



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

January 30, 2025

Board of Commissioners
Kennewick Public Hospital District No 1
Kennewick, 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 Kennewick Public Hospital District No 1 for the fiscal years ended December 31, 2023 and 2022. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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Financial Statements
December 31, 2023 and 2022
Kennewick Public Hospital District

Kennewick Public Hospital District

Table of Contents

December 31, 2023 and 2022

| | |
|---|----|
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis | 4 |
| Financial Statements | |
| Statements of Net Position - Assets..... | 9 |
| Statements of Net Position - Liabilities and Net Position | 10 |
| Statements of Revenues, Expenses and Changes in Net Position | 11 |
| Statements of Cash Flows | 12 |
| Notes to Financial Statements | 14 |
| Supplementary Information | |
| Independent Auditor's Report on Supplementary Information | 30 |
| Combining Statement of Net Position, December 31, 2023..... | 31 |
| Combining Statement of Revenues, Expenses, and Changes in Net Position, Year Ended December 31, 2023..... | 32 |
| Combining Statement of Net Position, December 31, 2022..... | 33 |
| Combining Statement of Revenues, Expenses, and Changes in Net Position, Year Ended December 31, 2022..... | 34 |
| 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 <i>Government Auditing Standards</i> | 35 |
| Schedule of Findings and Responses | 37 |



Independent Auditor's Report

The Board of Commissioners
Kennewick Public Hospital District
Kennewick, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kennewick Public Hospital District (the Organization) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization as of December 31, 2023 and 2022, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 Organization'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 Organization's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2024, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely 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 Organization'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 Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
November 21, 2024

Our discussion and analysis for Kennewick Public Hospital District (Organization) provides an overview of the Organization's financial activities for the fiscal years ended December 31, 2023, 2022, and 2021. Please read it in conjunction with the Organization's financial statements, which begin on page 9.

Financial Highlights

- The Organization's net position increased by \$211,413 or 8.4% in 2023 and \$50,485 or 2.0% in 2022.
- The Organization had an operating loss of \$433,097 in 2023 and \$285,394 in 2022.
- Total operating revenues increased by \$125,486 or 11.3% in 2023 and increased \$179,145 or 19.2% in 2022.
- Operating expenses increased \$273,189 or 19.5% in 2023 and increased \$268,865 or 23.8% in 2022.
- Nonoperating revenues increased by \$308,631 in 2023 and decreased by \$481,060 in 2022.

Using This Annual Report

The Organization's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Organization including resources held by the Organization but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Organization's finances is, "Is the Organization, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Change in Net Position report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Organization's net position and changes in them. You can think of the Organization's net position, the difference between assets, deferred outflow of resources, liabilities, and deferred inflow of resources as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Organization's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Organization.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing and capital and related financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The Organization's Net Position

The Organization's net position is the difference between its assets and liabilities in the Statement of Net Position on pages 9 and 10. The Organization's net position increased by \$211,413 in 2023; \$50,485 in 2022; and \$621,265 in 2021.

Table 1: Assets, Liabilities, and Net Position

| | 2023 | 2022 | 2021 |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$ 2,307,193 | \$ 2,020,014 | \$ 2,275,993 |
| Capital assets, net | 1,341,525 | 1,243,270 | 35,689 |
| Other noncurrent assets | 807,522 | 569,725 | 710,231 |
| Total assets | \$ 4,456,240 | \$ 3,833,009 | \$ 3,021,913 |
| Liabilities | | | |
| Long-term debt | \$ 680,131 | \$ 704,623 | \$ - |
| Other current liabilities | 782,606 | 609,410 | 553,422 |
| Deferred inflows of resources | 263,114 | - | - |
| Total liabilities | 1,725,851 | 1,314,033 | 553,422 |
| Net Position | | | |
| Net investment in capital assets | 661,394 | 538,647 | 35,689 |
| Restricted | | | |
| Expendable - Paul G. & Mabel Richmond | | | |
| Endowment Fund | 582,272 | 569,725 | 710,231 |
| Expendable - for operating activities | 341,000 | 341,000 | 341,000 |
| Unrestricted | 1,145,723 | 1,069,604 | 1,381,571 |
| Total net position | 2,730,389 | 2,518,976 | 2,468,491 |
| Total liabilities and net position | \$ 4,456,240 | \$ 3,833,009 | \$ 3,021,913 |

Operating Results and Changes in the Organization's Net Position

The following table highlights the Organization's operations and changes in net position. The Organization had operating losses of \$433,097 in 2023; \$285,394 in 2022; and \$195,674 in 2021.

Table 2: Operating Results and Changes in Net Position

| | 2023 | 2022 | 2021 |
|--|--------------|--------------|--------------|
| Operating Revenues | | | |
| Client service revenue | \$ 1,239,884 | \$ 1,114,398 | \$ 935,253 |
| Operating Expenses | | | |
| Salaries, wages, and employee benefits | 1,002,642 | 845,508 | 689,777 |
| Supplies and other | 351,038 | 271,216 | 240,171 |
| Professional fees and purchased services | 282,484 | 248,000 | 200,261 |
| Depreciation | 36,817 | 35,068 | 718 |
| Total operating expenses | 1,672,981 | 1,399,792 | 1,130,927 |
| Operating Loss | (433,097) | (285,394) | (195,674) |
| Nonoperating Revenues (Expenses) | | | |
| Property taxes | 1,612,182 | 1,558,962 | 1,493,365 |
| Investment income (loss) | 111,426 | (90,699) | 66,615 |
| Noncapital contributions and donations | 23,234 | 8,831 | 22,385 |
| Community Service Payment to RCCH Trios | (1,292,435) | (1,247,196) | (1,213,468) |
| Interest expense | (34,864) | (26,067) | - |
| Gain on sale of capital assets | - | 123,049 | - |
| Donations | 196,992 | - | 341,000 |
| Gain on forgiveness of Paycheck Protection Program (PPP) Loan | - | - | 105,261 |
| Rental income | 19,612 | - | - |
| Other income | 8,363 | 8,999 | 1,781 |
| Nonoperating revenues, net | 644,510 | 335,879 | 816,939 |
| Revenues in Excess of Expenses and Changes in Net Position | 211,413 | 50,485 | 621,265 |
| Net Position, Beginning of Year | 2,518,976 | 2,468,491 | 1,847,226 |
| Net Position, End of Year | \$ 2,730,389 | \$ 2,518,976 | \$ 2,468,491 |

The Organization's financial statements include the accounts of Kennewick Public Hospital District (District) and its blended component unit Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities (ADS). The following is a discussion and analysis by entity.

Kennewick Public Hospital District

The District remains a valuable organization for funding and addressing unmet healthcare gaps within the community. The District improves healthcare in the community and addresses unmet needs through services, education, and collaboration. The District is committed to collaborating to fill gaps from birth through elder care, supporting area health organizations, and furthering community wellness through education and outreach.

The District has no income from operations and no employees. As such, the primary source of income is tax revenue from property taxes paid to the Benton County Treasurer. Property taxes recognized as revenue for the year ended December 31, 2023 was \$1,612,182, which is an increase of \$53,220 or 3.4% from \$1,558,962 recognized for the year ended December 31, 2022. Property taxes recognized for the year ended December 31, 2021 was \$1,493,365. The increase is the result of an annual 1.0% rate increase approved by the Board of Commissioners and increased tax revenue from increased property valuations and new construction. The District is required to remit 80% of the property taxes collected to RCCH Trios as part of the Community Care Agreement. The amounts remitted to RCCH Trios for the years ended December 31, 2023, 2022 and 2021 were \$1,292,435; \$1,247,196; and \$1,213,468.

Other income to the District is mostly in the form of donations and income from the Endowment Fund. The income from the Endowment Fund is a set 5.0% of the fund balance annually and fluctuates according to financial markets. Investment income (loss) for the years ended December 31, 2023, 2022 and 2021 was \$104,421; (\$112,504); and \$58,823. During the year ended December 31, 2023, there were no significant events that impacted other income. During the year ended December 31, 2022, the District sold an office building and recorded a gain on sale of capital assets in the amount of \$123,049. During the year ended December 31, 2021, the District received a donation of \$341,000 restricted for operating activities.

Benton Franklin Elder Services doing business as Adult Day Services of the Tri-Cities (ADS)

Client service revenue for the year ended December 31, 2023 was \$1,239,884, an increase of \$125,486 or 11.3% from \$1,114,398 recorded for the year ended December 31, 2022. Client service revenue for the year ended December 31, 2022 was \$1,114,398, an increase of \$179,145 or 19.2% from \$935,253 recorded for the year ended December 31, 2021. Due to the COVID-19 pandemic in 2020, census levels decreased when there were more restrictions on being in groups. Census levels for 2022 have increased to pre-pandemic levels.

Salaries, wages, and employee benefits is the largest expense and were as follows for the years ended December 31, 2023, 2022 and 2021, \$1,046,906; \$845,508; and \$689,777. The increase in salaries, wages, and employee benefits were due to a salary increase of approximately 6% and an increase in full-time equivalents (FTE) of approximately one during the year ended December 31, 2023. The increase in salaries, wages, and employee benefits were due to a salary increase of approximately 5% and an increase in full-time equivalents (FTE) of approximately two during the year ended December 31, 2022.

ADS purchased a building for \$1,182,085 during 2022 with a \$720,000 note payable and the remaining amount was paid with cash from operations. The note payable is due in monthly installments for \$4,760, including interest, through March 2032, with a balloon payment of all principal and interest due at that time. The interest rate will reset in March 2027 at a rate equal to the Federal Home Loan Bank five-year fixed rate plus 2.75% with a floor of 4.3% (See Note 6).

Contacting the Organization's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional information, contact the Kennewick Public Hospital District at 509-579-4405.

Kennewick Public Hospital District
Statements of Net Position - Assets
December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 665,315 | \$ 1,888,580 |
| Receivables | | |
| Client, net of estimated uncollectibles | | |
| of \$14,500 in 2022 and 2021 | 135,938 | 130,729 |
| Leases | 20,200 | - |
| Property tax | 705 | 705 |
| Investments | <u>1,485,035</u> | <u>-</u> |
| Total current assets | <u>2,307,193</u> | <u>2,020,014</u> |
| Noncurrent Cash and Investments | | |
| Lease receivable | 225,250 | - |
| Other long-term investments | <u>582,272</u> | <u>569,725</u> |
| Total noncurrent cash and investments | <u>807,522</u> | <u>569,725</u> |
| Capital Assets | | |
| Depreciable capital assets, net of accumulated depreciation | <u>1,341,525</u> | <u>1,243,270</u> |
| Total assets | <u><u>\$ 4,456,240</u></u> | <u><u>\$ 3,833,009</u></u> |

Kennewick Public Hospital District
Statements of Net Position - Liabilities and Net Position
December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 23,394 | \$ 22,250 |
| Accounts payable | 608,812 | 541,575 |
| Accrued expenses | | |
| Salaries | 82,484 | - |
| Vacation | 38,760 | 45,123 |
| Payroll taxes and other | 52,550 | 22,712 |
| Total current liabilities | <u>806,000</u> | <u>631,660</u> |
| Long-Term Debt, Less Current Maturities | <u>656,737</u> | <u>682,373</u> |
| Total liabilities | <u>1,462,737</u> | <u>1,314,033</u> |
| Deferred Inflows of Resources | <u>263,114</u> | <u>-</u> |
| Net Position | | |
| Net investment in capital assets | 661,394 | 538,647 |
| Restricted | | |
| Expendable - Paul G. & Mabel Richmond Endowment Fund | 582,272 | 569,725 |
| Expendable - for operating activities | 341,000 | 341,000 |
| Unrestricted | 1,145,723 | 1,069,604 |
| Total net position | <u>2,730,389</u> | <u>2,518,976</u> |
| Total liabilities and net position | <u>\$ 4,456,240</u> | <u>\$ 3,833,009</u> |

Kennewick Public Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|----------------------------|----------------------------|
| Operating Revenues | | |
| Client service revenue | \$ 1,239,884 | \$ 1,114,398 |
| Operating Expenses | | |
| Salaries and wages | 753,348 | 648,070 |
| Employee benefits | 249,294 | 197,438 |
| Professional fees | 124,521 | 104,627 |
| Supplies | 125,159 | 114,934 |
| Purchased services, utilities | 27,115 | 18,105 |
| Purchased services, other | 130,848 | 125,268 |
| Insurance | 36,699 | 46,600 |
| Rent | - | 8,145 |
| Transportation | 24,404 | 18,639 |
| Other | 97,740 | 68,242 |
| Public election | 67,036 | 14,656 |
| Depreciation | 36,817 | 35,068 |
| Total operating expenses | <u>1,672,981</u> | <u>1,399,792</u> |
| Operating Loss | <u>(433,097)</u> | <u>(285,394)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property taxes | 1,612,182 | 1,558,962 |
| Investment income (loss) | 111,426 | (90,699) |
| Noncapital contributions and donations | 23,234 | 8,831 |
| Community Service Payment to RCCH Trios | (1,292,435) | (1,247,196) |
| Interest expense | (34,864) | (26,067) |
| Gain on sale of capital assets | - | 123,049 |
| Employee retention credit | 196,992 | - |
| Rental income | 19,612 | - |
| Other income | 8,363 | 8,999 |
| Nonoperating revenues, net | <u>644,510</u> | <u>335,879</u> |
| Revenues in Excess of Expenses and Change in Net Position | 211,413 | 50,485 |
| Net Position, Beginning of Year | <u>2,518,976</u> | <u>2,468,491</u> |
| Net Position, End of Year | <u><u>\$ 2,730,389</u></u> | <u><u>\$ 2,518,976</u></u> |

