Office of the Washington State Auditor
Pat McCarthy

December 19, 2024

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

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

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

Sincerely,

Pat McCarthy

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.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health

Financial Statements and Supplementary Information

Years Ended December 31, 2023 and 2022

LAKE CHELAN HEALTH

WIPFLI

WIPFLI

Independent Auditor's Report

Board of Commissioners
Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health
Chelan, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (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 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 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 (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 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, 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.

WIPFLI

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 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audit.

WIPFLI

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that a management's discussion and analysis on pages 4 through 8, the Schedule of Proportionate Share of the Net Pension Liability on page 48, the Schedule of Employer Contributions on page 49, and the Schedule of Changes in Total OPEB Liability and Related Ratios - Other Post Employment Benefits on page 50, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the 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 financial statements, and other knowledge we obtained during our audit of the 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.

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, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all materiality 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 August 21, 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
August 21, 2024

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Management's Discussion and Analysis

Years Ended December 31, 2023, 2022, and 2021

Introduction

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (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.

Lake Chelan Health includes the hospital, a clinic, and an ambulance service. The District is a Critical Access Hospital (CAH) which opened a new hospital building during the year ended December 31, 2022. The opening of the new hospital at a total cost of approximately $45.5 million dollars marked a significant milestone in the District's growth and commitment to providing exceptional healthcare services. This substantial investment reflects dedication to modernizing and expanding the facilities to meet the evolving needs of our patients and community. The new hospital incorporates state-of-the-art medical equipment, advanced technologies, and cutting-edge infrastructure designed to enhance patient care and optimize operational efficiency. With this expansion, increased capacity to serve a larger patient population and offer a broader range of specialized services are anticipated.

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 6.6% of 2023's gross patient receipts: $938,780 general hospital levy, $1,669,371 Emergency Medical Services (EMS) levy, and $1,233,336 bond 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 183 full-time equivalents (FTEs) on December 31, 2023, and had an annual payroll of approximately $21.0 million, including benefits and employer-paid payroll taxes.

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 subsequent period.

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.

Comparisons of Actual to Budget and Prior Year Performance

Net patient service revenue was $33,987,919 in 2023, which was an increase from the prior year of $8,724,699 and an increase of about 18.1% from budgeted net patient service revenue of $28,787,031. The net increase is attributed to the lower actual contractual adjustment compared with the budgeted amount. Total gross patient service revenue was over budget by 13.91% in 2023 and under budget by 3.68% in 2022.

	Actual	Budget	Variance
Ambulance	$ 2,912,114	$ 2,982,883	-2.37 %
Med Surg	1,754,782	2,252,121	-22.08 %
Surgery	3,193,218	2,709,852	17.84 %
Emergency Room	9,848,311	9,584,266	2.75 %
Anesthesiology	1,154,222	614,690	87.77 %
Labor & Delivery	972,213	1,002,736	-3.04 %
Rehab	2,429,728	1,780,971	36.43 %
Laboratory	4,037,397	3,744,880	7.81 %
Radiology	13,000,122	9,704,331	33.96 %
Pharmacy	2,846,811	2,288,466	24.40 %
All others	12,363,683	11,192,548	10.46 %
Totals	$ 54,512,601	$ 47,857,744	13.91 %

Financial Analysis of the District

Overall, the District had net position of $17,126,757 and $15,036,656 in 2023 and 2022, respectively. The statements of net position show an increase of $171,242 in total assets and deferred outflows of resources from 2023 to 2022. The filed Medicare cost report indicates the Medicare and Medicaid settlements to be in the amount of $961,911 receivable at December 31, 2023. Capital assets show a decrease of $1,045,130 from 2022 to 2023. Noncurrent liabilities decreased $2,286,401 while current liabilities had a decrease of $413,822 from 2022 to 2023. Overall, long-term debt and lease obligations (including current portions) decreased $745,431 from 2022 to 2023.

The decrease in noncurrent liabilities was due to the receipt of $18,548,916 in 2022 from the United States Department of Agriculture (USDA) loans. More information about the District's loans is presented in Note 7 to the financial statements.

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:							
Other assets	$ 17,226	$ 15,244	$ 23,065	$ 1,982	13.00 %	$ (7,821)	-33.91 %
Capital assets	50,927	51,972	27,415	(1,045)	-2.01 %	24,557	89.58 %
Total assets	$ 68,153	$ 67,216	$ 50,480	$ 937	1.39 %	$ 16,736	33.15 %
Deferred outflows of resources	$ 784	$ 1,550	$ 1,200	$ (766)	-49.42 %	$ 350	29.17 %
Liabilities:							
Other liabilities	$ 5,349	$ 7,303	$ 9,302	$ (1,954)	(26.76)%	$ (1,999)	-21.49 %
Long-term liabilities	45,271	46,017	30,542	(746)	-1.62 %	15,475	50.67 %
Total liabilities	$ 50,620	$ 53,320	$ 39,844	$ (2,700)	-5.06 %	$ 13,476	33.82 %
Deferred inflows of resources	$ 1,191	$ 410	$ 932	$ 781	190.49 %	$ (522)	-56.01 %
Net position:							
Net investment in capital assets	$ 4,019	$ 3,976	$ -	$ 43	1.08 %	$ 3,976	DIV/0 %
Unrestricted	13,107	11,060	10,904	2,047	18.51 %	156	1.43 %
Total net position	$ 17,126	$ 15,036	$ 10,904	$ 2,090	13.90 %	$ 4,132	37.89 %

Financial Analysis of the District (Continued)

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

				2023-2022		2022-2021	
Years Ended December 31,	2023	2022	2021	$ Change	% Change	$ Change	% Change
Operating revenue:							
Net patient service revenue	$ 33,988	$ 25,263	$ 19,867	$ 8,725	34.54 %	$ 5,396	27.16 %
Other operating revenue	490	579	833	(89)	(15.37)%	(254)	-30.49 %
Total operating revenue	34,478	25,842	20,700	8,636	33.42 %	5,142	24.84 %
Operating expenses:							
Salaries, wages, and benefits	20,991	18,642	17,316	2,349	12.60 %	1,326	7.66 %
Supplies	2,509	1,962	2,130	547	27.88 %	(168)	-7.89 %
Professional fees and purchased services	5,211	4,708	3,239	503	10.68 %	1,469	45.35 %
Other operating expenses	2,563	2,298	1,917	265	11.53 %	381	19.87 %
Depreciation and amortization	4,074	1,405	1,022	2,669	189.96 %	383	37.48 %
Total operating expenses	35,348	29,015	25,624	6,333	21.83 %	3,391	13.23 %
Operating loss	(870)	(3,173)	(4,924)	2,303	-72.58 %	1,751	-35.56 %
Nonoperating revenue - Net	2,960	7,305	6,590	(4,345)	-59.48 %	715	10.85 %
Excess of revenue over expenses	2,090	4,132	1,666	(2,042)	(49.42)%	2,466	148.02 %
Net position at beginning of year	15,036	10,904	9,238	4,132	37.89 %	1,666	18.03 %
Net position at end of year	$ 17,126	$ 15,036	$ 10,904	$ 2,090	13.90 %	$ 4,132	37.89 %

Capital Assets and Debt Administration

The District spent $2,263,304 and $24,994,553 on capital expenditures in 2023 and 2022, respectively. The majority of the expenditures in 2023 and 2022 were related to construction in progress and equipment purchases.

