal amount of $227,800. Interest at a rate of 2.89 percent is due semiannually on January 26 and July 26. The bond is subject to a mandatory tender for purchase by the District on July 26, 2025, for the remaining principal balance of $4,564,300. The registered owner of the bond is Key Government Finance, Inc.

- 2023 Hospital Revenue and Refunding Bonds, 2023A, dated December 19, 2023, in the original amount of $66,740,000, for the purpose of providing funds to pay part of the construction of the District's main building project and to repay the District's outstanding hospital revenue bonds and limited tax general obligation bond issued to the United States Department of Agriculture. The bond is payable annually on December 1 in the remaining principal amounts ranging from $605,000 in 2025 to $6,355,000 through 2053. Interest at a rate ranging from 5.750 percent to 6.875 percent is due semiannually on June 1 and December 1. The bonds were sold through a public offering.

6. Long-term Debt (continued):

- 2023 Revenue Bond, 2023B, dated December 19, 2023, in the original amount of $25,000,000, for the purpose of providing funds to pay part of the construction of the District's main building project. The bond is payable annually on December 1 in the remaining principal amounts ranging from $423,463 in 2025 to $1,519,980 through 2053. Interest at a rate of 4.670 percent is due semiannually on June 1 and December 1. The registered owner of the bond is JPMorgan Bank.

- 2023 Revenue Bond, 2023C, dated December 19, 2023, in the original amount of $21,650,000, for the purpose of providing funds to pay part of the construction of the District's main building project. The bond is payable annually on December 1 in the remaining principal amounts ranging from $676,498 in 2025 to $1,616,088 through 2044. Interest at a rate of 4.690 percent is due semiannually on June 1 and December 1. The registered owner of the bond is Siemens Bank.

- LTGO Bond, 2017C, and 2017 Revenue Bonds, 2017 D – F, dated July 26, 2017, were paid in full from the proceeds of the 2023 Hospital Revenue and Refunding Bonds, 2023A.

The 2023 Revenue Bonds, 2023A – 2023C, include financial covenants and reporting requirements that must be complied with as a condition of the bonds. The District was in compliance with the covenants as of December 31, 2023.

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

Years Ending	LTGO Bonds			Revenue Bonds			Total Long-term Debt		
December 31,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2024	$ 47,200	$ 28,761	**$ 75,961**	$ 227,800	$ 6,465,893	**$ 6,693,693**	$ 275,000	$ 6,494,654	**$ 6,769,654**
2025	948,000	27,397	**975,397**	6,269,261	6,792,331	**13,061,592**	7,217,261	6,819,728	**14,036,989**
2026	-	-	-	1,786,464	6,574,132	**8,360,596**	1,786,464	6,574,132	**8,360,596**
2027	-	-	-	1,880,379	6,483,704	**8,364,083**	1,880,379	6,483,704	**8,364,083**
2028	-	-	-	1,976,819	6,388,452	**8,365,271**	1,976,819	6,388,452	**8,365,271**
2029-2033	-	-	-	11,472,634	30,334,594	**41,807,228**	11,472,634	30,334,594	**41,807,228**
2034-2038	-	-	-	14,792,215	27,011,420	**41,803,635**	14,792,215	27,011,420	**41,803,635**
2039-2043	-	-	-	19,296,163	22,520,308	**41,816,471**	19,296,163	22,520,308	**41,816,471**
2044-2048	-	-	-	25,589,037	16,308,849	**41,897,886**	25,589,037	16,308,849	**41,897,886**
2049-2053	-	-	-	34,891,328	7,021,175	**41,912,503**	34,891,328	7,021,175	**41,912,503**
	$ 995,200	**$ 56,158**	**$ 1,051,358**	**$ 118,182,100**	**$ 135,900,858**	**$ 254,082,958**	**$ 119,177,300**	**$ 135,957,016**	**$ 255,134,316**