Kennewick Public Hospital District
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|--------------|--------------|
| Operating Activities | | |
| Receipts from and on behalf of clients | \$ 1,234,675 | \$ 1,063,809 |
| Payments to suppliers and contractors | (588,512) | (492,683) |
| Payments to or on behalf of employees | (896,683) | (829,768) |
| Net Cash Used for Operating Activities | (250,520) | (258,642) |
| Noncapital Financing Activities | | |
| Noncapital contributions and donations for grant | 220,226 | 8,831 |
| Other income | 8,363 | 8,999 |
| Property taxes | 1,612,182 | 1,558,962 |
| Net Cash from Noncapital Financing Activities | 1,840,771 | 1,576,792 |
| Capital and Capital Related Financing Activities | | |
| Payments on long-term debt | (24,492) | (15,377) |
| Interest paid | (34,864) | (26,067) |
| Purchase of capital assets | (135,072) | (1,242,649) |
| Proceeds from issuance of long-term debt | - | 720,000 |
| Proceeds from disposal of capital assets | - | 123,049 |
| Net Cash Used for Capital and Capital Related Financing Activities | (194,428) | (441,044) |
| Investing Activities | | |
| Investment income (loss) | 98,879 | 49,808 |
| Community Service Payment to RCCH Trios | (1,270,208) | (1,232,835) |
| Principal payments received on lease receivables | 37,276 | - |
| Proceeds from (purchase of) investments | (1,491,855) | 3,941 |
| Net Cash Used for Investing Activities | (2,625,908) | (1,179,086) |
| Net Change in Cash and Cash Equivalents | (1,230,085) | (301,980) |
| Cash and Cash Equivalents, Beginning of Year | 1,901,804 | 2,203,784 |
| Cash and Cash Equivalents, End of Year | \$ 671,719 | \$ 1,901,804 |

Kennewick Public Hospital District
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Cash and cash equivalents in current assets | \$ 665,315 | \$ 1,888,580 |
| Cash and cash equivalents in noncurrent cash and investments | <u>6,404</u> | <u>13,224</u> |
| Total cash and cash equivalents | <u>\$ 671,719</u> | <u>\$ 1,901,804</u> |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | | |
| Operating loss | \$ (433,097) | \$ (285,394) |
| Adjustments to reconcile operating loss to net cash used for operating activities | | |
| Depreciation and amortization | 36,817 | 35,068 |
| Changes in assets and liabilities | | |
| Client receivables | (5,209) | (50,589) |
| Prepaid expenses | - | 646 |
| Accounts payable | 45,010 | 25,887 |
| Accrued expenses | <u>105,959</u> | <u>15,740</u> |
| Net Cash Used for Operating Activities | <u>\$ (250,520)</u> | <u>\$ (258,642)</u> |

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Kennewick Public Hospital District (District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

The Organization operates under the laws of the State of Washington for Washington municipal corporations. It was created in 1949 by the voters of Benton County to operate, control, and manage all matters concerning the County's health care functions.

For financial reporting purposes, the Organization has included all funds, organizations, agencies, boards, commissions, and authorities. The Organization has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Organization are such that the exclusion would cause the Organization's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's body and (1) the ability of the Organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Organization. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government.

Blended Component Units

Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities (ADS), has been determined to be a component unit and is presented as a blended component unit in the Kennewick Public Hospital District's financial statements.

Collectively, the District and ADS will be referred to as the Organization.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Organization's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/ components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the construction or improvement of those assets or the related debt obligations.

Restricted net position:

Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the Organization.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Organization's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include deposits and highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statements of cash flows, the Organization considers all cash and highly liquid investments as cash and cash equivalents.

Client Receivables

ADS receivables are uncollateralized client and third party-payor obligations. Payments of client receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

At December 31, 2023 and 2022, client receivables consist of receivables from clients of ADS.

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (the credit) which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at \$10,000 of qualified wages through December 31, 2020.

The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit, extended the credit through September 30, 2021, and increased the credit to 70% of qualified wages, capped at \$7,000 per quarter. As a result of the changes to the credit, the maximum credit per employee increased from \$5,000 in 2020 to \$21,000 in 2021. During the year ended December 31, 2023, ADS recorded a \$196,992 benefit, which includes \$90,192 of interest, related to the credit which is presented in the statement of operations as employee retention credit contribution.

Noncurrent Cash and Investments

Noncurrent cash and investments consist of other long-term investments.

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the State of Washington investment pool; savings accounts in qualified public depositories; and certain other investments. The Organization's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Government Treasury securities, or investments with the Washington State Local Government Investment Pool. The Organization has elected to be their own treasurer.

Other long-term investments include the assets of the Paul G. and Mabel Richmond Endowment Trust (Trust). The Trust was gifted to the Organization to support the Organization's mission and is managed by an outside trustee. As a result, the funds are not subject to the Revised Code of Washington, Chapter 39 as discussed above. The balance in the Trust as of December 31, 2023 and 2022 was \$582,272 and \$569,725, respectively.

Investment Income (Loss)

Interest, dividends, gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenues when earned.

Capital Assets

Capital asset acquisitions in excess of \$1,500 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Building and equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the building or equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

| | |
|----------------------------|----------------|
| Land Improvements | 15 to 20 years |
| Buildings and Improvements | 20 to 40 years |
| Leasehold Improvements | 5 to 30 years |
| Equipment | 5 to 20 years |

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Compensated Absences

ADS' employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued expenses in the accompanying financial statements.

Operating Revenues and Expenses

The Organization's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Organization result from exchange transactions associated with providing health care services and operating the Organization – the Organization's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Client Service Revenue

ADS has agreements with third-party payors that provide for payments to ADS at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Client service revenue is reported at the estimated net realizable amounts from clients, third-party payors, and others for services rendered.

Grants and Contributions

The Organization may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, 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 for capital acquisitions are reported after revenues in excess of expenses.

Property Taxes

Property taxes are levied by the County on the District's behalf. The property taxes are intended to finance the District's activities of the same calendar year. Property taxes are recognized as revenue when received and are used for operations.

| | | |
|-----------|---|-------------------------|
| Levy date | – | January 1 |
| Lien date | – | May 1 |
| Due dates | – | April 30 and October 31 |

Community Service Payment to RCCH Trios

The District had entered into a Master Asset Purchase Agreement (Purchase Agreement) with RCCH Trios shortly after the Bankruptcy Court approved the Chapter 9 Plan of Adjustment on June 20, 2018. As part of this plan, the District will continue operations, which will consist primarily of the property tax mill levy. The mill levy is \$0.10 per \$1,000 of assessed property value. As part of the purchase agreement, the District shall pay RCCH Trios the "Community Service Payment." The Community Service Payment is defined as a percentage of the current year property tax less the permitted expenses. The Community Service Payment to RCCH was \$1,292,435 and \$1,247,196 for the years ended December 31, 2023 and 2022, respectively.

Subsequent Events

Subsequent events have been evaluated through November 21, 2024, the date the financial statements were available to be issued.

Note 2 - Client Service Revenue

ADS has agreements with third-party payors that provide for payments to ADS at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicaid. Routine services rendered to ADS clients, who are beneficiaries of the Medicaid program, are paid according to a schedule of prospectively determined daily rates determined by Washington's Medicaid Program.

Other. ADS has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to ADS under these agreements includes discounts from charges, prospectively determined rates per discharge, and prospectively determined daily rates.

Concentrations of net revenues by major payor accounted for the following percentages of ADS' client service revenues for the years ended December 31, 2023 and 2022:

| | 2023 | 2022 |
|-------------|-------------|-------------|
| Medicaid | 82% | 79% |
| Private Pay | 10% | 10% |
| Other | 8% | 11% |
| | <u>100%</u> | <u>100%</u> |

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|-----------------|---------------------|---------------------|
| Carrying Amount | | |
| Deposits | \$ 671,719 | \$ 1,901,804 |
| Investments | <u>2,060,903</u> | <u>556,501</u> |
| | <u>\$ 2,732,622</u> | <u>\$ 2,458,305</u> |

Deposits and investments are reported in the following statement of net position captions:

| | 2023 | 2022 |
|-----------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 665,315 | \$ 1,888,580 |
| Other long-term investments | <u>2,067,307</u> | <u>569,725</u> |
| | <u>\$ 2,732,622</u> | <u>\$ 2,458,305</u> |

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Organization's deposits may not be returned to it. The Organization has a general investment policy to minimize custodial credit risk.

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2023 and 2022

The Organization had bank balances at December 31, 2023 and 2022 as follows:

| | 2023 | 2022 |
|------------------|-------------------|---------------------|
| Insured (FDIC) | \$ 361,609 | \$ 512,357 |
| Uncollateralized | 330,754 | 732,389 |
| Total | <u>\$ 692,363</u> | <u>\$ 1,244,746</u> |
| Carrying Value | <u>\$ 671,719</u> | <u>\$ 1,901,804</u> |

At December 31, 2023 and 2022, the Organization's deposits were not properly collateralized with approximately \$331,000 and \$732,000 in excess of the Federal Deposit Insurance Corporation (FDIC) limits and potentially at risk.

Investments

The Organization's investments are reported at fair value. The Organization is authorized by statute to invest funds in federal, state or local government bonds and in commercial paper. The investments held under the Paul G. and Mabel Richmond Endowment Fund are held and administered by a third party which provides the funds to be invested in equities outside of the state statute requirements imposed on the Organization. The Organization does not participate, and is prohibited to participate by the statute, in any way with the investment of the funds included in the trust. The Organization receives 5% per year of the balance at year end from the trust which is the minimum required for charitable trusts.

The Organization had the following investments and maturities at December 31, 2023:

| Investment Type | Carrying Amount | Rating | Investment Maturities (in Years) | | |
|----------------------------------|---------------------|--------|----------------------------------|-------------|--------------|
| | | | 0-5 | 6-10 | More Than 10 |
| Mutual Funds | | | | | |
| Fixed income | \$ 244,996 | N/A | \$ 244,996 | \$ - | \$ - |
| Equities | 330,872 | N/A | 330,872 | - | - |
| Local Government Investment Pool | 1,485,035 | N/A | 1,485,035 | - | - |
| Total | <u>\$ 2,060,903</u> | | <u>\$ 2,060,903</u> | <u>\$ -</u> | <u>\$ -</u> |

The Organization had the following investments and maturities at December 31, 2022:

| Investment Type | Carrying Amount | Rating | Investment Maturities (in Years) | | |
|-----------------|-------------------|--------|----------------------------------|-------------|--------------|
| | | | 0-5 | 6-10 | More Than 10 |
| Mutual Funds | | | | | |
| Fixed income | \$ 217,043 | N/A | \$ 217,043 | \$ - | \$ - |
| Equities | 339,458 | N/A | 339,458 | - | - |
| Total | <u>\$ 556,501</u> | | <u>\$ 556,501</u> | <u>\$ -</u> | <u>\$ -</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. State statutes limit the investment in commercial paper to maturities not to exceed 180 days. The Organization's investment policy currently does not contain a provision that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Organization will match investment maturities with anticipated cash flow requirements and investments shall not be committed for more than one year without the advance approval of the Finance and Audit Committee.

Credit Risk

The Organization's investment policy and State statutes limit investments in state or local government bonds to bonds with one of the three highest credit ratings of a nationally recognized rating agency and the investment in commercial paper to those with the highest short-term credit rating of any two nationally recognized statistical rating organizations. The Organization's investment policy currently does not contain a specific provision that further limits credit risk.

Concentration of Credit Risk

The Organization will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Organization places a limit that the amount that may be invested with any one bank or institution may not exceed 30%. If the maximum limit of 30% would require splitting a fund, then this can be waived by the Finance and Audit Committee.

Investment Income

Investment income on cash equivalents, investments, and notes receivable consists of the following for the years ended December 31, 2023 and 2022:

| | 2023 | 2022 |
|--|-------------------|--------------------|
| Nonoperating Income | | |
| Interest income and realized gains and losses | \$ 98,879 | \$ 49,808 |
| Change in unrealized gains and losses on investments | 12,547 | (140,507) |
| | <u>\$ 111,426</u> | <u>\$ (90,699)</u> |

Note 4 - Capital Assets

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2023 are as follows:

| | Balance December 31, 2022 | Additions | Transfers and Retirements | Balance December 31, 2023 |
|---|---------------------------------|-------------|------------------------------|---------------------------------|
| Capital Assets Being Depreciated | | | | |
| ADS Building and Improvements | \$ 1,257,519 | \$ 87,044 | \$ - | \$ 1,344,563 |
| ADS Leasehold Improvements | 121,819 | 48,028 | - | 169,847 |
| ADS Equipment | 66,556 | - | (5,460) | 61,096 |
| Total capital assets being depreciated | 1,445,894 | \$ 135,072 | \$ (5,460) | 1,575,506 |
| Less Accumulated Depreciation for | | | | |
| ADS Building and Improvements | (27,430) | \$ (33,181) | \$ - | (60,611) |
| ADS Leasehold Improvements | (108,638) | (3,636) | - | (112,274) |
| ADS Equipment | (66,556) | - | 5,460 | (61,096) |
| Total accumulated depreciation | (202,624) | \$ (36,817) | \$ 5,460 | (233,981) |
| Net ADS capital assets being depreciated | \$ 1,243,270 | | | \$ 1,341,525 |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2023 and 2022

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2022 are as follows:

| | Balance December 31, 2021 | Additions | Transfers and Retirements | Balance December 31, 2022 |
|---|---------------------------------|---------------------|------------------------------|---------------------------------|
| Capital Assets Being Depreciated | | | | |
| District Building and Improvements | \$ 238,350 | \$ - | \$ (238,350) | \$ - |
| Less Accumulated Depreciation | (238,350) | - | 238,350 | - |
| Net District capital assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Capital Assets Not Being Depreciated | | | | |
| ADS Construction in progress | <u>\$ 14,870</u> | <u>\$ -</u> | <u>\$ (14,870)</u> | <u>\$ -</u> |
| Capital Assets Being Depreciated | | | | |
| ADS Building and Improvements | \$ - | \$ 1,242,649 | \$ 14,870 | \$ 1,257,519 |
| ADS Leasehold Improvements | 121,819 | - | - | 121,819 |
| ADS Equipment | 66,556 | - | - | 66,556 |
| Total capital assets being depreciated | <u>188,375</u> | <u>\$ 1,242,649</u> | <u>\$ 14,870</u> | <u>1,445,894</u> |
| Less Accumulated Depreciation for | | | | |
| ADS Building and Improvements | - | \$ (27,430) | \$ - | (27,430) |
| ADS Leasehold Improvements | (104,577) | (4,061) | - | (108,638) |
| ADS Equipment | (62,979) | (3,577) | - | (66,556) |
| Total accumulated depreciation | <u>(167,556)</u> | <u>\$ (35,068)</u> | <u>\$ -</u> | <u>(202,624)</u> |
| Net ADS capital assets being depreciated | <u>\$ 20,819</u> | | | <u>\$ 1,243,270</u> |
| Capital Assets, Net | <u>\$ 35,689</u> | | | <u>\$ 1,243,270</u> |

Note 5 - Lease Receivable

ADS has accrued a lease receivable for one building lease which commenced on June 1, 2023. The receivable for this lease, net of the present value discount, was \$245,450 for the year ended December 31, 2023. Deferred inflows related to these leases were \$263,114 as of December 31, 2023. Interest revenue recognized on these leases was \$0 for the year ended December 31, 2023. The interest rate on the lease is 8.25%, which is the prime rate at the time the lease commenced. Final receipt is expected in fiscal year 2033.