The District incurred $2,023,659 and $20,786,059 in new long-term debt and lease obligations in 2023 and 2022, respectively, resulting in total outstanding long-term debt and capital lease obligation balances of $45,271,462 and $46,016,893 (including current portions). The District also made principal payments on its long-term debt and lease obligations of $1,780,077 and $981,171 during 2023 and 2022, respectively.

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

Contacting Lake Chelan Health'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:

110 S Apple Blossom Drive
Chelan, Washington 98816

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Net Position

December 31,	2023	2022
Current assets:		
Cash and cash equivalents	$ 861,882	$ 444,782
Receivables:		
Patient accounts - Net	4,437,527	3,720,066
Taxes	80,720	59,193
Estimated third-party payor settlements	961,911	-
Other	73,683	302,834
Inventories	336,059	230,101
Prepaids and other assets	353,146	231,742
Total current assets	7,104,928	4,988,718
Noncurrent assets:		
Nondepreciable capital assets	4,247,232	4,187,295
Depreciable capital assets - Net	45,559,880	47,009,546
Right-of-use assets	1,120,121	775,522
Restricted for capital purchases - Unspent bond proceeds	598,320	260,007
Internally designated cash and cash equivalents	8,750,992	9,044,075
Net pension asset	771,483	950,480
Total noncurrent assets	61,048,028	62,226,925
Total assets	68,152,956	67,215,643
Deferred outflows of resources:		
Deferred charge on bond refunding	211,906	231,171
Related to pensions	550,805	504,512
Related to other post-employment benefits	20,801	813,900
Total deferred outflows of resources	783,512	1,549,583
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 68,936,468	$ 68,765,226

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Net Position (Continued)

December 31,	2023	2022
Current liabilities:		
Accounts payable	$ 1,085,200	$ 2,045,407
Accrued payroll and related expenses	999,518	794,948
Interest payable	93,698	95,395
Current maturities of long-term debt	1,046,831	1,001,831
Current portion of lease obligations	646,078	593,659
Estimated third party reimbursement programs payable	-	30,129
Current portion of compensated absences	701,299	506,864
Unearned revenue	93,370	11,583
Total current liabilities	4,665,994	5,079,816
Noncurrent liabilities:		
Long-term debt - Less current maturities	41,512,524	42,593,438
Lease obligations - Less current portion	2,066,029	1,827,965
Compensated absences - Less current portion	200,959	304,376
Liability for other post-employment benefits	2,173,004	3,513,138
Total noncurrent liabilities	45,952,516	48,238,917
Total liabilities	50,618,510	53,318,733
Deferred inflows of resources:		
Related to pensions	232,963	409,837
Related to other post-employment benefits	958,238	-
Total deferred inflows of resources	1,191,201	409,837
Net position:		
Net investment in capital assets	4,019,016	3,975,798
Unrestricted	13,107,741	11,060,858
Total net position	17,126,757	15,036,656
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 68,936,468	$ 68,765,226

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31,	2023	2022
Operating revenue:		
Net patient service revenue	$ 33,987,919	$ 25,263,220
Other operating income	489,721	578,887
Total operating revenue	34,477,640	25,842,107
Operating expenses:		
Salaries and wages	17,107,118	15,077,520
Employee benefits	3,883,842	3,564,575
Professional fees	1,136,706	1,290,036
Supplies	2,509,191	1,961,740
Purchased services - Utilities	403,717	281,447
Purchased services - Other	3,670,795	3,136,842
Insurance	371,505	343,935
Repairs and maintenance	974,515	866,210
Rent	330,613	82,156
Other	886,466	1,005,074
Depreciation and amortization	4,073,661	1,405,179
Total operating expenses	35,348,129	29,014,714
Operating loss	(870,489)	(3,172,607)
Nonoperating revenue (expenses):		
Property taxes for operations	2,608,151	2,526,935
Grants and contributions - Noncapital	678,988	5,079,798
Investment earnings	397,534	123,611
Other expense	-	(242,940)
Taxes for debt service payments	1,233,337	1,212,109
Interest expense	(1,908,320)	(1,394,852)
Loss on disposal of assets	(49,100)	-
Total nonoperating income - Net	2,960,590	7,304,661
Change in net position	2,090,101	4,132,054
Net position at beginning of year	15,036,656	10,904,602
Net position - End of year	$ 17,126,757	$ 15,036,656

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Cash Flows

Years Ended December 31,	2023	2022
Cash flows for operating activities:		
Received from patient services	$ 32,278,418	$ 21,533,271
Receipts from other operating revenue	718,872	878,801
Paid to and on behalf of employees	(20,328,340)	(17,988,753)
Paid for supplies, fees, and other operating expenses	(11,293,342)	(8,578,678)
Net cash provided by (used in) operating activities	1,375,608	(4,155,359)
Cash flows from noncapital financing activities:		
Received from property tax for operations	2,586,624	2,531,310
Repayments on line of credit	-	1,577,011
Received from donations and grants	760,775	-
Paid for interest on noncapital debt	(85,001)	(7,194)
Net cash provided by noncapital financing activities	3,262,398	4,101,127
Cash flows for capital and related financing activities:		
Paid on long-term debt obligations	(1,031,917)	(570,000)
Paid on lease obligations	(748,160)	(411,171)
Paid for debt issuance costs	-	(242,940)
Interest paid on long-term debt and lease obligations	(1,809,748)	(991,865)
Proceeds from long-term debt	-	18,548,916
Proceeds from bond tax levy	1,233,337	1,212,109
Proceeds from the sale of assets	162,853	-
Purchase of capital assets	(2,263,304)	(24,994,553)
Net cash used in capital and related financing activities	(4,456,939)	(7,449,504)
Cash flows provided by investing activities - Interest received	397,534	123,611
Net change in cash and cash equivalents	578,601	(7,380,125)
Cash and cash equivalents - Beginning of year	9,748,864	17,128,989
Cash and cash equivalents - End of year	$ 10,327,465	$ 9,748,864
Cash and cash equivalents:		
Current assets	$ 861,882	$ 444,782
Noncurrent assets	9,349,312	9,304,082
Total cash and cash equivalents	$ 10,211,194	$ 9,748,864