7. Lease and Subscription Liabilities:

A schedule of the changes in the District's lease and subscription liabilities are as follows:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
Lease liabilities - buildings	$ 1,037,907	$ 138,701	$ (606,365)	$ 570,243	$ 467,100
Lease liabilities - equipment	1,799,984	649,046	(678,433)	1,770,597	953,998
Subscriptions	-	545,441	(195,098)	350,343	202,546
Total lease and subscription liabilities	**$ 2,837,891**	**$ 1,333,188**	**$ (1,479,896)**	**$ 2,691,183**	**$ 1,623,644**

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
Lease liabilities - buildings	$ -	$ 1,586,189	$ (548,282)	$ 1,037,907	$ 558,079
Lease liabilities - equipment	897,780	1,503,620	(601,416)	1,799,984	593,498
Total lease liabilities	**$ 897,780**	**$ 3,089,809**	**$ (1,149,698)**	**$ 2,837,891**	**$ 1,151,577**

The terms and due dates of the District's lease and subscription liabilities are as follows:

- Lease liabilities are comprised of equipment and buildings that have varying payment amounts and interest rates from 0.05 percent to 8.39 percent. The District's lease agreements do not contain any residual value guarantees or material restrictive covenants.
- Subscription liabilities are comprised of subscription-based information technology agreements that have varying payment amounts and interest rates of 4.90 percent. The District's subscription agreements do not contain any residual value guarantees or material restrictive covenants.

Aggregate annual principal and interest payments over the terms of lease liabilities are as follows:

Years Ending December 31,	Principal	Interest	Total
2024	$ 1,623,644	$ 69,185	**$ 1,692,829**
2025	791,874	21,654	**813,528**
2026	196,469	6,509	**202,978**
2027	79,196	535	**79,731**
	$ 2,691,183	**$ 97,883**	**$ 2,789,066**

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 from the prior year. The District has not changed its charity care or uninsured discount policies during 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	**$ 93,084,205**	$ 88,210,153
Medicaid	**17,482,628**	18,538,311
Other third-party payors	**52,553,718**	45,917,011
Patients	**3,366,751**	3,316,511
	166,487,302	155,981,986
Less:		
Charity care	**(3,495,078)**	(3,280,565)
Provision for bad debts	**(2,073,065)**	(3,772,732)
Net patient service revenue	**$ 160,919,159**	$ 148,928,689

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 inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. Home health and hospice services are reimbursed on a prospective rate per episode of care. 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.
- ***Other commercial payors*** – 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 $36,000 in 2023 and increased by approximately $258,000 in 2022, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2023 and 2022, were approximately $1,623,000 and $1,571,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2023 and 2022.

9. Property Taxes:

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

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

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

The District’s portion of the regular tax levy available for maintenance and operations was $0.03405 and $0.03999 per $1,000 on a total assessed valuation of $8,571,359,123 and $7,063,367,480, for a total regular levy of $291,830 and $282,488 in 2023 and 2022, respectively.

The District’s portion of the regular levy pledged for the LTGO bond repayment was $0.02590 and $0.03111 per $1,000 on a total assessed valuation of $8,571,359,123 and $7,063,367,480, for a total pledged portion of the regular levy of $222,000 and $219,800 in 2023 and 2022, respectively.

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. Deferred Compensation Plan and Pension Plan:

The District has a deferred compensation plan created in accordance with Internal Revenue Code §457. The name of the plan is Jefferson Healthcare §457 Deferred Compensation Plan (the Compensation Plan). The Compensation Plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Employee contributions to the Compensation Plan totaled approximately $3,814,000 and $3,833,000 for the years ended December 31, 2023 and 2022, respectively.

10. Deferred Compensation Plan and Pension Plan (continued):

The District provides a 401(a) profit-sharing pension plan for all employees with at least two years of service. The name of the plan is Jefferson Healthcare Employee's Retirement Plan (the Profit-Sharing Plan). The District makes non-elective contributions to the Profit-Sharing Plan of 7 percent for certain members of the medical staff's salaries annually and 5 percent for all other eligible employees' salaries. The District funds all retirement contributions and employees are not allowed to contribute to the Profit-Sharing Plan. Contributions to the Profit-Sharing Plan totaled approximately $3,101,000 and $3,109,000 for the years ended December 31, 2023 and 2022, respectively.