Note 6 - Long-Term Debt

A schedule of changes in ADS' long-term debt for December 31, 2023 is as follows:

| | Balance December 31, 2022 | Additions | Payments | Balance December 31, 2023 | Due Within One Year |
|-----------------------|---------------------------------|-------------|--------------------|---------------------------------|------------------------|
| 5.02% Note Payable | <u>\$ 704,623</u> | <u>\$ -</u> | <u>\$ (24,492)</u> | <u>\$ 680,131</u> | <u>\$ 23,394</u> |

The 5.02% note payable is due in monthly installments of \$4,760, including interest, until March 2027 when the interest rate and monthly payment will reset. The interest rate will be calculated as the Federal Home Loan Bank five-year fixed rate plus 2.75% with a floor of 4.3%. A final balloon payment of all principal and interest is due March 2032. The note is secured by property on North Washington Street.

Scheduled debt service requirements for ADS' long-term debt is as follows:

| <u>Years Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------------|-------------------|-------------------|
| 2024 | \$ 23,394 | \$ 33,722 |
| 2025 | 24,595 | 32,520 |
| 2026 | 25,859 | 31,256 |
| 2027 | 27,187 | 29,928 |
| 2028 | 28,584 | 28,531 |
| 2029-2033 | <u>550,512</u> | <u>82,189</u> |
| | <u>\$ 680,131</u> | <u>\$ 238,146</u> |

Note 7 - Concentration of Credit Risk

ADS grants credit without collateral to its clients, most of which are insured under third party payor agreements. The mix of receivables from third-party payors and clients at December 31, 2023 and 2022 was as follows:

| | <u>2023</u> | <u>2022</u> |
|-------------|--------------------|--------------------|
| Medicaid | 71% | 78% |
| Private Pay | 19% | 10% |
| Other | <u>10%</u> | <u>12%</u> |
| | <u><u>100%</u></u> | <u><u>100%</u></u> |

Note 8 - Commitments and Contingencies

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Professional Liability

The Organization insures for professional liability claims under a claims-made based policy. Under the policy, insurance premiums cover only those claims actually reported during the policy term up to \$2 million of coverage for each occurrence and \$2 million in the aggregate.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from client services.

Note 9 - Presentation of Component Units

The following summarizes combining information for the Organization and ADS, which have been presented as blended component units, as of and for the year ended December 31, 2023.

**Table 1: Assets, Liabilities, and Net Position
December 31, 2023**

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|--|--|-----------------------|--------------------|---------------------|
| Assets | | | | |
| Assets | | | | |
| Current assets | \$ 1,594,160 | \$ 753,289 | \$ (40,256) | \$ 2,307,193 |
| Other assets | 582,272 | 260,932 | (35,682) | 807,522 |
| Capital assets, net | - | 1,341,525 | - | 1,341,525 |
| Total assets | <u>\$ 2,176,432</u> | <u>\$ 2,355,746</u> | <u>\$ (75,938)</u> | <u>\$ 4,456,240</u> |
| Liabilities and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 639,631 | \$ 206,625 | \$ (40,256) | \$ 806,000 |
| Noncurrent liabilities | 35,682 | 656,737 | (35,682) | 656,737 |
| Total liabilities | <u>675,313</u> | <u>863,362</u> | <u>(75,938)</u> | <u>1,462,737</u> |
| Deferred Inflows of Resources | <u>-</u> | <u>263,114</u> | <u>-</u> | <u>263,114</u> |
| Net Position | | | | |
| Net investment in capital assets | - | 661,394 | - | 661,394 |
| Restricted | | | | |
| Expendable - Paul G. & Mabel Richmond Endowment Fund | 582,272 | - | - | 582,272 |
| Expendable - for operating activities | 341,000 | - | - | 341,000 |
| Unrestricted | <u>577,847</u> | <u>567,876</u> | <u>-</u> | <u>1,145,723</u> |
| Total net position | <u>1,501,119</u> | <u>1,229,270</u> | <u>-</u> | <u>2,730,389</u> |
| Total liabilities and net position | <u>\$ 2,176,432</u> | <u>\$ 2,355,746</u> | <u>\$ (75,938)</u> | <u>\$ 4,456,240</u> |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2023 and 2022

**Table 2: Operating Results and Changes in Net Position
Year Ended December 31, 2023**

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|---------------------|
| Operating Revenues | | | | |
| Client service revenue | \$ - | \$ 1,239,884 | \$ - | \$ 1,239,884 |
| Operating Expenses | | | | |
| Depreciation | - | 36,817 | - | 36,817 |
| Other operating expenses | 292,979 | 1,343,185 | - | 1,636,164 |
| Total operating expenses | 292,979 | 1,380,002 | - | 1,672,981 |
| Operating Loss | (292,979) | (140,118) | - | (433,097) |
| Nonoperating Revenues (Expenses), Net | 426,117 | 218,393 | - | 644,510 |
| Revenues in Excess of Expenses and Change in Net Position | 133,138 | 78,275 | - | 211,413 |
| Net Position, Beginning of Year | 1,367,981 | 1,150,995 | - | 2,518,976 |
| Net Position, End of Year | <u>\$ 1,501,119</u> | <u>\$ 1,229,270</u> | <u>\$ -</u> | <u>\$ 2,730,389</u> |

**Table 3: Cash Flows
Year Ended December 31, 2023**

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|-------------------|
| Net Cash Used for Operating Activities | \$ (248,718) | \$ (1,802) | \$ - | \$ (250,520) |
| Net Cash from Noncapital Financing Activities | 1,620,545 | 220,226 | - | 1,840,771 |
| Net Cash from (Used for) Capital and Capital Related Financing Activities | - | (194,428) | - | (194,428) |
| Net Cash from (Used for) Investing Activities | (2,714,079) | 88,171 | - | (2,625,908) |
| Net Change in Cash and Cash Equivalents | (1,342,252) | 112,167 | - | (1,230,085) |
| Cash and Cash Equivalents, Beginning of Year | 1,457,076 | 444,728 | - | 1,901,804 |
| Cash and Cash Equivalents, End of Year | <u>\$ 114,824</u> | <u>\$ 556,895</u> | <u>\$ -</u> | <u>\$ 671,719</u> |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2023 and 2022

The following summarizes combining information for the District and ADS, which have been presented as blended component units, as of and for the year ended December 31, 2022.

**Table 4: Assets, Liabilities, and Net Position
December 31, 2022**

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|--|--|-----------------------|---------------------|---------------------|
| Assets | | | | |
| Assets | | | | |
| Current assets | \$ 1,444,557 | \$ 613,385 | \$ (37,928) | \$ 2,020,014 |
| Other assets | 569,725 | 75,486 | (75,486) | 569,725 |
| Capital assets, net | - | 1,243,270 | - | 1,243,270 |
| Total assets | <u>\$ 2,014,282</u> | <u>\$ 1,932,141</u> | <u>\$ (113,414)</u> | <u>\$ 3,833,009</u> |
| Liabilities and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 570,815 | \$ 98,773 | \$ (37,928) | \$ 631,660 |
| Noncurrent liabilities | 75,486 | 682,373 | (75,486) | 682,373 |
| Total liabilities | <u>646,301</u> | <u>781,146</u> | <u>(113,414)</u> | <u>1,314,033</u> |
| Net Position | | | | |
| Net investment in capital assets | - | 538,647 | - | 538,647 |
| Restricted | | | | |
| Expendable - Paul G. & Mabel Richmond Endowment Fund | 569,725 | - | - | 569,725 |
| Expendable - for operating activities | 341,000 | - | - | 341,000 |
| Unrestricted | 457,256 | 612,348 | - | 1,069,604 |
| Total net position | <u>1,367,981</u> | <u>1,150,995</u> | <u>-</u> | <u>2,518,976</u> |
| Total liabilities and net position | <u>\$ 2,014,282</u> | <u>\$ 1,932,141</u> | <u>\$ (113,414)</u> | <u>\$ 3,833,009</u> |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2023 and 2022

**Table 5: Operating Results and Changes in Net Position
Year Ended December 31, 2022**

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|--------------|
| Operating Revenues | | | | |
| Client service revenue | \$ - | \$ 1,114,398 | \$ - | \$ 1,114,398 |
| Operating Expenses | | | | |
| Depreciation | - | 35,068 | - | 35,068 |
| Other operating expenses | 231,900 | 1,132,824 | - | 1,364,724 |
| Total operating expenses | 231,900 | 1,167,892 | - | 1,399,792 |
| Operating Income (Loss) | (231,900) | (53,494) | - | (285,394) |
| Nonoperating Revenues (Expenses), Net | 316,028 | 19,851 | - | 335,879 |
| Revenues in Excess of (Less Than) Expenses and Change in Net Position | 84,128 | (33,643) | - | 50,485 |
| Net Position, Beginning of Year | 1,283,853 | 1,184,638 | - | 2,468,491 |
| Net Position, End of Year | \$ 1,367,981 | \$ 1,150,995 | \$ - | \$ 2,518,976 |

**Table 6: Cash Flows
Year Ended December 31, 2022**

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|--------------|
| Net Cash Used for Operating Activities | \$ (202,693) | \$ (55,949) | \$ - | \$ (258,642) |
| Net Cash from Noncapital Financing Activities | 1,567,961 | 8,831 | - | 1,576,792 |
| Net Cash from (Used for) Capital and Capital Related Financing Activities | 123,049 | (564,093) | - | (441,044) |
| Net Cash from (Used for) Investing Activities | (1,365,348) | 186,262 | - | (1,179,086) |
| Net Change in Cash and Cash Equivalents | 122,969 | (424,949) | - | (301,980) |
| Cash and Cash Equivalents, Beginning of Year | 1,334,107 | 869,677 | - | 2,203,784 |
| Cash and Cash Equivalents, End of Year | \$ 1,457,076 | \$ 444,728 | \$ - | \$ 1,901,804 |



Supplementary Information
December 31, 2023 and 2022

Kennewick Public Hospital District



Independent Auditor's Report on Supplementary Information

The Board of Commissioners
Kennewick Public Hospital District
Kennewick, Washington

We have audited the financial statements of Kennewick Public Hospital District (Organization) as of and for the years ended December 31, 2023 and 2022, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information is presented for the 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
November 21, 2024

Kennewick Public Hospital District
Combining Statement of Net Position
December 31, 2023

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|---|--|-----------------------|---------------------|--------------------|---------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 108,420 | \$ 556,895 | \$ 665,315 | \$ - | \$ 665,315 |
| Receivables | | | | | |
| Clients, net | - | 135,938 | 135,938 | - | 135,938 |
| Current portion of note receivable | - | 40,256 | 40,256 | (40,256) | - |
| Lease receivable | - | 20,200 | 20,200 | - | 20,200 |
| Property tax | 705 | - | 705 | - | 705 |
| Investments | 1,485,035 | - | 1,485,035 | - | 1,485,035 |
| Total current assets | 1,594,160 | 753,289 | 2,347,449 | (40,256) | 2,307,193 |
| Noncurrent Cash and Investments | | | | | |
| Note receivable, net | - | 35,682 | 35,682 | (35,682) | - |
| Lease receivable | - | 225,250 | 225,250 | - | 225,250 |
| Other long-term investments | 582,272 | - | 582,272 | - | 582,272 |
| Total noncurrent cash and investments | 582,272 | 260,932 | 843,204 | (35,682) | 807,522 |
| Capital Assets | | | | | |
| Depreciable capital assets, net of accumulated depreciation | - | 1,341,525 | 1,341,525 | - | 1,341,525 |
| Total assets | \$ 2,176,432 | \$ 2,355,746 | \$ 4,532,178 | \$ (75,938) | \$ 4,456,240 |
| | | | | | |
| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
| Liabilities and Net Position | | | | | |
| Current Liabilities | | | | | |
| Current maturities of long-term debt | \$ 40,256 | \$ 23,394 | \$ 63,650 | \$ (40,256) | \$ 23,394 |
| Accounts payable | 599,375 | 9,437 | 608,812 | - | 608,812 |
| Accrued expenses | | | | | |
| Salaries | - | 82,484 | 82,484 | - | 82,484 |
| Vacation | - | 38,760 | 38,760 | - | 38,760 |
| Payroll taxes and other | - | 52,550 | 52,550 | - | 52,550 |
| Total current liabilities | 639,631 | 206,625 | 846,256 | (40,256) | 806,000 |
| Long-term Debt, Less Current Maturities | 35,682 | 656,737 | 692,419 | (35,682) | 656,737 |
| Total liabilities | 675,313 | 863,362 | 1,538,675 | (75,938) | 1,462,737 |
| Deferred Inflows of Resources | - | 263,114 | 263,114 | - | 263,114 |
| Net Position | | | | | |
| Net investment in capital assets | - | 661,394 | 661,394 | - | 661,394 |
| Restricted | | | | | |
| Expendable - Paul G. & Mabel Richmond | | | | | |
| Endowment Fund | 582,272 | - | 582,272 | - | 582,272 |
| Expendable - for operating activities | 341,000 | - | 341,000 | - | 341,000 |
| Unrestricted | 577,847 | 567,876 | 1,145,723 | - | 1,145,723 |
| Total net position | 1,501,119 | 1,229,270 | 2,730,389 | - | 2,730,389 |
| Total liabilities and net position | \$ 2,176,432 | \$ 2,355,746 | \$ 4,532,178 | \$ (75,938) | \$ 4,456,240 |