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Statements of Cash Flows (Continued)

Years Ended December 31,	2023	2022
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Operating loss	$ (870,489)	$ (3,172,607)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,073,661	1,405,179
Provision for bad debt	1,964,897	1,600,435
Pension expense	914,067	(100,552)
Other post-employment benefit expense	(547,035)	549,829
Changes in assets and liabilities:		
Receivables:		
Patient accounts	(2,682,358)	(2,567,195)
Estimated third-party payor settlements	(992,040)	273,410
Other	229,151	299,914
Inventories	(105,957)	(14,412)
Prepaids	(121,405)	66,305
Accounts payable	(782,472)	336,869
Accrued payroll and related expenses	204,570	126,162
Compensated absences	91,018	77,903
Medicare refundable advances	-	(3,036,599)
Total adjustments	2,246,097	(982,752)
Net cash provided by (used in) operating activities	$ 1,375,608	$ (4,155,359)
Noncash capital and related financing activities:		
Capital purchases included in accounts payable	$ 177,735	$ 1,151,463
PPP loan forgiveness	-	2,000,000

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (the "District") owns and operates a 22-bed acute care hospital and the Lake Chelan Clinic in Chelan, Washington. The District provides acute care and clinical services to patients in the Chelan market. The services include acute care, hospital inpatient and outpatient surgery, obstetrics, ambulance, emergency room, physician, and the related ancillary procedures (lab, 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 Government 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. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Use of Estimates in Preparation of Financial Statements

The preparation of 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

All cash receipts are deposited directly into the District's depository bank account. Periodically, such cash is transferred to the Chelan County Treasurer who acts as the District's Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. At the direction of the District, the County Treasurer invests cash in certificates of deposit, money market funds, and other short-term investments until it is necessary to redeem warrants. 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.

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.

Patient accounts receivable are recorded in the accompanying statements of net position, net of contractual adjustments, and an allowance for doubtful accounts, which reflects management's 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 a valuation allowance.

In evaluating the collectability 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 doubtful 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 doubtful 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 doubtful 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 provision for bad debts.

Property Taxes

The District has the authority to impose taxes on property within the boundaries of the healthcare district. Taxes are received from Chelan 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at lower of cost or net realizable value, utilizing the first-in, first-out cost flow assumption. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Capital Assets

Capital acquisitions are recorded at cost or, if donated, at acquisition value at the date of donation. The District capitalizes all assets with a cost of $5,000 or greater. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements.

Land improvements	3 to 52 years
Buildings and building improvements	5 to 40 years
Major movable equipment	3 to 20 years
Software	3 to 5 years

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 District has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

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 and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. 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 lease cost on a straight-line basis over the lease term.

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 sick time, holidays, and vacation time. The District accrues annual leave for compensated absences as an expense and liability when earned based on the employee's status. The maximum allowable amount of AL time for each employee is 400 hours. A payout of 40 hours is available to employees within their anniversary month upon request and approval. Employees who terminate their employment, with proper notice, are eligible to be paid unused accrued AL hours at the regular rate of pay upon completion. 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 160 hours. The District does not pay out any unused sick leave hours.

Pension Plan

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Washington State Department of Retirement Systems - LEOFF Plan 2 (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Post-Employment Benefits Other Than Pensions (OPEB)

The total Post-Employment Benefits Other Than Pensions (OPEB) liability is measured as the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position report a separate section of deferred outflows of resources, which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The District has three items that qualify for reporting in this category. The District refunded debt and the deferred outflow is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District reports deferred outflows of resources related to pensions for its proportionate share of collective deferred outflows of resources of the Plan. Other amounts reported as deferred outflows of resources related to OPEB transactions, including changes in actuarial assumptions and contributions made after the measurement date.

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. The District reports deferred inflows of resources related to pensions for its proportionate share of collective deferred inflows of resources of the Plan.

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. Retrospective 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 debts related to uninsured patients in the period the services are provided.

Net Position

Net position is reported in two categories:

Net investment in capital assets: This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt and accounts payable used to build, acquire, or improve those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category.

Unrestricted: This category consists of the remaining net position that does not meet the definition of the preceding category. When both restricted and unrestricted resources are available for use, it is the District’s policy to use externally restricted resources first.

Note 1: Summary of Significant Accounting Policies (Continued)

Grants and Contributions

From time to time, the District receives grants from Chelan County and the State of Washington, as well as contributions from individuals and private organizations. 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 revenues and expenses.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy 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.

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 health care services, the District's principal activity. Other operating revenue includes retail revenue from the District's cafeteria, pharmacy, class registration fees, health information, and laboratory services. Nonexchange revenue, including taxes, interest income, grants, and contributions, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services.

Reclassifications

Certain amounts as previously reported in the 2022 financial statements have been reclassified to conform to the 2023 presentation. Such reclassifications have no effect on reported amounts of net assets or change in net 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 federal awards 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)

New Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements* (SBITAs). The statement enhances the relevance and consistency of reporting for the District's leasing activities by establishing requirements for lease accounting based on the principle that leases are financings of underlying right-of-use assets. A lessee is required to recognize a lease liability and intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. The District adopted this guidance for the year ended December 31, 2023.

Note 2: Cash and Cash Equivalents

Chapter 39 RCW 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 (WSLGIP); savings accounts in qualified public depositories; and certain other investments.

Average days to maturity of WSLGIP assets was 17 days at December 31, 2023.

The WSLGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company. It is a voluntary investment vehicle operated by the Washington State Treasurer. Over 530 local governments have participated in the Pool, since it was started in 1986 to provide safe, liquid, and competitive investment options for local governments pursuant to RCW 43.250. All investments are subject to written policies and procedures adopted by the State Treasurer’s Office. The WSLGIP is considered extremely low risk. Funds are invested in a portfolio of securities in a manner generally consistent with the SEC’s Rule 2A-7 of the Investment Company Act of 1940 as it currently stands. The WSLGIP functions as a demand deposit account where the County receives an allocation of its proportionate share of pooled earnings using an amortized cost methodology. Unrealized gains and losses due to changes in the fair values are not distributed to the District.

The WSLGIP manages a portfolio of securities that meet the maturity, quality, diversification, and liquidity requirements set forth by the GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost.

The WSLGIP transacts with its participants at a stable net asset value per share of $1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m., at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds.

Note 2: Cash and Cash Equivalents (Continued)

The WSLGIP does not impose liquidity fees or redemption rates on participant withdrawals. The WSLGIP is not subject to the fair value measurement.

Custodial Credit Risk - The risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a deposit policy for custodial credit risk. The District's deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the WSLGIP.

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.