The plans are administered by the District. The District has the authority to amend the plans.

11. Risk Management and Contingencies:

Medical malpractice claims – The District has professional liability insurance coverage with MedChoice Risk Retention Group, Inc. 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 a deductible of $250,000 per claim with an annual aggregate limit of $750,000.

The District also has excess professional liability insurance with MedChoice Risk Retention Group, Inc. on a "claims-made" basis. The excess malpractice insurance provides $9,000,000 per claim of primary coverage with an aggregate limit of $9,000,000. The policy has no deductible.

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.

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 its share of actual workers' compensation claims, unemployment claims, maintenance of reserves, and administrative expenses.

11. Risk Management and Contingencies (continued):

Industry regulations **–** The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

12. Concentration of Risk:

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

The mix of receivables from patients was as follows:

	2023	**2022**
Medicare	**49 %**	47 %
Medicaid	**13**	10
Other third-party payors	**26**	30
Patients	**12**	13
	100 %	100 %

Collective bargaining unit – The District has two collective bargaining agreements with the United Food and Commercial Workers Local 21:

- Effective February 13, 2022, the District renewed its contract with the labor union for its clinic, professional, technical, service and maintenance, business office, and medical records employees. The contract is effective through October 31, 2024.
- Effective June 22, 2022, the District renewed its contract with the labor union for its nursing employees. The contract is effective through October 31, 2024.

As of December 31, 2023 and 2022, approximately 67 percent and 65 percent, respectively, of the District’s employees were represented by the union under these collective bargaining agreements.

SINGLE AUDIT

AUDITORS' SECTION

ACCOUNTANTS | ADVISORS

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
Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Port Townsend, 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 Jefferson County Public Hospital District No. 2 doing business as Jefferson Healthcare (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

12015 E Main Ave | Spokane Valley, WA 99206 | 509.242.0874 | www.dza.cpa

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

DZA PLLC

Spokane Valley, Washington
June 12, 2024

DZA
ACCOUNTANTS | ADVISORS

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

Board of Commissioners
Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Port Townsend, Washington

Report on Compliance for the Federal Program

Opinion on the Major Federal Program

We have audited Jefferson County Public Hospital District No. 2 doing business as Jefferson Healthcare's (the District) compliance with the types of compliance requirements described 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 audit findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 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 (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

12015 E Main Ave | Spokane Valley, WA 99206 | 509.242.0874 | www.dza.cpa

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

DZA PLLC

Spokane Valley, Washington
June 12, 2024

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Schedule of Audit 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 program:	***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 program:

Federal Assistance Listing Number	*Name of Federal Program or Cluster*
10.766	Community Facilities Loans and Grants Cluster

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

Auditee qualified as low-risk auditee?	X	yes	____	no

Section II — Financial Statement Findings

No matters were reported. Therefore, no corrective action plan is necessary, nor has one been prepared.

Section III – Federal Award Findings and Questioned Costs

No matters were reported. Therefore, no corrective action plan is necessary, nor has one been prepared.

AUDITEE'S SECTION

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
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 Identification Number	Additional Award Identification	Total Federal Expenditures
U.S. Department of Agriculture Direct Program:				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	10.766			$ 15,662,147
Total expenditures of federal awards				**$ 15,662,147**

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 Jefferson County Public Hospital District No. 2 doing business as Jefferson Healthcare (the District) under programs of the federal government for the year ended December 31, 2023. Amounts reported on the Schedule for Assistance Listing Number 10.766 – Community Facilities Loans and Grants are based upon the January 1, 2023, balance of the loans. 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 elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Direct Loans:

Direct loans outstanding at the beginning of the year are included in the federal expenditures presented in the Schedule.

The outstanding balances of the direct loans as of December 31, 2023, were $0.

Jefferson County Public Hospital District No. 2
doing business as Jefferson Healthcare
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2023

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