Kennewick Public Hospital District
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2023

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|--|--|-----------------------|--------------|--------------|--------------|
| Operating Revenues | | | | | |
| Client service revenue | \$ - | \$ 1,239,884 | \$ 1,239,884 | \$ - | \$ 1,239,884 |
| Operating Expenses | | | | | |
| Salaries and wages | - | 753,348 | 753,348 | - | 753,348 |
| Employee benefits | - | 249,294 | 249,294 | - | 249,294 |
| Professional fees | 89,229 | 35,292 | 124,521 | - | 124,521 |
| Supplies | - | 125,159 | 125,159 | - | 125,159 |
| Purchased services, utilities | 560 | 26,555 | 27,115 | - | 27,115 |
| Purchased services, other | 90,382 | 40,466 | 130,848 | - | 130,848 |
| Insurance | 14,294 | 22,405 | 36,699 | - | 36,699 |
| Transportation | 640 | 23,764 | 24,404 | - | 24,404 |
| Other | 30,838 | 66,902 | 97,740 | - | 97,740 |
| Public election | 67,036 | - | 67,036 | - | 67,036 |
| Depreciation | - | 36,817 | 36,817 | - | 36,817 |
| Total operating expenses | 292,979 | 1,380,002 | 1,672,981 | - | 1,672,981 |
| Operating Loss | (292,979) | (140,118) | (433,097) | - | (433,097) |
| Nonoperating Revenues (Expenses) | | | | | |
| Property taxes | 1,612,182 | - | 1,612,182 | - | 1,612,182 |
| Investment income (loss) | 104,421 | 13,419 | 117,840 | (6,414) | 111,426 |
| Noncapital contributions and donations | - | 23,234 | 23,234 | - | 23,234 |
| Community Service Payment to RCCH Trios | (1,292,435) | - | (1,292,435) | - | (1,292,435) |
| Interest expense | (6,414) | (34,864) | (41,278) | 6,414 | (34,864) |
| Employee retention credit | - | 196,992 | 196,992 | - | 196,992 |
| Rental income | - | 19,612 | 19,612 | - | 19,612 |
| Other income | 8,363 | - | 8,363 | - | 8,363 |
| Nonoperating revenues (expenses), net | 426,117 | 218,393 | 644,510 | - | 644,510 |
| Revenues in Excess of Expenses and Change in Net Position | 133,138 | 78,275 | 211,413 | - | 211,413 |
| Net Position, Beginning of Year | 1,367,981 | 1,150,995 | 2,518,976 | - | 2,518,976 |
| Net Position, End of Year | \$ 1,501,119 | \$ 1,229,270 | \$ 2,730,389 | \$ - | \$ 2,730,389 |

Kennewick Public Hospital District
Combining Statement of Net Position
December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|---|--|-----------------------|---------------------|---------------------|---------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 1,443,852 | \$ 444,728 | \$ 1,888,580 | \$ - | \$ 1,888,580 |
| Receivables | | | | | |
| Clients, net | - | 130,729 | 130,729 | - | 130,729 |
| Current portion of note receivable | - | 37,928 | 37,928 | (37,928) | - |
| Property tax | 705 | - | 705 | - | 705 |
| Total current assets | 1,444,557 | 613,385 | 2,057,942 | (37,928) | 2,020,014 |
| Noncurrent Cash and Investments | | | | | |
| Note receivable, net | - | 75,486 | 75,486 | (75,486) | - |
| Other long-term investments | 569,725 | - | 569,725 | - | 569,725 |
| Total noncurrent cash and investments | 569,725 | 75,486 | 645,211 | (75,486) | 569,725 |
| Capital Assets | | | | | |
| Depreciable capital assets, net of accumulated depreciation | - | 1,243,270 | 1,243,270 | - | 1,243,270 |
| Total assets | \$ 2,014,282 | \$ 1,932,141 | \$ 3,946,423 | \$ (113,414) | \$ 3,833,009 |
| | | | | | |
| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
| Liabilities and Net Position | | | | | |
| Current Liabilities | | | | | |
| Current maturities of long-term debt | \$ 37,928 | \$ 22,250 | \$ 60,178 | \$ (37,928) | \$ 22,250 |
| Accounts payable | 532,887 | 8,688 | 541,575 | - | 541,575 |
| Accrued expenses | | | | | |
| Vacation | - | 45,123 | 45,123 | - | 45,123 |
| Payroll taxes and other | - | 22,712 | 22,712 | - | 22,712 |
| Total current liabilities | 570,815 | 98,773 | 669,588 | (37,928) | 631,660 |
| Long-term Debt, Less Current Maturities | 75,486 | 682,373 | 757,859 | (75,486) | 682,373 |
| Total liabilities | 646,301 | 781,146 | 1,427,447 | (113,414) | 1,314,033 |
| Net Position | | | | | |
| Net investment in capital assets | - | 538,647 | 538,647 | - | 538,647 |
| Restricted | | | | | |
| Expendable - Paul G. & Mabel Richmond | | | | | |
| Endowment Fund | 569,725 | - | 569,725 | - | 569,725 |
| Expendable - for operating activities | 341,000 | - | 341,000 | - | 341,000 |
| Unrestricted | 457,256 | 612,348 | 1,069,604 | - | 1,069,604 |
| Total net position | 1,367,981 | 1,150,995 | 2,518,976 | - | 2,518,976 |
| Total liabilities and net position | \$ 2,014,282 | \$ 1,932,141 | \$ 3,946,423 | \$ (113,414) | \$ 3,833,009 |

Kennewick Public Hospital District
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|--|--|-----------------------|--------------|--------------|--------------|
| Operating Revenues | | | | | |
| Client service revenue | \$ - | \$ 1,114,398 | \$ 1,114,398 | \$ - | \$ 1,114,398 |
| Operating Expenses | | | | | |
| Salaries and wages | - | 648,070 | 648,070 | - | 648,070 |
| Employee benefits | - | 197,438 | 197,438 | - | 197,438 |
| Professional fees | 82,441 | 22,186 | 104,627 | - | 104,627 |
| Supplies | 15 | 114,919 | 114,934 | - | 114,934 |
| Purchased services, utilities | 1,450 | 16,655 | 18,105 | - | 18,105 |
| Purchased services, other | 89,757 | 35,511 | 125,268 | - | 125,268 |
| Insurance | 15,056 | 31,544 | 46,600 | - | 46,600 |
| Rent | 1,652 | 6,493 | 8,145 | - | 8,145 |
| Transportation | - | 18,639 | 18,639 | - | 18,639 |
| Other | 26,873 | 41,369 | 68,242 | - | 68,242 |
| Public election | 14,656 | - | 14,656 | - | 14,656 |
| Depreciation | - | 35,068 | 35,068 | - | 35,068 |
| Total operating expenses | 231,900 | 1,167,892 | 1,399,792 | - | 1,399,792 |
| Operating Loss | (231,900) | (53,494) | (285,394) | - | (285,394) |
| Nonoperating Revenues (Expenses) | | | | | |
| Property taxes | 1,558,962 | - | 1,558,962 | - | 1,558,962 |
| Investment income | (112,504) | 37,087 | (75,417) | (15,282) | (90,699) |
| Noncapital contributions and donations | - | 8,831 | 8,831 | - | 8,831 |
| Community Service Payment to RCCH Trios | (1,247,196) | - | (1,247,196) | - | (1,247,196) |
| Interest expense | (15,282) | (26,067) | (41,349) | 15,282 | (26,067) |
| Gain on sale of capital assets | 123,049 | - | 123,049 | - | 123,049 |
| Other income | 8,999 | - | 8,999 | - | 8,999 |
| Nonoperating revenues (expenses), net | 316,028 | 19,851 | 335,879 | - | 335,879 |
| Revenues in Excess of (Less Than) Expenses and Change in Net Position | 84,128 | (33,643) | 50,485 | - | 50,485 |
| Net Position, Beginning of Year | 1,283,853 | 1,184,638 | 2,468,491 | - | 2,468,491 |
| Net Position, End of year | \$ 1,367,981 | \$ 1,150,995 | \$ 2,518,976 | \$ - | \$ 2,518,976 |



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*

The Board of Commissioners
Kennewick Public Hospital District
Kennewick, 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 Kennewick Public Hospital District (Organization) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated November 21, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as the 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001, 2023-002, and 2023-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is reported as Compliance Finding 2023-004 in the accompanying Schedule of Findings and Responses.

The Organization's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified and described in the accompanying Schedule of Findings and Responses. The Organization's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
November 21, 2024

Financial Statement Findings

| | |
|---------------------------------------|---|
| 2023-001 | Preparation of Financial Statements Material Weakness in Internal Control over Financial Reporting |
| <i>Criteria</i> | A properly designed system of internal control over financial reporting includes preparation of an entity's financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). |
| <i>Condition</i> | The Organization does not have an internal control system designed to provide for the preparation of financial statements being audited, including related disclosures and preparation of the cash flow statement in accordance with GAAP. |
| <i>Cause</i> | This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by the auditors as part of the audit. |
| <i>Effect</i> | This control deficiency could result in required information being omitted from the financial statements. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. |
| <i>Recommendation</i> | We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |
| 2023-002 | Audit Adjustments Material Weakness in Internal Control over Financial Reporting |
| <i>Criteria</i> | A good system of internal control contemplates an adequate system for recording and processing adjusting journal entries material to the financial statements. |
| <i>Condition</i> | As part of our audit, we proposed significant audit adjustments to the financial statements, including accounts that were not reconciled at year end, that were not identified by management as a result of the Organization's existing internal controls. |

| | |
|---------------------------------------|---|
| <i>Cause</i> | A proper reconciliation between the Organization's general ledger and subsidiary accounts was not performed on multiple accounts resulting in material audit adjustments. |
| <i>Effect</i> | The deficiency resulted in misstatements to the financial statements that were not prevented, or detected and corrected, by internal personnel in a timely manner. |
| <i>Recommendation</i> | We recommend that management reflect all entries in the financial statements to ensure that the Board of Commissioners has all relevant information. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |

**2023-003 Limited Segregation of Duties
Material Weakness in Internal Control over Financial Reporting**

| | |
|---------------------------------------|---|
| <i>Criteria</i> | In order to achieve a high level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for assets should be performed by different employees or be maintained under dual control. |
| <i>Condition</i> | The District and ADS do not have an internal control system to allow for proper segregation of duties in certain areas of the accounting function. |
| <i>Cause</i> | The District has no employees and therefore, has the accounting function completed by an outside accountant. ADS has a limited number of employees that perform multiple accounting functions. |
| <i>Effect</i> | Inadequate segregation of duties could adversely affect ADS and the 's ability to detect and correct misstatements in a timely period in the normal course of performing the accounting function. |
| <i>Recommendation</i> | While we recognize that the nature of the Organization's operations after the sale to RCCH is such that optimal internal control can likely not be achieved, it is important that the Organization is aware of this condition. Under this condition, the most effective control is the Board of Commissioners' oversight and knowledge of matters relating to the operations of the District and ADS. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |

Compliance Finding

**2023-004 Proper Collateralization
Noncompliance**

| | |
|---------------------------------------|---|
| <i>Criteria</i> | The Organization is required to maintain proper collateralization of deposits in qualified public depositories, as determined by the Revised Code of Washington, Chapter 39, that are not covered under the Federal Deposit Insurance Corporation (FDIC). |
| <i>Condition</i> | The Organization's deposits were not properly collateralized at December 31, 2023 with approximately \$338,000 in excess of FDIC limits and potentially at risk. |
| <i>Cause</i> | The Organization did not maintain a proper agreement with the depositories to maintain proper collateralization. |
| <i>Effect</i> | The Organization was not in compliance with being properly collateralized. If the depository were to fail, the Organization risks losing their deposits. |
| <i>Recommendation</i> | We recommend that management implement policies and procedures to ensure the Organization's deposits are properly collateralized. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |



Financial Statements
December 31, 2022 and 2021
Kennewick Public Hospital District

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 4 |
| Financial Statements | |
| Statements of Net Position - Assets | 9 |
| Statements of Net Position - Liabilities and Net Position | 10 |
| Statements of Revenues, Expenses and Changes in Net Position | 11 |
| Statements of Cash Flows | 12 |
| Notes to Financial Statements | 14 |
| Supplementary Information | |
| Independent Auditor's Report on Supplementary Information | 30 |
| Combining Statement of Net Position, December 31, 2022 | 31 |
| Combining Statement of Revenues, Expenses, and Changes in Net Position, Year Ended December 31, 2022 | 32 |
| Combining Statement of Net Position, December 31, 2021 | 33 |
| Combining Statement of Revenues, Expenses, and Changes in Net Position, Year Ended December 31, 2021 | 34 |
| 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 | 35 |
| Schedule of Findings and Responses | 37 |



Independent Auditor's Report

The Board of Commissioners
Kennewick Public Hospital District
Kennewick, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kennewick Public Hospital District (the Organization) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization as of December 31, 2022 and 2021, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 Organization'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 Organization's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2023, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely 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 Organization'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 Organization's internal control over financial reporting and compliance.