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

	2023	2022
Cash - Non designated	$ 861,882	$ 444,782
Internally designated:		
Internally designated for Emergency Medical Services	1,216,444	897,174
Internally designated for public health emergency	7,534,548	8,146,901
Total internally-designated cash and cash equivalents	8,750,992	9,044,075
Restricted for capital acquisitions - Unspent bond proceeds and reinvested interest income	598,320	260,007
Totals	$ 10,211,194	$ 9,748,864

Unspent bond proceeds are deposited with the WSLGIP.

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at December 31:

	2023	2022
Patient accounts receivable	$ 9,941,632	$ 7,739,790
Less:		
Allowance for contractual adjustments	3,412,258	2,576,746
Allowance for doubtful accounts	2,091,847	1,442,978
Patient accounts receivable - Net	$ 4,437,527	$ 3,720,066

Note 4: 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 $30,337,368 and $24,214,000 in 2023 and 2022, respectively. A summary of the basis of reimbursement with major third-party payors follows:

Medicare and Medicaid - The District is designated as a CAH. As a CAH, the District's inpatient, swing bed, and outpatient hospital services are paid based on a cost reimbursement method, with the exception of certain types of laboratory and therapy services, which are reimbursed on a prospectively determined fee schedule. Professional services provided by physicians, Emergency Medical Services (EMS), and other clinicians continue to be reimbursed on prospectively determined fee schedules.

Physician and Professional Services in Rural Health Clinic - Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

Others - The District has also 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.

Accounting for Medicare and Medicaid Contractual Arrangements - The District is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The District's cost reports have been final settled by Medicare fiscal intermediaries through December 31, 2021 and Medicaid fiscal intermediaries through December 31, 2021.

Note 4: Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and Regulations

The health care 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 health care program participation requirements, reimbursement for patient services, and billing regulations. Violations of these laws and regulations could result in expulsion from government health care 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 substantial compliance with applicable government laws and regulations. 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.

Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) as part of CMS's efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care 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. As of December 31, 2023, the District has not been notified by the RAC of any potential significant reimbursement adjustments.

Note 5: Property Taxes

The District received $3,841,488 and $3,739,044, or approximately 9.75% and 11.14%, of its financial support from property taxes for the years ended December 31, 2023 and 2022, respectively.

Chapter 70.44.060(6) RCW limits a public hospital district's annual regular levy rate to a rate of $0.75 per $1,000 of assessed value. Districts may also levy taxes at a lower rate. Districts that levy less than the maximum rate can use the unused levy capacity in a future year. A district may also ask its voters to authorize an amount that exceeds the established levy limits.

For 2023, the District's regular tax levy was $0.15 per $1,000 on the total assessed valuation of $5,892,895,866 for a total regular levy of $938,780. In addition, the District's EMS tax levy was $0.28 per $1,000 on the total assessed valuation of $5,892,895,866 for a total EMS levy of $1,669,371. The District's bond tax levy was $0.21 per $1,000 on the total assessed valuation of $5,858,921,554 for a total bond levy of $1,233,337.

For 2022, the District's regular tax levy was $0.19 per $1,000 on the total assessed valuation of $4,590,953,818 for a total regular levy of $912,015. In addition, the District's EMS tax levy was $0.35 per $1,000 on the total assessed valuation of $4,590,953,818 for a total EMS levy of $1,614,920. The District's bond tax levy was $0.27 per $1,000 on the total assessed valuation of $4,559,034,828 for a total bond levy of $1,212,109.

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

Note 6: Capital Assets

Capital asset balances and activity consisted of the following:

	Balance January 1, 2023	Additions	Deletions	Transfers	Balance December 31, 2023
Nondepreciable capital assets:					
Land	$ 4,168,630	$ -	$ -	$ -	$ 4,168,630
Construction in progress	18,665	938,151	(61,463)	(816,751)	78,602
Total nondepreciable capital assets	4,187,295	938,151	(61,463)	(816,751)	4,247,232
Depreciable capital assets:					
Land improvements	5,057,991	-	(167,706)	71,374	4,961,659
Buildings and fixed equipment	39,968,477	81,225	-	595,725	40,645,427
Major movable equipment	14,466,309	1,375,934	(631,359)	149,652	15,360,536
Software	2,159,033	26,664	(39,678)	-	2,146,019
Total depreciable capital assets	61,651,810	1,483,823	(838,743)	816,751	63,113,641
Accumulated depreciation	(14,642,264)	(3,739,594)	828,097	-	(17,553,761)
Depreciable capital assets - Net	47,009,546	(2,255,771)	(10,646)	816,751	45,559,880
Right of use assets:					
Buildings	402,506	771,161	(117,351)	-	1,056,316
Equipment	862,913	108,812	(385,474)	-	586,251
Total right of use assets	1,265,419	879,973	(502,825)	-	1,642,567
Accumulated depreciation - Right of use assets	(489,897)	(334,067)	301,518	-	(522,446)
Right of use assets - Net	775,522	545,906	(201,307)	-	1,120,121
Capital assets - Net	$ 51,972,363	$ (771,714)	$ (273,416)	$ -	$ 50,927,233

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Notes to Financial Statements

Note 6: Capital Assets (Continued)

	Balance January 1, 2022	Additions	Deletions	Transfers	Balance December 31, 2022
Nondepreciable capital assets:					
Land	$ 4,168,630	$ -	$ -	$ -	$ 4,168,630
Construction in progress	20,382,158	23,973,784	-	(44,337,277)	18,665
Total nondepreciable capital assets	24,550,788	23,973,784	-	(44,337,277)	4,187,295
Depreciable capital assets:					
Land improvements	619,271	-	-	4,438,720	5,057,991
Buildings and fixed equipment	6,127,592	-	-	33,840,885	39,968,477
Major movable equipment	7,281,293	1,127,344	-	6,057,672	14,466,309
Software	2,129,457	29,576	-	-	2,159,033
Total depreciable capital assets	16,157,613	1,156,920	-	44,337,277	61,651,810
Accumulated depreciation	(13,715,182)	(927,082)	-	-	(14,642,264)
Depreciable capital assets - Net	2,442,431	229,838	-	44,337,277	47,009,546
Right of use assets:					
Buildings	296,403	285,156	(179,053)	-	402,506
Equipment	422,532	547,168	(106,787)	-	862,913
Total right of use assets	718,935	832,324	(285,840)	-	1,265,419
Accumulated depreciation - Right of use assets	(297,339)	(478,398)	285,840	-	(489,897)
Right of use assets - Net	421,596	353,926	-	-	775,522
Capital assets - Net	$ 27,414,815	$ 24,557,548	$ -	$ -	$ 51,972,363

Note 6: Capital Assets (Continued)

Construction in progress consisted primarily of the EMS building, steel building, and specialty clinic construction. At December 31, 2023, there was balance of $78,602 with estimated remaining costs to complete of $13,000,000, expected to be completed by 2027.