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

Fargo, North Dakota
July 20, 2023

Our discussion and analysis for Kennewick Public Hospital District (Organization) provides an overview of the Organization's financial activities for the fiscal years ended December 31, 2022, 2021, and 2020. Please read it in conjunction with the Organization's financial statements, which begin on page 9.

Financial Highlights

- The Organization's net position increased by \$50,485 or 2.0% in 2022 and \$621,265 or 33.6% in 2021.
- The Organization had an operating loss of \$285,394 in 2022 and \$195,674 in 2021.
- Total operating revenues increased by \$179,145 or 19.2% in 2022 and decreased \$110,462 or (10.6%) in 2021.
- Operating expenses increased \$268,865 or 23.8% in 2022 and decreased \$14,176 or (1.2%) in 2021.
- Nonoperating revenues decreased by \$481,060 in 2022 and increased by \$71,695 in 2021.

Using This Annual Report

The Organization's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Organization including resources held by the Organization but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Organization's finances is, "Is the Organization, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Change in Net Position report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Organization's net position and changes in them. You can think of the Organization's net position, the difference between assets, deferred outflow of resources, liabilities, and deferred inflow of resources as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Organization's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Organization.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing and capital and related financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The Organization's Net Position

The Organization's net position is the difference between its assets and liabilities in the Statement of Net Position on pages 9 and 10. The Organization's net position increased by \$50,485 in 2022; \$621,265 in 2021; and \$645,856 in 2020.

Table 1: Assets, Liabilities, and Net Position

| | 2022 | 2021 | 2020 |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$ 2,020,014 | \$ 2,275,993 | \$ 1,827,889 |
| Capital assets, net | 1,243,270 | 35,689 | - |
| Other noncurrent assets | 569,725 | 710,231 | 824,174 |
| Total assets | \$ 3,833,009 | \$ 3,021,913 | \$ 2,652,063 |
| Liabilities | | | |
| Long-term debt | \$ 704,623 | \$ - | \$ 105,261 |
| Other current liabilities | 609,410 | 553,422 | 554,597 |
| Other long-term liabilities | - | - | 144,979 |
| Total liabilities | 1,314,033 | 553,422 | 804,837 |
| Net Position | | | |
| Net investment in capital assets | 538,647 | 35,689 | - |
| Restricted | | | |
| Expendable - Paul G. & Mabel Richmond | | | |
| Endowment Fund | 569,725 | 710,231 | 679,195 |
| Expendable - for operating activities | 341,000 | 341,000 | - |
| Unrestricted | 1,069,604 | 1,381,571 | 1,168,031 |
| Total net position | 2,518,976 | 2,468,491 | 1,847,226 |
| Total liabilities and net position | \$ 3,833,009 | \$ 3,021,913 | \$ 2,652,063 |

Operating Results and Changes in the Organization's Net Position

The following table highlights the Organization's operations and changes in net position. The Organization had operating losses of \$285,394 in 2022; \$195,674 in 2021; and \$99,388 in 2020.

Table 2: Operating Results and Changes in Net Position

| | 2022 | 2021 | 2020 |
|---|--------------|--------------|--------------|
| Operating Revenues | | | |
| Client service revenue | \$ 1,114,398 | \$ 935,253 | \$ 1,045,715 |
| Operating Expenses | | | |
| Salaries, wages, and employee benefits | 845,508 | 689,777 | 649,967 |
| Supplies and other | 271,216 | 240,171 | 220,736 |
| Professional fees and purchased services | 248,000 | 200,261 | 271,062 |
| Depreciation | 35,068 | 718 | 3,338 |
| Total operating expenses | 1,399,792 | 1,130,927 | 1,145,103 |
| Operating Loss | (285,394) | (195,674) | (99,388) |
| Nonoperating Revenues (Expenses) | | | |
| Property taxes | 1,558,962 | 1,493,365 | 1,457,309 |
| Investment income (loss) | (90,699) | 66,615 | 33,312 |
| Noncapital contributions and donations | 8,831 | 22,385 | 5,889 |
| Community Service Payment to RCCH Trios | (1,247,196) | (1,213,468) | (1,095,991) |
| Interest expense | (26,067) | - | - |
| Gain on sale of capital assets | 123,049 | - | - |
| Donations | - | 341,000 | - |
| Gain on forgiveness of Paycheck Protection Program (PPP) Loan | - | 105,261 | - |
| Gain on sale of interest in Tri-Cities Cancer Center | - | - | 341,000 |
| Other income | 8,999 | 1,781 | 3,725 |
| Nonoperating revenues, net | 335,879 | 816,939 | 745,244 |
| Revenues in Excess of Expenses and Changes in Net Position | 50,485 | 621,265 | 645,856 |
| Net Position, Beginning of Year | 2,468,491 | 1,847,226 | 1,201,370 |
| Net Position, End of Year | \$ 2,518,976 | \$ 2,468,491 | \$ 1,847,226 |

The Organization's financial statements include the accounts of Kennewick Public Hospital District (District) and its blended component unit Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities (ADS). The following is a discussion and analysis by entity.

Kennewick Public Hospital District

The District remains a valuable organization for funding and addressing unmet healthcare gaps within the community. The District improves healthcare in the community and addresses unmet needs through services, education, and collaboration. The District is committed to collaborating to fill gaps from birth through elder care, supporting area health organizations, and furthering community wellness through education and outreach.

The District has no income from operations and no employees. As such, the primary source of income is tax revenue from property taxes paid to the Benton County Treasurer. Property taxes recognized as revenue for the year ended December 31, 2022 was \$1,558,962, which is an increase of \$65,597 or 4.4% from \$1,493,365 recognized for the year ended December 31, 2021. Property taxes recognized for the year ended December 31, 2020 was \$1,457,309. The increase is the result of an annual 1.0% rate increase approved by the Board of Commissioners and increased tax revenue from increased property valuations and new construction. The District is required to remit 80% of the property taxes collected to RCCH Trios as part of the Community Care Agreement. The amounts remitted to RCCH Trios for the years ended December 31, 2022, 2021 and 2020 were \$1,247,196; \$1,213,468; and \$1,095,991.

Other income to the District is mostly in the form of donations and income from the Endowment Fund. The income from the Endowment Fund is a set 5.0% of the fund balance annually and fluctuates according to financial markets. Investment income (loss) for the years ended December 31, 2022, 2021 and 2020 were (\$112,504); \$58,823; and \$32,547. During the year ended December 31, 2022, the District sold an office building and recorded a gain on sale of capital assets in the amount of \$123,049. During the year ended December 31, 2021, the District received a donation of \$341,000 restricted for operating activities. During the year ended December 31, 2020, the District sold its interest in Tri-Cities Cancer Center and recorded a gain on sale of \$341,000.

Benton Franklin Elder Services doing business as Adult Day Services of the Tri-Cities (ADS)

Client service revenue for the year ended December 31, 2022 was \$1,114,398, an increase of \$179,145 or 19.2% from December 31, 2021. Client service revenue for the year ended December 31, 2021 was \$935,253, a decrease of \$110,462 or (10.6%) from \$1,045,715 recorded for the year ended December 31, 2020. Due to the COVID-19 pandemic in 2020, census levels decreased when there were more restrictions on being in groups. Census levels for 2022 have increased to pre-pandemic levels.

Salaries, wages, and employee benefits is the largest expense and were as follows for the years ended December 31, 2022, 2021 and 2020, \$845,508; \$689,777; and \$649,967. The increase in salaries, wages, and employee benefits were due to a salary increase of approximately 5% and an increase in full-time equivalents (FTE) of approximately two during the year ended December 31, 2022. The increase in salaries, wages, and employee benefits were due to a salary increase of approximately 4% and an increase in full-time equivalents (FTE) of approximately .75 during the year ended December 31, 2021.

ADS purchased a building for \$1,182,085 during 2022 with a \$720,000 note payable and the remaining amount was paid with cash from operations. The note payable is due in monthly installments for \$4,760, including interest, through March 2027 when the interest rate will reset (see Note 6).

Due to the COVID-19 pandemic, ADS received a Paycheck Protection Program (PPP) Loan in the amount of \$105,261 in August 2020. During the year-ended December 31, 2021, ADS received full forgiveness of the PPP Loan and recognized loan forgiveness in the amount of \$105,261.

Contacting the Organization's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional information, contact the Kennewick Public Hospital District at 509-579-4405.

Kennewick Public Hospital District
Statements of Net Position - Assets
December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,888,580 | \$ 2,194,502 |
| Receivables | | |
| Client, net of estimated uncollectibles | | |
| of \$14,500 in 2022 and 2021 | 130,729 | 80,140 |
| Property tax | 705 | 705 |
| Prepaid expenses | - | 646 |
| Total current assets | <u>2,020,014</u> | <u>2,275,993</u> |
| Noncurrent Cash and Investments | | |
| Other long-term investments | <u>569,725</u> | <u>710,231</u> |
| Capital Assets | | |
| Capital assets not being depreciated | - | 14,870 |
| Depreciable capital assets, net of accumulated depreciation | <u>1,243,270</u> | <u>20,819</u> |
| Total capital assets | <u>1,243,270</u> | <u>35,689</u> |
| Total assets | <u><u>\$ 3,833,009</u></u> | <u><u>\$ 3,021,913</u></u> |

Kennewick Public Hospital District
Statements of Net Position - Liabilities and Net Position
December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|----------------------------|----------------------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 22,250 | \$ - |
| Accounts payable | 541,575 | 501,327 |
| Accrued expenses | | |
| Vacation | 45,123 | 45,081 |
| Payroll taxes and other | <u>22,712</u> | <u>7,014</u> |
| Total current liabilities | 631,660 | 553,422 |
| Long-Term Debt, Less Current Maturities | <u>682,373</u> | <u>-</u> |
| Total liabilities | <u>1,314,033</u> | <u>553,422</u> |
| Net Position | | |
| Net investment in capital assets | 538,647 | 35,689 |
| Restricted | | |
| Expendable - Paul G. & Mabel Richmond Endowment Fund | 569,725 | 710,231 |
| Expendable - for operating activities | 341,000 | 341,000 |
| Unrestricted | <u>1,069,604</u> | <u>1,381,571</u> |
| Total net position | <u>2,518,976</u> | <u>2,468,491</u> |
| Total liabilities and net position | <u><u>\$ 3,833,009</u></u> | <u><u>\$ 3,021,913</u></u> |

Kennewick Public Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Operating Revenues | | |
| Client service revenue | \$ 1,114,398 | \$ 935,253 |
| Operating Expenses | | |
| Salaries and wages | 648,070 | 516,022 |
| Employee benefits | 197,438 | 173,755 |
| Professional fees | 104,627 | 85,842 |
| Supplies | 114,934 | 49,411 |
| Purchased services, utilities | 18,105 | 15,693 |
| Purchased services, other | 125,268 | 98,726 |
| Insurance | 46,600 | 34,354 |
| Rent | 8,145 | 72,644 |
| Transportation | 18,639 | 4,150 |
| Other | 68,242 | 45,489 |
| Public election | 14,656 | 34,123 |
| Depreciation | 35,068 | 718 |
| Total operating expenses | <u>1,399,792</u> | <u>1,130,927</u> |
| Operating Loss | <u>(285,394)</u> | <u>(195,674)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property taxes | 1,558,962 | 1,493,365 |
| Investment income (loss) | (90,699) | 66,615 |
| Noncapital contributions and donations | 8,831 | 22,385 |
| Community Service Payment to RCCH Trios | (1,247,196) | (1,213,468) |
| Interest expense | (26,067) | - |
| Gain on sale of capital assets | 123,049 | - |
| Donation | - | 341,000 |
| Gain on forgiveness of Paycheck Protection Program (PPP) loan | - | 105,261 |
| Other income | 8,999 | 1,781 |
| Nonoperating revenues, net | <u>335,879</u> | <u>816,939</u> |
| Revenues in Excess of Expenses and Change in Net Position | 50,485 | 621,265 |
| Net Position, Beginning of Year | <u>2,468,491</u> | <u>1,847,226</u> |
| Net Position, End of Year | <u>\$ 2,518,976</u> | <u>\$ 2,468,491</u> |