Note 7: Long-Term Debt and Other Noncurrent Liabilities

Long-term debt and activity were as follows for the years ended December 31:

	January 1, 2023	Additions	Reductions	December 31, 2023	Amounts Due Within One Year
Long-term debt:					
Bonds payable:					
2013 LTGO Bond	$ 5,435,000	$ -	$ (355,000)	$ 5,080,000	$ 365,000
2018 UTGO Bond	18,520,000	-	(265,000)	18,255,000	300,000
Bond premium (discount):					
2013 LTGO Bond discount	(61,877)	-	5,156	(56,721)	-
2018 UTGO Bond premium	771,399	-	(9,153)	762,246	-
Total direct placements	24,664,522	-	(623,997)	24,040,525	665,000
Direct borrowings:					
USDA Loan	18,930,747	-	(411,917)	18,518,830	381,831
Total long-term debt	$ 43,595,269	$ -	$ (1,035,914)	$ 42,559,355	$ 1,046,831

Note 7: Long-Term Debt and Other Noncurrent Liabilities (Continued)

Long-term debt and capital lease obligations and activity were as follows for the years ended December 31:

	January 1, 2022	Additions	Reductions	December 31, 2022	Amounts Due Within One Year
Long-term debt:					
Bonds payable:					
2013 LTGO Bond	$ 5,780,000	$ -	$ (345,000)	$ 5,435,000	$ 355,000
2018 UTGO Bond	18,745,000	-	(225,000)	18,520,000	265,000
Bond premium (discount):					
2013 LTGO Bond discount	(67,034)	-	5,157	(61,877)	-
2018 UTGO Bond premium	779,535	-	(8,136)	771,399	-
Total direct placements	25,237,501	-	(572,979)	24,664,522	620,000
Direct borrowings:					
PPP Loan	2,000,000	-	(2,000,000)	-	-
USDA Loan	-	18,930,747	-	18,930,747	381,831
Total direct borrowings	2,000,000	18,930,747	(2,000,000)	18,930,747	381,831
Total long-term debt	$ 27,237,501	$ 18,930,747	$ (2,572,979)	$ 43,595,269	$ 1,001,831

The terms and due dates of the District's long-term debt, including capital lease obligations, at December 31, 2023, are as follows:

<u>Bonds payable</u>

2013 Limited Tax General Obligation (LTGO) Bond, dated June 12, 2013, due in varying annual principal installments of $215,000 in 2013 to $565,000 in 2034 payable December 1 each year, plus interest at varying rates from 4% to 4.25%, payable each June 1 and December 1 each year; bonds maturing on or after December 1, 2013, are subject to optional redemption prior to their stated maturity dates on or after June 1, 2023, at par plus accrued interest to the date of such redemption, secured by tax revenue.

2018 Unlimited Tax General Obligation (UTGO) Bond, dated December 27, 2018, due in varying annual principal installments of $185,000 in 2019 to $1,810,000 in 2043 payable December 1 each year, plus interest at varying rates from 3.5% to 5%, payable each June 1 and December 1 each year. Unspent proceeds from the 2018 UTGO Bonds are kept with the Chelan County Treasurer who monitors that expenditures are appropriate for purpose of the new hospital (see Note 2), secured by tax revenue.

Note 7: Long-Term Debt and Other Noncurrent Liabilities (Continued)

Direct Borrowings

Paycheck Protection Program (PPP) - In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and to provide an incentive to retain their employees during the COVID-19 crisis. The District was granted a $3,381,000 PPP loan under the PPP administered by a SBA approved partner in 2020 and the loan was forgiven in full in July 2021. The District recorded the forgiveness amount as grants and contributions. In 2021, the District was granted a new PPP loan, amount of $2,000,000 loan. The loan is uncollateralized and is fully guaranteed by the Federal government. The District's $2,000,000 PPP loan was forgiven in April 2022.

USDA Loan - In November 2022, the District entered into an agreement with the US Department of Agriculture (USDA), for three LTGO loans (A,B, and C) due in multiple monthly installments of $40,500, $42,750, and $5,742, respectively, plus interest at 3.5%. The loans mature in November 2052 and are secured by tax revenue.

Principal and interests payments are as follows for the years ending December 31:

	Bonds payable		Direct Borrowings	
	Principal	Interest	Principal	Interest
2024	$ 665,000	$ 1,097,971	$ 381,831	$ 642,640
2025	720,000	1,072,821	391,297	629,201
2026	780,000	1,045,671	405,215	615,283
2027	860,000	1,016,280	419,627	600,871
2028	920,000	981,830	434,552	585,946
2029-2033	5,790,000	4,223,709	2,415,886	2,686,604
2034-2038	5,785,000	2,803,761	2,877,182	2,225,308
2039-2043	7,815,000	1,232,250	3,426,559	1,675,931
2044-2048	-	-	7,766,681	1,284,799
Totals	$ 23,335,000	$ 13,474,293	$ 18,518,830	$ 10,946,583

Legal Debt Margin - The District is subject to a general obligation debt limit of 2.5% of the assessed value of all taxable property within the District. That amount for the 2023 tax collection year was $147,322,397 and the District’s outstanding general obligation debt was $5,023,279 or 3.41% of the debt limit.

Note 7: Long-Term Debt and Other Noncurrent Liabilities (Continued)

Unamortized bond premium/discount - The discount associated with the 2013 LTGO bond issuance and the premium associated with the 2018 UTGO bond issuance are being deferred and amortized using the effective-interest method.

*Long-term Compensated Absence*s - All compensated absences with accumulations greater than the minimum annual benefit are considered long-term. Long-term compensated absences are estimated to be $200,959 and $304,376, at December 31, 2023 and 2022. The following represents the compensated absences activity for the District and estimated liability outstanding at December 31:

	Beginning Liability	Additions	Reductions	Ending Liability	Current Portion
2023	$ 811,240	$ 994,142	$ (903,124)	$ 902,258	$ 701,299
2022	733,337	861,799	(783,896)	811,240	506,864

Note 8: Leases

Changes in leases payable consisted of the following:

	Balance 1/1/2023	Additions	Reductions	Balance 12/31/23	Amounts due Within One Year
Building leases payable	$ 195,294	$ 903,018	$ (234,913)	$ 863,399	$ 216,142
Equipment leases payable	2,226,330	1,120,641	(1,498,263)	1,848,708	429,936
Total	$ 2,421,624	$ 2,023,659	$ (1,733,176)	$ 2,712,107	$ 646,078

	Balance 1/1/2022	Additions	Reductions	Balance 12/31/22	Amounts due Within One Year
Building leases payable	$ 117,775	$ 285,156	$ (207,637)	$ 195,294	$ 195,294
Equipment leases payable	859,709	1,570,156	(203,535)	2,226,330	398,365
Total	$ 977,484	$ 1,855,312	$ (411,172)	$ 2,421,624	$ 593,659

Note 8: Leases (Continued)

District as Lessee

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

Building leases - payable is monthly installments from $3,653 to $19,888 and interest at 8% expiring in August, 2028.

Equipment leases - payable is monthly installments from $102 to $7,810 and interest at 8% with expiration dates ranging from November, 2023 to December, 2032.

All of the above agreements require return of equipment or accelerated payment of the outstanding obligation if the District violates the agreements.

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

	Principal	Interest	Total
2024	$ 646,078	$ 150,583	$ 796,661
2025	684,532	111,604	796,136
2026	434,279	78,169	512,448
2027	430,128	51,268	481,396
2028	384,990	22,454	407,444
2029-2033	132,100	11,290	143,390
Total	$ 2,712,107	$ 425,368	$ 3,137,475

Note 9: 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	$ 7,070,470	$ 7,681,656
Outpatient services	45,312,512	31,658,014
Physician clinics	2,129,619	1,649,858
Total gross patient service revenue	54,512,601	40,989,528
Revenue reductions:		
Contractual adjustments	18,559,785	14,125,873
Provision for bad debt	1,964,897	1,600,435
Total deductions	20,524,682	15,726,308
Net patient service revenue	$ 33,987,919	$ 25,263,220

Note 10: 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 comprises 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	17 %	21 %
Medicaid	16 %	19 %
Other third-party payors	39 %	35 %
Self-pay	28 %	25 %
Totals	100 %	100 %

Note 11: 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 care 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 $423,724 and $388,043 for the years ended December 31, 2023 and 2022, respectively.

Note 12: Risk Management

Professional Liability Insurance

The District is insured by Physician Insurance Company (PIC), a member owned mutual insurance company, for payment of liability claims.

The PIC 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 policy. 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, which 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.

The PIC policy's limits provide $1,000,000 per claim of primary coverage with a $5,000,000 annual aggregate limit. PIC also provides excess coverage of $4,000,000 per claim with $9,000,000 annual aggregate. There are no significant deductible or coinsurance clauses for this policy. Premiums paid by the District to PIC were $274,896 and $253,227 for the years ended December 31, 2023 and 2022, respectively.

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 the 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.

Note 12: Risk Management (Continued)

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. Amounts paid by the District for workers' compensation expense were $119,311 and $68,600 for 2023 and 2022, respectively.

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 $87,472 and $74,202 for 2023 and 2022, respectively.

Note 13: Lake Chelan Health and Wellness Foundation

Lake Chelan Health and Wellness Foundation (the "Foundation"), formerly Lake Chelan Hospital Foundation, formed in 1981, is a separate tax-exempt Washington corporation. The Foundation is not considered a component unit that must be combined with the District for financial statement purposes. The Foundation has assets and net assets (unaudited) of approximately $2,349,624 and $2,088,216 at December 31, 2023 and 2022, respectively, according to unaudited financial statements. Donations of $12,551 and $801,022 were contributed to the District by the Foundation for the years ended December 31, 2023 and 2022, respectively.

Note 14: Retirement Plans

Defined Contribution Plan - The District has a voluntary retirement plan that is available to all employees. The plan changed administrators in 2023, the plan is now administered by Nation Wide Life Insurance Co. Any changes to the plan provisions must be both documented in the board minutes and authorized with a signature from one of the plan representatives. The plan is funded solely by employer contributions in which the District will match 50% of the employee's contribution up to six percent, only if certain eligibility criteria are met by the employees, including the contribution to the 403(b) plan. Employees are vested upon deposit. Retirement plan costs include only current service costs, which are accrued and funded on a current basis. Retirement plan contributions were $238,817 and $230,281 for the years ended December 31, 2023 and 2022, respectively.

Note 14: Retirement Plans (Continued)

Deferred Compensation Plans - The District has a voluntary retirement plan, which was established by the District under Section 403(b) of the Internal Revenue Code. The plan is funded solely by employee contributions, which are deposited in employee controlled accounts established with American Mutual Funds.

The District also has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 available to employees who have exceeded the maximum level of contributions to their 403(b) plan. The plan is administered by Cuna Mutual and is funded solely by employee contributions with the fees paid for by the District.

Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement - The District's full-time EMTs and paramedics were included in the Washington State Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement System (LEOFF 2) by new legislation effective July 23, 2017. During the year ended December 31, 2023, the District contributed $38,603 to the LEOFF 2 plan for these individuals.

The following table provides further information about the Law Enforcement Officers' and Fire Fighters' Retirement Plan 2 (LEOFF Plan 2) as of the year ended December 31, 2023:

Aggregate pension amounts:	
Pension asset	$ 771,483
Deferred outflows of resources	550,805
Deferred inflows of resources	232,963
Pension expense	(51,568)

Certain District employees participate in the following statewide retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Note 14: Retirement Plans (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans: LEOFF Plan 1 and LEOFF Plan 2. The District had no employees eligible for, or participating in, LEOFF Plan 1.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53.

Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

Actual contribution rates	Employer	Employee
State and local governments	5.12 %	8.53 %
Administrative fee	0.18 %	N/A
Totals	5.30 %	8.53 %

The District's actual contribution to the plan was $72,599 for the year ended December 31, 2023.

Note 14: Retirement Plans (Continued)

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the State of Washington's fiscal year ending June 30, 2023, the State contributed $87,966,142 to LEOFF Plan 2. The amount recognized by the District as its proportionate share of this amount is $28,293.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' *Annual Comprehensive Financial Report* located on the DRS website. The actuarial assumptions used in the June 30, 2022 valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report.

The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow service-based salary increases.
- Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status, as our base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on the assumptions described in OSA's certification letter within the DRS ACFR, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.00% was used to determine the total liability.

Note 14: Retirement Plans (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.00% was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the table below. The inflation component used to create the table is 2.20% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20.0 %	1.5 %
Tangible assets	7.0 %	4.7 %
Real estate	18.0 %	5.4 %
Global equity	32.0 %	5.9 %
Private equity	23.0 %	8.9 %
Total	100.0 %	

Sensitivity of the Net Pension Asset

The table below presents the District's proportionate share of the net pension asset calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate.

LEOFF Plan 2	Net Pension Asset (Liability)
1 % Decrease (6.0%)	$ (127,737)
Current discount rate (7.0%)	771,483
1 % Increase (8.0%)	1,507,418

Note 14: Retirement Plans (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2023, the District reported net pension assets of $771,483 for its proportionate share of the total net pension assets.

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the District were as follows:

LEOFF Plan 2	Net Pension Asset
Employer's proportionate share	$ 771,483
State's proportionate share of the net pension asset associated with the employer	28,293
Total	$ 799,776

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2022	Proportionate Share 6/30/2023	Change in proportionate share
LEOFF Plan 2	0.034974 %	0.032164 %	(0.002810)%

In fiscal year 2022, the state of Washington contributed 38.97 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61.03 percent of employer contributions.