Kennewick Public Hospital District
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Operating Activities | | |
| Receipts from and on behalf of clients | \$ 1,063,809 | \$ 953,144 |
| Payments to suppliers and contractors | (492,683) | (432,843) |
| Payments to or on behalf of employees | (829,768) | (672,663) |
| Net Cash Used for Operating Activities | <u>(258,642)</u> | <u>(152,362)</u> |
| Noncapital Financing Activities | | |
| Noncapital contributions and donations for grant | 8,831 | 363,385 |
| Other income | 8,999 | 1,781 |
| Property taxes | 1,558,962 | 1,501,023 |
| Payment to Kennewick Liquidation Trust | - | (144,979) |
| Net Cash from Noncapital Financing Activities | <u>1,576,792</u> | <u>1,721,210</u> |
| Capital and Capital Related Financing Activities | | |
| Proceeds from issuance of long-term debt | 720,000 | - |
| Payments on long-term debt | (15,377) | - |
| Interest paid | (26,067) | - |
| Proceeds from disposal of capital assets | 123,049 | - |
| Purchase of capital assets | (1,242,649) | (36,407) |
| Net Cash Used for Capital and Capital Related Financing Activities | <u>(441,044)</u> | <u>(36,407)</u> |
| Investing Activities | | |
| Investment income (loss) | 49,808 | 66,615 |
| Community Service Payment to RCCH Trios | (1,232,835) | (1,212,505) |
| Proceeds from (purchase of) investments | 3,941 | (33,485) |
| Net Cash Used for Investing Activities | <u>(1,179,086)</u> | <u>(1,179,375)</u> |
| Net Change in Cash and Cash Equivalents | (301,980) | 353,066 |
| Cash and Cash Equivalents, Beginning of Year | <u>2,203,784</u> | <u>1,850,718</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,901,804</u> | <u>\$ 2,203,784</u> |

Kennewick Public Hospital District
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Cash and cash equivalents in current assets | \$ 1,888,580 | \$ 2,194,502 |
| Cash and cash equivalents in noncurrent cash and investments | <u>13,224</u> | <u>9,282</u> |
| Total cash and cash equivalents | <u>\$ 1,901,804</u> | <u>\$ 2,203,784</u> |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | | |
| Operating loss | \$ (285,394) | \$ (195,674) |
| Adjustments to reconcile operating loss to net cash used for operating activities | | |
| Depreciation and amortization | 35,068 | 718 |
| Changes in assets and liabilities | | |
| Receivables | | |
| Client receivables | (50,589) | 17,891 |
| Other | - | 25,000 |
| Prepaid expenses | 646 | 1,841 |
| Accounts payable | 25,887 | (19,252) |
| Accrued expenses | <u>15,740</u> | <u>17,114</u> |
| Net Cash Used for Operating Activities | <u>\$ (258,642)</u> | <u>\$ (152,362)</u> |
| Supplemental Disclosure of Noncash Activities | | |
| Gain on forgiveness of Paycheck Protection Program (PPP) loan | <u>\$ -</u> | <u>\$ 105,261</u> |

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Kennewick Public Hospital District (District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

The District operates under the laws of the State of Washington for Washington municipal corporations. It was created in 1949 by the voters of Benton County to operate, control, and manage all matters concerning the County's health care functions.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government.

Blended Component Units

Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities (ADS), has been determined to be a component unit and is presented as a blended component unit in the District's financial statements.

Collectively, the District and ADS will be referred to as the Organization.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Organization's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/ components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the construction or improvement of those assets or the related debt obligations.

Restricted net position:

Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the Organization.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Organization's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include deposits and highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statements of cash flows, the Organization considers all cash and highly liquid investments as cash and cash equivalents.

Client Receivables

ADS receivables are uncollateralized client and third party-payor obligations. Payments of client receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

At December 31, 2022 and 2021, client receivables consist of receivables from clients of ADS.

Noncurrent Cash and Investments

Noncurrent cash and investments consist of other long-term investments.

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the State of Washington investment pool; savings accounts in qualified public depositories; and certain other investments. The Organization's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Government Treasury securities, or investments with the Washington State Local Government Investment Pool. The Organization has elected to be their own treasurer.

Other long-term investments include the assets of the Paul G. and Mabel Richmond Endowment Trust (Trust). The Trust was gifted to the Organization to support the Organization's mission and is managed by an outside trustee. As a result, the funds are not subject to the Revised Code of Washington, Chapter 39 as discussed above. The balance in the Trust as of December 31, 2022 and 2021 was \$569,725 and \$710,231, respectively.

Investment Income (Loss)

Interest, dividends, gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenues when earned.

Capital Assets

Capital asset acquisitions in excess of \$1,500 for the year ended December 31, 2022 and \$500 for the years prior to December 31, 2022 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Building and equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the building or equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

| | |
|----------------------------|----------------|
| Land Improvements | 15 to 20 years |
| Buildings and Improvements | 20 to 40 years |
| Leasehold Improvements | 5 to 30 years |
| Equipment | 5 to 20 years |

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Compensated Absences

ADS' employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued expenses in the accompanying financial statements.

Operating Revenues and Expenses

The Organization's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Organization result from exchange transactions associated with providing health care services and operating the Organization – the Organization's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Client Service Revenue

ADS has agreements with third-party payors that provide for payments to ADS at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Client service revenue is reported at the estimated net realizable amounts from clients, third-party payors, and others for services rendered.

Grants and Contributions

The Organization may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, 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 for capital acquisitions are reported after revenues in excess of expenses.

Property Taxes

Property taxes are levied by the County on the District's behalf. The property taxes are intended to finance the District's activities of the same calendar year. Property taxes are recognized as revenue when received and are used for operations.

| | | |
|-----------|---|-------------------------|
| Levy date | – | January 1 |
| Lien date | – | May 1 |
| Due dates | – | April 30 and October 31 |

Community Service Payment to RCCH Trios

The District had entered into a Master Asset Purchase Agreement (Purchase Agreement) with RCCH Trios shortly after the Bankruptcy Court approved the Chapter 9 Plan of Adjustment on June 20, 2018. As part of this plan, the District will continue operations, which will consist primarily of the property tax mill levy. The mill levy is \$0.13 per \$1,000 of assessed property value. As part of the purchase agreement, the District shall pay RCCH Trios the "Community Service Payment." The Community Service Payment is defined as a percentage of the current year property tax less the permitted expenses. The Community Service Payment to RCCH was \$1,247,196 and \$1,213,468 for the years ended December 31, 2022 and 2021, respectively.

Subsequent Events

Subsequent events have been evaluated through July 20, 2023, the date the financial statements were available to be issued.

Note 2 - Client Service Revenue

ADS has agreements with third-party payors that provide for payments to ADS at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicaid. Routine services rendered to ADS clients, who are beneficiaries of the Medicaid program, are paid according to a schedule of prospectively determined daily rates determined by Washington's Medicaid Program.

Other. ADS has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to ADS under these agreements includes discounts from charges, prospectively determined rates per discharge, and prospectively determined daily rates.

Concentrations of net revenues by major payor accounted for the following percentages of ADS' client service revenues for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|-------------|-------------|-------------|
| Medicaid | 79% | 82% |
| Private Pay | 10% | 12% |
| Other | 11% | 6% |
| | <u>100%</u> | <u>100%</u> |

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2022 and 2021 are as follows:

| | <u>2022</u> | <u>2021</u> |
|-----------------|---------------------|---------------------|
| Carrying Amount | | |
| Deposits | \$ 1,901,725 | \$ 2,203,784 |
| Investments | <u>556,501</u> | <u>700,949</u> |
| | <u>\$ 2,458,226</u> | <u>\$ 2,904,733</u> |

Deposits and investments are reported in the following statement of net position captions:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 1,888,580 | \$ 2,194,502 |
| Other Long-term Investments | <u>569,725</u> | <u>710,231</u> |
| | <u>\$ 2,458,305</u> | <u>\$ 2,904,733</u> |

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Organization's deposits may not be returned to it. The Organization has a general investment policy to minimize custodial credit risk.

The Organization had bank balances at December 31, 2022 and 2021 as follows:

| | <u>2022</u> | <u>2021</u> |
|------------------|---------------------|---------------------|
| Insured (FDIC) | \$ 512,357 | \$ 520,372 |
| Uncollateralized | <u>732,389</u> | <u>1,088,752</u> |
| Total | <u>\$ 1,244,746</u> | <u>\$ 1,609,124</u> |
| Carrying Value | <u>\$ 1,901,725</u> | <u>\$ 2,203,784</u> |

At December 31, 2022 and 2021, the Organization's deposits were not properly collateralized with approximately \$732,000 and \$1,089,000 in excess of the Federal Deposit Insurance Corporation (FDIC) limits and potentially at risk.

Investments

The Organization's investments are reported at fair value. The Organization is authorized by statute to invest funds in federal, state or local government bonds and in commercial paper. The investments held under the Paul G. and Mabel Richmond Endowment Fund are held and administered by a third party which provides the funds to be invested in equities outside of the state statute requirements imposed on the Organization. The Organization does not participate, and is prohibited to participate by the statute, in any way with the investment of the funds included in the trust. The Organization receives 5% per year of the balance at year end from the trust which is the minimum required for charitable trusts.

The Organization had the following investments and maturities at December 31, 2022:

| Investment Type | Carrying Amount | Rating | Investment Maturities (in Years) | | |
|-----------------|-------------------|--------|----------------------------------|-------------|--------------|
| | | | 0-5 | 6-10 | More Than 10 |
| Mutual Funds | | | | | |
| Fixed income | \$ 217,043 | N/A | \$ 217,043 | \$ - | \$ - |
| Equities | 339,458 | N/A | 339,458 | - | - |
| Total | <u>\$ 556,501</u> | | <u>\$ 556,501</u> | <u>\$ -</u> | <u>\$ -</u> |

The Organization had the following investments and maturities at December 31, 2021:

| Investment Type | Carrying Amount | Rating | Investment Maturities (in Years) | | |
|-----------------|-------------------|--------|----------------------------------|-------------|--------------|
| | | | 0-5 | 6-10 | More Than 10 |
| Mutual Funds | | | | | |
| Fixed income | \$ 259,000 | N/A | \$ 259,000 | \$ - | \$ - |
| Equities | 441,949 | N/A | 441,949 | - | - |
| Total | <u>\$ 700,949</u> | | <u>\$ 700,949</u> | <u>\$ -</u> | <u>\$ -</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. State statutes limit the investment in commercial paper to maturities not to exceed 180 days. The Organization's investment policy currently does not contain a provision that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Organization will match investment maturities with anticipated cash flow requirements and investments shall not be committed for more than one year without the advance approval of the Finance and Audit Committee.

Credit Risk

The Organization's investment policy and State statutes limit investments in state or local government bonds to bonds with one of the three highest credit ratings of a nationally recognized rating agency and the investment in commercial paper to those with the highest short-term credit rating of any two nationally recognized statistical rating organizations. The Organization's investment policy currently does not contain a specific provision that further limits credit risk.

Concentration of Credit Risk

The Organization will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Organization places a limit that the amount that may be invested with any one bank or institution may not exceed 30%. If the maximum limit of 30% would require splitting a fund, then this can be waived by the Finance and Audit Committee.

Investment Income

Investment income on cash equivalents, investments, and notes receivable consists of the following for the years ended December 31, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|--|--------------------|------------------|
| Nonoperating Income | | |
| Interest income and realized gains and losses | \$ 49,808 | \$ 35,579 |
| Change in unrealized gains and losses on investments | <u>(140,507)</u> | <u>31,036</u> |
| | <u>\$ (90,699)</u> | <u>\$ 66,615</u> |

Note 4 - Paycheck Protection Program (PPP) Loan

ADS was granted a \$105,261 loan in 2020 under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. ADS had recorded a note payable and recorded the forgiveness upon being legally released from the loan obligation by the SBA and lender. Forgiveness income of \$105,261 has been recorded in non-operating revenues for the year ended December 31, 2021.

Note 5 - Capital Assets

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2022 are as follows:

| | Balance December 31, 2021 | Additions | Transfers and Retirements | Balance December 31, 2022 |
|---|---------------------------------|---------------------|------------------------------|---------------------------------|
| Capital Assets Being Depreciated | | | | |
| District Building and Improvements | \$ 238,350 | \$ - | \$ (238,350) | \$ - |
| Less Accumulated Depreciation | <u>(238,350)</u> | <u>-</u> | <u>238,350</u> | <u>-</u> |
| Net District capital assets | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Capital Assets Not Being Depreciated | | | | |
| ADS Construction in progress | <u>\$ 14,870</u> | <u>\$ -</u> | <u>\$ (14,870)</u> | <u>\$ -</u> |
| Capital Assets Being Depreciated | | | | |
| ADS Building and Improvements | \$ - | \$ 1,242,649 | \$ 14,870 | \$ 1,257,519 |
| ADS Leasehold Improvements | 121,819 | - | - | 121,819 |
| ADS Equipment | <u>66,556</u> | <u>-</u> | <u>-</u> | <u>66,556</u> |
| Total capital assets being depreciated | <u>188,375</u> | <u>\$ 1,242,649</u> | <u>\$ 14,870</u> | <u>1,445,894</u> |
| Less Accumulated Depreciation for | | | | |
| ADS Building and Improvements | \$ - | \$ (27,430) | \$ - | \$ (27,430) |
| ADS Leasehold Improvements | (104,577) | (4,061) | - | (108,638) |
| ADS Equipment | <u>(62,979)</u> | <u>(3,577)</u> | <u>-</u> | <u>(66,556)</u> |
| Total accumulated depreciation | <u>(167,556)</u> | <u>\$ (35,068)</u> | <u>\$ -</u> | <u>(202,624)</u> |
| Net ADS capital assets being depreciated | <u><u>\$ 20,819</u></u> | | | <u><u>\$ 1,243,270</u></u> |
| Capital Assets, Net | <u><u>\$ 35,689</u></u> | | | <u><u>\$ 1,243,270</u></u> |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2022 and 2021