The collective net pension asset was measured as of June 30, 2023, and the actuarial valuation date on which the total pension asset is based was as of June 30, 2022, with update procedures used to roll forward the total pension liability to the measurement date.

Note 14: Retirement Plans (Continued)

Pension Expense

For the year ended December 31, 2023, the District recognized pension expense of $458,331.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LEOFF Plan 2	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 315,129	$ 6,347
Net difference between projected and actual investment earnings on pension plan investments	-	163,245
Changes of assumptions	197,073	63,371
Contributions subsequent to the measurement date	38,603	-
Totals	$ 550,805	$ 232,963

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,	Change in Pension Expense
2024	$ (64,046)
2025	(90,408)
2026	141,887
2027	51,664
2028	55,979
Thereafter	184,163

Note 15: Other Post Employment Benefits

The District participates in an agent multiple-employer other post employment benefits plan. In accordance with RCW 41.05.085 and RCW 41.05.022, eligible District retirees and spouses are entitled to subsidies associated with post employment health benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees.

The subsidies provided by PEBB include the following:

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

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

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

As of the valuation date, the membership includes active participants, 6 retirees and surviving spouses, and 2 spouses of current retirees.

Total OPEB Liability

	2023
Total OPEB liability	$ 2,173,004
Covered employee payroll	14,941,296
Total OPEB liability as a % of covered employee payroll	14.54 %

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rates below, and then projected to the measurement dates. There have been no significant changes between the valuation date and fiscal year-ends.

	2023
Valuation date	July 1, 2022
Measurement date	December 31, 2022

Note 15: Other Post Employment Benefits (Continued)

Discount Rate

	2023
Discount rate	3.72 %
20-year tax exempt municipal bond yield	3.72 %

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

Other Key Actuarial Assumptions

Census date	July 1, 2022
Price inflation	2.35%
Salary increase	3.72%
Actuarial cost method	Entry Age

Changes in Total OPEB Liability

	2023
Beginning of year balance	$ 3,513,138
Changes for the year	
Service cost	427,989
Interest on total OPEB liability	81,072
Effect of economic/demographic gains or losses	(515,889)
Effect of assumptions changes or inputs	(1,321,978)
Expected benefit payments	(11,328)
End of year balance	$ 2,173,004

Note 15: Other Post Employment Benefits (Continued)

Sensitivity Analysis

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the discount rates of 3.72%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	2023
1% decrease	2.72 %
Total OPEB liability	$ 2,647,175
Discount rate	3.72 %
Total OPEB liability	$ 2,173,004
1% increase	4.72 %
Total OPEB liability	$ 1,800,888

The following presents the total OPEB liability of the District, as of the measurement date, calculated using the current healthcare cost trend rates, as well as what the District's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. Health care trend rates are disclosed on page 45.

	2023
1% decrease	$ 1,727,913
Current trend rate	2,173,004
1% increase	2,775,912

OPEB Expense

For the years ended December 31, 2023, the District recognized OPEB expense of $432,004.

Note 15: Other Post Employment Benefits (Continued)

Schedule of Deferred Inflows and Deferred Outflows of Resources

At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ (471,029)	$ -
Changes of assumptions	(487,209)	-
Contributions made subsequent to the measurement date	-	20,801
Total	$ (958,238)	$ 20,801

Economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

$20,801 reported as deferred outflows related to other post employment benefits resulting from the Hospital's benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2023.

Other amounts currently reported as deferred outflows of resources related to other postemployment benefits will be recognized in OPEB expense for the years ending December 31 as follows:

2023	$ (77,057)
2024	(77,057)
2025	(77,057)
2026	(77,057)
2027	(77,057)
Thereafter	(572,953)

Note that additional future deferred inflows and outflows of resources may impact these numbers.

Note 15: Other Post Employment Benefits (Continued)

Demographic Assumptions

Demographic assumptions regarding retirement, mortality, disability mortality, turnover, and marriage are based on assumptions used in the 2022 actuarial valuation of Washington State Public Employee Retirement System (PERS), and modified for the District.

The assumed disability rates under PERS plan 3 from the 2022 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. The disability rate was assumed to be 0% for all ages.

For service retirement, PERS plan 3, with less than 30 years of service assumptions from the 2022 actuarial valuation for PERS. The service requirements vary based on hire date and years of service.

For mortality, the assumptions from the 2022 actuarial valuation for PERS (Pub G.H-2010 base mortality table, with generational mortality adjustments using long-term MP-2017 generational improvement scale) were used.

For other termination of employment, the assumptions from the PERS plan 3 were used, but no less than 2% per year.

Retirement eligibility: Members are eligible for service retirement at age 55 with 20 years of service or age 65 with five years of service.

Election assumption: 40% of members are assumed to elect medical benefits upon retirement. 30% of members are assumed to elect dental benefits upon retirement.

Election assumption (spouses): 40% of members are assumed to enroll eligible spouses as of the retirement date.

Medicare coverage: 100% of members are assumed to enroll in Medicare, once eligible, after initial participation.

Spouse age: A male member is assumed to be three years older than his spouse and female member is assumed to be two-years younger than her spouse.

Selection of carrier: All current and future retirees who elect medical and dental coverage are assumed to elect carriers based on the weighted average of selection of carriers by PEBB retirees.

Note 15: Other Post Employment Benefits (Continued)

Health Cost Trend

The health cost trend assumptions used in this valuation, assumed for both current and future retirees, are as follows:

Year Ending	Pre-65 Claims and Contributions	Post-65 Claims	Post-65 Contributions
6/30/2023	5.40 %	7.70 %	11.40 %
6/30/2024	5.70 %	6.80 %	9.40 %
6/30/2025	5.50 %	6.90 %	9.00 %
6/30/2026	5.00 %	4.90 %	5.20 %
6/30/2027	4.90 %	4.80 %	5.10 %
6/30/2037	4.50 %	4.50 %	4.60 %
6/30/2047	4.40 %	4.30 %	4.40 %
6/30/2057	4.40 %	4.30 %	4.30 %
6/30/2067	4.20 %	4.20 %	4.20 %
6/30/2077+	3.80 %	3.80 %	3.80 %

Premium Levels

The assumed annual medical retiree contributions used in the valuation are displayed below. These represent a weighted average of July 1, 2022 to June 30, 2023, PEBB retiree contributions by medical plan, based on overall PEBB current retiree medical plan election. These contributions are assumed for both current retirees and future retirees. Contributions are the same for retirees and spouses of retirees. The contributions exclude the administration charge, the state surcharge reduction, the Limeade administration charge, the Political Subdivision Offset, the Limeade administration charge, the CDHP employer contribution, the Health Savings Account (HSA) administration fee, and the HSA wellness fee, as these are direct pass-through expenses that are 100% paid by retirees.