Capital assets additions, retirements, transfers, and balances for the year ended December 31, 2021 are as follows:

| | Balance December 31, 2020 | Additions | Transfers and Retirements | Balance December 31, 2021 |
|---|---------------------------------|------------------|------------------------------|---------------------------------|
| Capital Assets Being Depreciated | | | | |
| District Building and Improvements | \$ 238,350 | \$ - | \$ - | \$ 238,350 |
| Less Accumulated Depreciation | <u>(238,350)</u> | <u>-</u> | <u>-</u> | <u>(238,350)</u> |
| Net District capital assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Capital Assets Not Being Depreciated | | | | |
| ADS Construction in progress | <u>\$ -</u> | <u>\$ 14,870</u> | <u>\$ -</u> | <u>\$ 14,870</u> |
| Capital Assets Being Depreciated | | | | |
| ADS Leasehold Improvements | 103,982 | 17,837 | - | 121,819 |
| ADS Equipment | <u>62,856</u> | <u>3,700</u> | <u>-</u> | <u>66,556</u> |
| Total capital assets being depreciated | <u>166,838</u> | <u>\$ 21,537</u> | <u>\$ -</u> | <u>188,375</u> |
| Less Accumulated Depreciation for | | | | |
| ADS Leasehold Improvements | (103,982) | \$ (595) | \$ - | (104,577) |
| ADS Equipment | <u>(62,856)</u> | <u>(123)</u> | <u>-</u> | <u>(62,979)</u> |
| Total accumulated depreciation | <u>(166,838)</u> | <u>\$ (718)</u> | <u>\$ -</u> | <u>(167,556)</u> |
| Net ADS capital assets being depreciated | <u>\$ -</u> | | | <u>\$ 20,819</u> |
| Capital Assets, Net | <u>\$ -</u> | | | <u>\$ 35,689</u> |

Note 6 - Long-Term Debt

A schedule of changes in ADS' long-term debt for December 31, 2022 is as follows:

| | Balance December 31, 2021 | Additions | Payments | Balance December 31, 2022 | Due Within One Year |
|--------------------|---------------------------------|------------|-------------|---------------------------------|------------------------|
| 5.02% Note Payable | \$ - | \$ 720,000 | \$ (15,377) | \$ 704,623 | \$ 22,250 |

The 5.02% note payable is due in monthly installments of \$4,760, including interest, until March 2027 when the interest rate and monthly payment will reset. The interest rate will be calculated as the Federal Home Loan Bank five-year fixed rate plus 2.75% with a floor of 4.3%. A final balloon payment of all principal and interest is due March 2032. The note is secured by property on North Washington Street.

Scheduled debt service requirements for ADS' long-term debt is as follows:

| Years Ending December 31, | Principal | Interest |
|---------------------------|-------------------|-------------------|
| 2023 | \$ 22,250 | \$ 34,865 |
| 2024 | 23,394 | 33,722 |
| 2025 | 24,595 | 32,520 |
| 2026 | 25,859 | 31,256 |
| 2027 | 27,187 | 29,928 |
| 2028-2032 | 581,338 | 110,720 |
| | <u>\$ 704,623</u> | <u>\$ 273,011</u> |

Note 7 - Concentration of Credit Risk

ADS grants credit without collateral to its clients, most of which are insured under third party payor agreements. The mix of receivables from third-party payors and clients at December 31, 2022 and 2021 was as follows:

| | 2022 | 2021 |
|-------------|-------------|-------------|
| Medicaid | 78% | 82% |
| Private Pay | 10% | 12% |
| Other | 12% | 6% |
| | <u>100%</u> | <u>100%</u> |

Note 8 - Commitments and Contingencies

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Professional Liability

The Organization insures for professional liability claims under a claims-made based policy. Under the policy, insurance premiums cover only those claims actually reported during the policy term up to \$2 million of coverage for each occurrence and \$2 million in the aggregate.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from client services.

Note 9 - Presentation of Component Units

The following summarizes combining information for the District and ADS, which have been presented as blended component units, as of and for the year ended December 31, 2022.

Table 1: Assets, Liabilities, and Net Position
December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|--|--|-----------------------|---------------------|---------------------|
| Assets | | | | |
| Assets | | | | |
| Current assets | \$ 1,444,557 | \$ 613,385 | \$ (37,928) | \$ 2,020,014 |
| Other assets | 569,725 | 75,486 | (75,486) | 569,725 |
| Capital assets, net | - | 1,243,270 | - | 1,243,270 |
| Total assets | <u>\$ 2,014,282</u> | <u>\$ 1,932,141</u> | <u>\$ (113,414)</u> | <u>\$ 3,833,009</u> |
| Liabilities and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 570,815 | \$ 98,773 | \$ (37,928) | \$ 631,660 |
| Noncurrent liabilities | 75,486 | 682,373 | (75,486) | 682,373 |
| Total liabilities | <u>646,301</u> | <u>781,146</u> | <u>(113,414)</u> | <u>1,314,033</u> |
| Net Position | | | | |
| Net investment in capital assets | - | 538,647 | - | 538,647 |
| Restricted | | | | |
| Expendable - Paul G. & Mabel Richmond Endowment Fund | 569,725 | - | - | 569,725 |
| Expendable - for operating activities | 341,000 | - | - | 341,000 |
| Unrestricted | <u>457,256</u> | <u>612,348</u> | <u>-</u> | <u>1,069,604</u> |
| Total net position | <u>1,367,981</u> | <u>1,150,995</u> | <u>-</u> | <u>2,518,976</u> |
| Total liabilities and net position | <u>\$ 2,014,282</u> | <u>\$ 1,932,141</u> | <u>\$ (113,414)</u> | <u>\$ 3,833,009</u> |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2022 and 2021

Table 2: Operating Results and Changes in Net Position
Year Ended December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|---------------------|
| Operating Revenues | | | | |
| Client service revenue | \$ - | \$ 1,114,398 | \$ - | \$ 1,114,398 |
| Operating Expenses | | | | |
| Depreciation | - | 35,068 | - | 35,068 |
| Other operating expenses | 231,900 | 1,132,824 | - | 1,364,724 |
| Total operating expenses | 231,900 | 1,167,892 | - | 1,399,792 |
| Operating Loss | (231,900) | (53,494) | - | (285,394) |
| Nonoperating Revenues (Expenses), Net | 316,028 | 19,851 | - | 335,879 |
| Revenues in Excess of Expenses and Change in Net Position | 84,128 | (33,643) | - | 50,485 |
| Net Position, Beginning of Year | 1,283,853 | 1,184,638 | - | 2,468,491 |
| Net Position, End of Year | <u>\$ 1,367,981</u> | <u>\$ 1,150,995</u> | <u>\$ -</u> | <u>\$ 2,518,976</u> |

Table 3: Cash Flows
Year Ended December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|---------------------|
| Net Cash Used for Operating Activities | \$ (202,693) | \$ (55,949) | \$ - | \$ (258,642) |
| Net Cash from Noncapital Financing Activities | 1,567,961 | 8,831 | - | 1,576,792 |
| Net Cash from (Used for) Capital and Capital Related Financing Activities | 123,049 | (564,093) | - | (441,044) |
| Net Cash from (Used for) Investing Activities | (1,365,348) | 186,262 | - | (1,179,086) |
| Net Change in Cash and Cash Equivalents | 122,969 | (424,949) | - | (301,980) |
| Cash and Cash Equivalents, Beginning of Year | 1,334,107 | 869,677 | - | 2,203,784 |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,457,076</u> | <u>\$ 444,728</u> | <u>\$ -</u> | <u>\$ 1,901,804</u> |

The following summarizes combining information for the District and ADS, which have been presented as blended component units, as of and for the year ended December 31, 2021.

Table 4: Assets, Liabilities, and Net Position
December 31, 2021

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|--|--|-----------------------|---------------------|---------------------|
| Assets | | | | |
| Assets | | | | |
| Current assets | \$ 1,326,176 | \$ 978,539 | \$ (28,722) | \$ 2,275,993 |
| Other assets | 710,231 | 233,867 | (233,867) | 710,231 |
| Capital assets, net | - | 35,689 | - | 35,689 |
| Total assets | <u>\$ 2,036,407</u> | <u>\$ 1,248,095</u> | <u>\$ (262,589)</u> | <u>\$ 3,021,913</u> |
| Liabilities and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 518,687 | \$ 63,457 | \$ (28,722) | \$ 553,422 |
| Noncurrent liabilities | 233,867 | - | (233,867) | - |
| Total liabilities | <u>752,554</u> | <u>63,457</u> | <u>(262,589)</u> | <u>553,422</u> |
| Net Position | | | | |
| Net investment in capital assets | - | 35,689 | - | 35,689 |
| Restricted | | | | |
| Expendable - Paul G. & Mabel Richmond Endowment Fund | 710,231 | - | - | 710,231 |
| Expendable - for operating activities | 341,000 | - | - | 341,000 |
| Unrestricted | <u>232,622</u> | <u>1,148,949</u> | <u>-</u> | <u>1,381,571</u> |
| Total net position | <u>1,283,853</u> | <u>1,184,638</u> | <u>-</u> | <u>2,468,491</u> |
| Total liabilities and net position | <u>\$ 2,036,407</u> | <u>\$ 1,248,095</u> | <u>\$ (262,589)</u> | <u>\$ 3,021,913</u> |

Kennewick Public Hospital District

Notes to Financial Statements

December 31, 2022 and 2021

Table 5: Operating Results and Changes in Net Position
Year Ended December 31, 2021

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|---|--|-----------------------|--------------|--------------|
| Operating Revenues | | | | |
| Client service revenue | \$ - | \$ 935,253 | \$ - | \$ 935,253 |
| Operating Expenses | | | | |
| Depreciation | - | 718 | - | 718 |
| Other operating expenses | 258,657 | 888,791 | (17,239) | 1,130,209 |
| Total operating expenses | 258,657 | 889,509 | (17,239) | 1,130,927 |
| Operating Income (Loss) | (258,657) | 45,744 | 17,239 | (195,674) |
| Nonoperating Revenues (Expenses) | 691,501 | 142,677 | (17,239) | 816,939 |
| Revenues in Excess of Expenses and Change in Net Position | 432,844 | 188,421 | - | 621,265 |
| Net Position, Beginning of Year | 851,009 | 996,217 | - | 1,847,226 |
| Net Position, End of Year | \$ 1,283,853 | \$ 1,184,638 | \$ - | \$ 2,468,491 |

Table 6: Cash Flows
Year Ended December 31, 2021

| | Kennewick Public Hospital District | Adult Day Services | Eliminations | Combined |
|--|--|-----------------------|--------------|--------------|
| Net Cash from (Used for) | | | | |
| Operating Activities | \$ (241,387) | \$ 89,025 | \$ - | \$ (152,362) |
| Net Cash from Noncapital Financing Activities | 1,708,825 | 12,385 | - | 1,721,210 |
| Net Cash Used for Capital and Capital Related Financing Activities | - | (36,407) | - | (36,407) |
| Net Cash from (Used for) Investing Activities | (1,231,057) | 51,682 | - | (1,179,375) |
| Net Change in Cash and Cash Equivalents | 236,381 | 116,685 | - | 353,066 |
| Cash and Cash Equivalents, Beginning of Year | 1,097,726 | 752,992 | - | 1,850,718 |
| Cash and Cash Equivalents, End of Year | \$ 1,334,107 | \$ 869,677 | \$ - | \$ 2,203,784 |



Supplementary Information
December 31, 2022 and 2021

Kennewick Public Hospital District



Independent Auditor's Report on Supplementary Information

The Board of Commissioners
Kennewick Public Hospital District
Kennewick, Washington

We have audited the financial statements of Kennewick Public Hospital District (District) as of and for the years ended December 31, 2022 and 2021, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information is presented for the 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
July 20, 2023

Kennewick Public Hospital District
Combining Statement of Net Position
December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|---|--|-----------------------|---------------------|---------------------|---------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 1,443,852 | \$ 444,728 | \$ 1,888,580 | \$ - | \$ 1,888,580 |
| Receivables | | | | | |
| Clients, net | - | 130,729 | 130,729 | - | 130,729 |
| Current portion of note receivable | - | 37,928 | 37,928 | (37,928) | - |
| Property tax | 705 | - | 705 | - | 705 |
| Total current assets | <u>1,444,557</u> | <u>613,385</u> | <u>2,057,942</u> | <u>(37,928)</u> | <u>2,020,014</u> |
| Noncurrent Cash and Investments | | | | | |
| Note receivable, net | - | 75,486 | 75,486 | (75,486) | - |
| Other long-term investments | 569,725 | - | 569,725 | - | 569,725 |
| Total noncurrent cash and investments | <u>569,725</u> | <u>75,486</u> | <u>645,211</u> | <u>(75,486)</u> | <u>569,725</u> |
| Capital Assets | | | | | |
| Depreciable capital assets, net of accumulated depreciation | - | 1,243,270 | 1,243,270 | - | 1,243,270 |
| Total assets | <u>\$ 2,014,282</u> | <u>\$ 1,932,141</u> | <u>\$ 3,946,423</u> | <u>\$ (113,414)</u> | <u>\$ 3,833,009</u> |
| | | | | | |
| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
| Liabilities and Net Position | | | | | |
| Current Liabilities | | | | | |
| Current maturities of long-term debt | \$ 37,928 | \$ 22,250 | \$ 60,178 | \$ (37,928) | \$ 22,250 |
| Accounts payable | 532,887 | 8,688 | 541,575 | - | 541,575 |
| Accrued expenses | | | | | |
| Vacation | - | 45,123 | 45,123 | - | 45,123 |
| Payroll taxes and other | - | 22,712 | 22,712 | - | 22,712 |
| Total current liabilities | <u>570,815</u> | <u>98,773</u> | <u>669,588</u> | <u>(37,928)</u> | <u>631,660</u> |
| Long-term Debt, Less Current Maturities | <u>75,486</u> | <u>682,373</u> | <u>757,859</u> | <u>(75,486)</u> | <u>682,373</u> |
| Total liabilities | <u>646,301</u> | <u>781,146</u> | <u>1,427,447</u> | <u>(113,414)</u> | <u>1,314,033</u> |
| Net Position | | | | | |
| Net investment in capital assets | - | 538,647 | 538,647 | - | 538,647 |
| Restricted | | | | | |
| Expendable - Paul G. & Mabel Richmond | | | | | |
| Endowment Fund | 569,725 | - | 569,725 | - | 569,725 |
| Expendable - for operating activities | 341,000 | - | 341,000 | - | 341,000 |
| Unrestricted | 457,256 | 612,348 | 1,069,604 | - | 1,069,604 |
| Total net position | <u>1,367,981</u> | <u>1,150,995</u> | <u>2,518,976</u> | <u>-</u> | <u>2,518,976</u> |
| Total liabilities and net position | <u>\$ 2,014,282</u> | <u>\$ 1,932,141</u> | <u>\$ 3,946,423</u> | <u>\$ (113,414)</u> | <u>\$ 3,833,009</u> |

Kennewick Public Hospital District
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|---|--|-----------------------|--------------|--------------|--------------|
| Operating Revenues | | | | | |
| Client service revenue | \$ - | \$ 1,114,398 | \$ 1,114,398 | \$ - | \$ 1,114,398 |
| Operating Expenses | | | | | |
| Salaries and wages | - | 648,070 | 648,070 | - | 648,070 |
| Employee benefits | - | 197,438 | 197,438 | - | 197,438 |
| Professional fees | 82,441 | 22,186 | 104,627 | - | 104,627 |
| Supplies | 15 | 114,919 | 114,934 | - | 114,934 |
| Purchased services, utilities | 1,450 | 16,655 | 18,105 | - | 18,105 |
| Purchased services, other | 89,757 | 35,511 | 125,268 | - | 125,268 |
| Insurance | 15,056 | 31,544 | 46,600 | - | 46,600 |
| Rent | 1,652 | 6,493 | 8,145 | - | 8,145 |
| Transportation | - | 18,639 | 18,639 | - | 18,639 |
| Other | 26,873 | 41,369 | 68,242 | - | 68,242 |
| Public election | 14,656 | - | 14,656 | - | 14,656 |
| Depreciation | - | 35,068 | 35,068 | - | 35,068 |
| Total operating expenses | 231,900 | 1,167,892 | 1,399,792 | - | 1,399,792 |
| Operating Income (Loss) | (231,900) | (53,494) | (285,394) | - | (285,394) |
| Nonoperating Revenues (Expenses) | | | | | |
| Property taxes | 1,558,962 | - | 1,558,962 | - | 1,558,962 |
| Investment income (loss) | (112,504) | 37,087 | (75,417) | (15,282) | (90,699) |
| Noncapital contributions and donations | - | 8,831 | 8,831 | - | 8,831 |
| Community Service Payment to RCCH Trios | (1,247,196) | - | (1,247,196) | - | (1,247,196) |
| Interest expense | (15,282) | (26,067) | (41,349) | 15,282 | (26,067) |
| Gain on sale of capital assets | 123,049 | - | 123,049 | - | 123,049 |
| Other income | 8,999 | - | 8,999 | - | 8,999 |
| Nonoperating revenues, net | 316,028 | 19,851 | 335,879 | - | 335,879 |
| Revenues in Excess of Expenses and Change in Net Position | 84,128 | (33,643) | 50,485 | - | 50,485 |
| Net Position, Beginning of Year | 1,283,853 | 1,184,638 | 2,468,491 | - | 2,468,491 |
| Net Position, End of Year | \$ 1,367,981 | \$ 1,150,995 | \$ 2,518,976 | \$ - | \$ 2,518,976 |

Kennewick Public Hospital District
Combining Statement of Net Position
December 31, 2021

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|---|--|-----------------------|---------------------|---------------------|---------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 1,324,825 | \$ 869,677 | \$ 2,194,502 | \$ - | \$ 2,194,502 |
| Receivables | | | | | |
| Clients, net | - | 80,140 | 80,140 | - | 80,140 |
| Current portion of note receivable | - | 28,722 | 28,722 | (28,722) | - |
| Property tax | 705 | - | 705 | - | 705 |
| Prepaid expenses | 646 | - | 646 | - | 646 |
| Total current assets | <u>1,326,176</u> | <u>978,539</u> | <u>2,304,715</u> | <u>(28,722)</u> | <u>2,275,993</u> |
| Noncurrent Cash and Investments | | | | | |
| Note receivable, net | - | 233,867 | 233,867 | (233,867) | - |
| Other long-term investments | 710,231 | - | 710,231 | - | 710,231 |
| Total noncurrent cash and investments | <u>710,231</u> | <u>233,867</u> | <u>944,098</u> | <u>(233,867)</u> | <u>710,231</u> |
| Capital Assets | | | | | |
| Capital assets not being depreciated | - | 14,870 | 14,870 | - | 14,870 |
| Depreciable capital assets, net of accumulated depreciation | - | 20,819 | 20,819 | - | 20,819 |
| Total capital assets | <u>-</u> | <u>35,689</u> | <u>35,689</u> | <u>-</u> | <u>35,689</u> |
| Total assets | <u>\$ 2,036,407</u> | <u>\$ 1,248,095</u> | <u>\$ 3,284,502</u> | <u>\$ (262,589)</u> | <u>\$ 3,021,913</u> |
| | | | | | |
| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
| Liabilities and Net Position | | | | | |
| Current Liabilities | | | | | |
| Current maturities of long-term debt | \$ 28,722 | \$ - | \$ 28,722 | \$ (28,722) | \$ - |
| Accounts payable | 489,965 | 11,362 | 501,327 | - | 501,327 |
| Accrued expenses | | | | | |
| Vacation | - | 45,081 | 45,081 | - | 45,081 |
| Payroll taxes and other | - | 7,014 | 7,014 | - | 7,014 |
| Total current liabilities | <u>518,687</u> | <u>63,457</u> | <u>582,144</u> | <u>(28,722)</u> | <u>553,422</u> |
| Long-term Debt, Less Current Maturities | <u>233,867</u> | <u>-</u> | <u>233,867</u> | <u>(233,867)</u> | <u>-</u> |
| Total liabilities | <u>752,554</u> | <u>63,457</u> | <u>816,011</u> | <u>(262,589)</u> | <u>553,422</u> |
| Net Position | | | | | |
| Net investment in capital assets | - | 35,689 | 35,689 | - | 35,689 |
| Restricted | | | | | |
| Expendable - Paul G. & Mabel Richmond | | | | | |
| Endowment Fund | 710,231 | - | 710,231 | - | 710,231 |
| Expendable - for operating activities | 341,000 | - | 341,000 | - | 341,000 |
| Unrestricted | 232,622 | 1,148,949 | 1,381,571 | - | 1,381,571 |
| Total net position | <u>1,283,853</u> | <u>1,184,638</u> | <u>2,468,491</u> | <u>-</u> | <u>2,468,491</u> |
| Total liabilities and net position | <u>\$ 2,036,407</u> | <u>\$ 1,248,095</u> | <u>\$ 3,284,502</u> | <u>\$ (262,589)</u> | <u>\$ 3,021,913</u> |

Kennewick Public Hospital District
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2021

| | Kennewick Public Hospital District | Adult Day Services | Total | Eliminations | Total |
|--|--|-----------------------|--------------|--------------|--------------|
| Operating Revenues | | | | | |
| Client service revenue | \$ - | \$ 935,253 | \$ 935,253 | \$ - | \$ 935,253 |
| Operating Expenses | | | | | |
| Salaries and wages | - | 516,022 | 516,022 | - | 516,022 |
| Employee benefits | - | 173,755 | 173,755 | - | 173,755 |
| Professional fees | 73,943 | 11,899 | 85,842 | - | 85,842 |
| Supplies | - | 49,411 | 49,411 | - | 49,411 |
| Purchased services, utilities | 3,705 | 11,988 | 15,693 | - | 15,693 |
| Purchased services, other | 88,328 | 10,398 | 98,726 | - | 98,726 |
| Insurance | 13,742 | 20,612 | 34,354 | - | 34,354 |
| Rent | - | 72,644 | 72,644 | - | 72,644 |
| Transportation | - | 4,150 | 4,150 | - | 4,150 |
| Other | 27,577 | 17,912 | 45,489 | - | 45,489 |
| Interest | 17,239 | - | 17,239 | (17,239) | - |
| Public election | 34,123 | - | 34,123 | - | 34,123 |
| Depreciation | - | 718 | 718 | - | 718 |
| Total operating expenses | 258,657 | 889,509 | 1,148,166 | (17,239) | 1,130,927 |
| Operating Income (Loss) | (258,657) | 45,744 | (212,913) | 17,239 | (195,674) |
| Nonoperating Revenues (Expenses) | | | | | |
| Property taxes | 1,493,365 | - | 1,493,365 | - | 1,493,365 |
| Investment income | 58,823 | 25,031 | 83,854 | (17,239) | 66,615 |
| Noncapital contributions and donations | 10,000 | 12,385 | 22,385 | - | 22,385 |
| Community Service Payment to RCCH Trios | (1,213,468) | - | (1,213,468) | - | (1,213,468) |
| Donation | 341,000 | - | 341,000 | - | 341,000 |
| Gain on PPP loan forgiveness | - | 105,261 | 105,261 | - | 105,261 |
| Other income | 1,781 | - | 1,781 | - | 1,781 |
| Nonoperating revenues, net | 691,501 | 142,677 | 834,178 | (17,239) | 816,939 |
| Revenues in Excess of Expenses and Change in Net Position | 432,844 | 188,421 | 621,265 | - | 621,265 |
| Net Position, Beginning of Year | 851,009 | 996,217 | 1,847,226 | - | 1,847,226 |
| Net Position, End of year | \$ 1,283,853 | \$ 1,184,638 | \$ 2,468,491 | \$ - | \$ 2,468,491 |



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*

The Board of Commissioners
Kennewick Public Hospital District
Kennewick, 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 Kennewick Public Hospital District (Organization) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated July 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as the 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001, 2022-002, and 2022-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is reported as Compliance Finding 2022-004 in the accompanying Schedule of Findings and Responses.

The Organization's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified and described in the accompanying Schedule of Findings and Responses. The Organization's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Fargo, North Dakota
July 20, 2023

Financial Statement Findings

| | |
|---------------------------------------|---|
| 2022-001 | Preparation of Financial Statements Material Weakness in Internal Control over Financial Reporting |
| <i>Criteria</i> | A properly designed system of internal control over financial reporting includes preparation of an entity's financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). |
| <i>Condition</i> | The Organization does not have an internal control system designed to provide for the preparation of financial statements being audited, including related disclosures and preparation of the cash flow statement in accordance with GAAP. |
| <i>Cause</i> | This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by the auditors as part of the audit. |
| <i>Effect</i> | This control deficiency could result in required information being omitted from the financial statements. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. |
| <i>Recommendation</i> | We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |
| 2022-002 | Audit Adjustments Material Weakness in Internal Control over Financial Reporting |
| <i>Criteria</i> | A good system of internal control contemplates an adequate system for recording and processing adjusting journal entries material to the financial statements. |
| <i>Condition</i> | As part of our audit, we proposed significant audit adjustments to the financial statements, including accounts that were not reconciled at year end, that were not identified by management as a result of the Organization's existing internal controls. |

| | |
|---------------------------------------|---|
| <i>Cause</i> | A proper reconciliation between the Organization's general ledger and subsidiary accounts was not performed on multiple accounts resulting in material audit adjustments. |
| <i>Effect</i> | The deficiency resulted in misstatements to the financial statements that were not prevented, or detected and corrected, by internal personnel in a timely manner. |
| <i>Recommendation</i> | We recommend that management reflect all entries in the financial statements to ensure that the Board of Commissioners has all relevant information. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |

**2022-003 Limited Segregation of Duties
Material Weakness in Internal Control over Financial Reporting**

| | |
|---------------------------------------|---|
| <i>Criteria</i> | In order to achieve a high level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for assets should be performed by different employees or be maintained under dual control. |
| <i>Condition</i> | The District and ADS do not have an internal control system to allow for proper segregation of duties in certain areas of the accounting function. |
| <i>Cause</i> | The District has no employees and therefore, has the accounting function completed by an outside accountant. ADS has a limited number of employees that perform multiple accounting functions. |
| <i>Effect</i> | Inadequate segregation of duties could adversely affect ADS and the District's ability to detect and correct misstatements in a timely period in the normal course of performing the accounting function. |
| <i>Recommendation</i> | While we recognize that the nature of the Organization's operations after the sale to RCCH is such that optimal internal control can likely not be achieved, it is important that the Organization is aware of this condition. Under this condition, the most effective control is the Board of Commissioners' oversight and knowledge of matters relating to the operations of the District and ADS. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |

Compliance Finding

**2022-004 Proper Collateralization
Noncompliance**

| | |
|---------------------------------------|---|
| <i>Criteria</i> | The Organization is required to maintain proper collateralization of deposits in qualified public depositories, as determined by the Revised Code of Washington, Chapter 39, that are not covered under the Federal Deposit Insurance Corporation (FDIC). |
| <i>Condition</i> | The Organization's deposits were not properly collateralized at December 31, 2022 with approximately \$732,000 in excess of FDIC limits and potentially at risk. |
| <i>Cause</i> | The Organization did not maintain a proper agreement with the depositories to maintain proper collateralization. |
| <i>Effect</i> | The Organization was not in compliance with being properly collateralized. If the depository were to fail, the Organization risks losing their deposits. |
| <i>Recommendation</i> | We recommend that management implement policies and procedures to ensure the Organization's deposits are properly collateralized. |
| <i>Views of Responsible Officials</i> | Management agrees with the finding. |