Note 15: Other Post Employment Benefits (Continued)

	Subscriber or Spouse	
Medical plan:	Non-Medicare	Medicare
Weighted average based on current PEBB retirees	$9,037.50	$3,800.69

The assumed annual dental retiree contributions are displayed below. These represent a weighted average of July 1, 2022 to June 30, 2023, PEBB retiree contributions by dental plan, based on overall PEBB current retiree dental plan election. These contributions are assumed for both current retirees and future retirees.

	Subscriber or Spouse	
Dental plan:	Non-Medicare	Medicare
Weighted average based on current PEBB retirees	$578.19	$578.19

Required Supplementary Information

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Proportionate Share of the Net Pension Liability

LEOFF Plan 2

Last 10 Fiscal Years*

June 30,	2023	2022	2021	2020	2019	2018
Employer's proportion of the net pension asset	0.032164 %	0.034974 %	0.030300 %	0.029292 %	0.027649 %	0.024153 %
Employer's proportionate share of the net pension asset	$ 771,483	$ 950,480	$ 1,759,923	597,508	641,548	490,351
State's proportionate share of the net pension asset associated with the employer	28,293	28,464	23,865	22,349	20,173	16,461
Totals	$ 799,776	$ 978,944	$ 1,783,788	$ 619,857	$ 661,721	$ 506,812
Covered payroll	$ 1,425,945	$ 1,406,683	$ 1,137,138	$ 1,011,562	$ 986,978	$ 720,355
Net pension asset as a percentage of covered payroll	54.10 %	67.57 %	154.77 %	59.07 %	65.00 %	68.07 %
Plan fiduciary net position as a percentage of the total pension liability	113.17 %	116.09 %	142.00 %	115.83 %	119.43 %	118.50 %

*Note: The District implemented GASB Statement No. 68 in 2018. Yearly information will be added until the 10-year requirement is met.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Employer Contributions

LEOFF Plan 2

Last 10 Fiscal Years*

Year Ended December 31,	2023	2022	2021	2020	2019	2018
Contributions in relation to the statutorily or contractually required contributions	$ 72,599	$ 72,406	$ 60,400	$ 57,300	$ 50,977	$ 41,883
Contributions in relation to the statutorily or contractually required contributions	(72,599)	(72,406)	(60,400)	(57,300)	(50,977)	(41,883)
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 1,363,678	$ 1,424,744	$ 1,301,875	$ 1,090,901	$ 986,978	$ 720,355
Contributions as a percentage of covered payroll	5.32 %	5.08 %	4.64 %	5.25 %	5.16 %	5.81 %

*Note: The District implemented GASB Statement No. 68 in 2018. Yearly information will be added until the 10-year requirement is met.

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Changes in Total OPEB Liability and Related Ratios - Other Post Employment Benefits

Total OPEB Liability	2023	2022	2021	2020
Service cost	$ 427,989	$ 406,610	$ 330,819	$ 222,319
Interest on total OPEB liabilit	81,072	71,789	69,233	64,263
Effect of economic/demographic gains or losses	(515,889)	-	-	-
Effect of assumption changes or inputs	(1,321,978)	57,773	386,975	564,909
Expected benefit payments	(11,328)	(5,341)	(1,274	-
Net change in total OPEB liability	(1,340,134)	530,831	785,753	851,491
Total OPEB liability, beginning	3,513,138	2,982,307	2,196,554	1,345,063
Total OPEB liability, ending	$ 2,173,004	$ 3,513,138	$ 2,982,307	$ 2,196,554
Covered employee payroll	$ 14,941,296	$ 14,145,586	$ 15,353,703	$ 17,270,698
Total OPEB liability as a % of covered employee payroll	14.54 %	24.84 %	19.42 %	12.72 %

GASB Statement No. 75 requires this information to be provided for 10 years. Because 2020 was the first year of participation, 10 years is not available.

Notes to Schedule

There are no changes of benefit terms.

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

Supplementary Information

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Grantor/Program Title	Contract Number	Federal Assistance Listing Number	Program or Award Amount	Federal Expenditures
U.S. Department of Agriculture Rural Development				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	N/A	10.766	$ 19,776,000	$ 18,930,747
Total U.S. Department of Agriculture Rural Development				18,930,747
U.S. Dpeartment of Health and Human Services				
Passed through Washington State Department of Health:				
Small Rural Hopsital Improvement Program (SHIP)	N/A	93.301	12,598	12,598
COVID-19 - Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	HSP26411-0	93.391	370,000	310,741
Total U.S. Department of Health and Human Services				323,339
Total expenditures of federal awards				$ 19,254,086

See Independent Auditor's Report on Compliance for Each Federal Major Program and on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.

See notes to schedule of expenditures of federal awards.

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of the District. 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* (the "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 position, or cash flows of the District.

Note 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. Pass-through entity identifying numbers are presented where available.

Note 3: Indirect Cost

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance for the 93.391 grant.

Note 4: Subrecipients

The District passed no federal awards through to subrecipients.

Note 5: Balance of Outstanding Loan

The District had an outstanding loan with USDA as of December 31, 2023, with a balance of $18,518,830. The loan balance outstanding at the beginning of the year was included in the federal expenditures presented in the Schedule. There were no new loans received during the year ended December 31, 2023.

WIPFLI

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
Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health
Chelan, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health (the "District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District 's basic financial statements, and have issued our report thereon dated August 21, 2024.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or, significant deficiencies. Given these limitations, during out audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
August 21, 2024

WIPFLI

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Commissioners
Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health
Chelan, Washington

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health's (the "District") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2023. Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health 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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health'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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health's federal program.

WIPFLI

Auditor's Responsibility 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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health'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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health'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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health'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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health'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 Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Health'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.

WIPFLI

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's 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.

Wipfli LLP

Wipfli LLP

Spokane, Washington
August 21, 2024

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued — Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes _x_ no
- Significant deficiency(ies) identified? ___ yes _x_ no

Noncompliance material to financial statements noted? ___ yes _x_ no

Federal and State Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes _x_ no
- Significant deficiency(ies) identified? ___ yes _x_ no

Type of auditor's report issued on compliance for major programs — Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]? ___ yes _x_ no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
10.766	Community Facilities Loans and Grants
93.391	COVID-19 - Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health

Health Department Response to Public Health or Healthcare Crises

Dollar threshold used to distinguish between Type A and Type B programs:

Federal	$750,000

Auditee qualified as low-risk auditee? — Yes

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2023

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Chelan County Public Hospital District No. 2
d/b/a Lake Chelan Health

Schedule of Prior-Year Findings and Questioned Costs

Year Ended December 31, 2023

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None