

Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare

**Basic Financial Statements and
Independent Auditors' Reports**

December 31, 2022 and 2021



Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Ritzville, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Basis for Opinion

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

Emphasis of Matter – New Accounting Guidance

As discussed in Note 1 to the financial statements, in 2022, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* and Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Restatement of 2021 Financial Statements

Net position as of December 31, 2021, has been restated for the correction of material misstatements related to net patient accounts receivable. See Note 2 for the disclosure of the correction of the material misstatement.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

D3A PLLC

Spokane Valley, Washington
July 29, 2025

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Net Position
December 31, 2022 and 2021

ASSETS	2022	2021
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,159,103	\$ 6,159,147
Receivables:		
Patient accounts, net	2,258,136	3,149,931
Taxes	48,831	54,084
Grants	761,941	-
Inventories	279,989	217,256
Prepaid expenses	18,671	26,345
Total current assets	6,526,671	9,606,763
<i>Noncurrent assets</i>		
Assets limited as to use:		
Cash and cash equivalents:		
Designated by Board for capital additions	1,904,531	2,086,917
Designated by Board for health insurance deductions	33,723	47,678
Capital assets, net of accumulated depreciation	11,618,843	9,065,944
Total noncurrent assets	13,557,097	11,200,539
Total assets	\$ 20,083,768	\$ 20,807,302
LIABILITIES AND NET POSITION		
<i>Current liabilities</i>		
Current portion of long-term debt	\$ 260,000	\$ 250,000
Current portion of subscription liabilities	263,648	-
Accounts payable	720,773	343,692
Refunds payable for overpayments on patient accounts	161,768	174,241
Accrued compensation and related liabilities	239,190	235,115
Estimated third-party payor settlements	492,000	277,000
Deferred CARES Act Provider Relief Fund	-	166,234
Deferred other COVID-19 grants	-	252,263
Medicare accelerated payments payable	-	1,053,364
Accrued vacation	286,006	283,286
Total current liabilities	2,423,385	3,035,195
<i>Noncurrent liabilities</i>		
Long-term debt, net of current maturities	7,350,614	7,621,600
Subscription liabilities, net of current maturities	1,854,231	-
Total noncurrent liabilities	9,204,845	7,621,600
Total liabilities	11,628,230	10,656,795
<i>Net position, restated</i>		
Net investment in capital assets	1,890,350	1,194,344
Unrestricted, restated	6,565,188	8,956,163
Total net position, restated	8,455,538	10,150,507
Total liabilities and net position	\$ 20,083,768	\$ 20,807,302

See accompanying notes to basic financial statements.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
<i>Operating revenues</i>		
Net patient service revenue	\$ 9,293,916	\$ 8,468,890
Grants	959,170	196,054
Other	99,080	119,857
Total operating revenues	10,352,166	8,784,801
<i>Operating expenses</i>		
Salaries and wages	6,134,087	5,278,022
Employee benefits	1,400,347	1,006,797
Supplies	883,932	516,753
Professional fees	3,249,030	2,716,340
Depreciation and amortization	765,174	755,610
Repairs and maintenance	140,760	119,800
Utilities	248,396	212,347
Insurance	203,242	139,997
Rent	70,672	55,553
Other	401,846	545,786
Total operating expenses	13,497,486	11,347,005
<i>Operating loss</i>	(3,145,320)	(2,562,204)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	523,802	524,916
Taxation for emergency medical services	308,887	305,118
Taxation for bond principal and interest	401,776	400,931
CARES Act Provider Relief Fund	-	262,657
Interest expense	(354,135)	(361,739)
Total nonoperating revenues, net	880,330	1,131,883
<i>Change in net position before capital grants and gain on forgiveness of Paycheck Protection Program loan</i>	(2,264,990)	(1,430,321)
Capital grants	570,021	-
Gain on forgiveness of Paycheck Protection Program loan	-	1,893,606
<i>Change in net position</i>	(1,694,969)	463,285
<i>Net position, beginning of year, restated</i>	10,150,507	9,687,222
Net position, end of year, restated	\$ 8,455,538	\$ 10,150,507

See accompanying notes to basic financial statements.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 10,388,238	\$ 9,313,086
Grant receipts	(221,268)	196,054
Other receipts	99,080	119,857
Payments to and on behalf of employees	(7,527,639)	(6,215,273)
Payments to suppliers and contractors	(4,875,856)	(4,320,148)
Net cash from operating activities	(2,137,445)	(906,424)
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	529,055	525,239
Paycheck Protection Program loan	-	1,007,887
CARES Act Provider Relief Fund	-	329,608
COVID-19 grants	-	252,263
Medicare accelerated payments	(1,053,364)	(947,614)
Taxation for emergency medical services	308,887	305,118
Net cash from noncapital financing activities	(215,422)	1,472,501
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	401,776	400,931
Principal paid on long-term debt	(260,986)	(250,986)
Purchase of capital assets	(1,200,194)	(253,776)
Proceeds from capital grants	570,021	-
Cash paid for interest on long-term debt	(354,135)	(361,739)
Net cash from capital and related financing activities	(843,518)	(465,570)
Net change in cash and cash equivalents	(3,196,385)	100,507
Cash and cash equivalents, beginning of year	8,293,742	8,193,235
Cash and cash equivalents, end of year	\$ 5,097,357	\$ 8,293,742

See accompanying notes to basic financial statements.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 3,159,103	\$ 6,159,147
Cash and cash equivalents designated by Board for capital additions	1,904,531	2,086,917
Cash and cash equivalents designated by Board for health insurance deductions	33,723	47,678
Total cash and cash equivalents	\$ 5,097,357	\$ 8,293,742
<i>Reconciliation of Operating Loss to Net Cash from Operating Activities</i>		
Operating loss	\$ (3,145,320)	\$ (2,562,204)
<i>Adjustments to reconcile operating loss to net cash from operating activities</i>		
Depreciation and amortization	765,174	755,610
Provision for bad debts	1,358,931	61,863
Change in assets:		
Receivables:		
Patient accounts, net	(467,136)	407,195
Estimated third-party payor settlements	-	121,000
Grants receivable	(761,941)	-
Inventories	(62,733)	(23,857)
Prepaid expenses	7,674	(26,345)
Change in liabilities:		
Accounts payable	377,081	36,630
Refunds payable for overpayments on patient accounts	(12,473)	(8,862)
Accrued compensation and related liabilities	4,075	25,439
Estimated third-party payor settlements	215,000	263,000
Deferred CARES Act Provider Relief Fund	(166,234)	-
Deferred other COVID-19 grants	(252,263)	-
Accrued vacation	2,720	44,107
Net cash from operating activities	\$ (2,137,445)	\$ (906,424)

Noncash capital financing and investing activities:

During the year ended December 31, 2022, the District implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, which resulted in recognizing a new subscription asset with a cost of \$1,960,999 and a related liability.

See accompanying notes to basic financial statements

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements
Years Ended December 31, 2022 and 2021

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) owns and operates a 12-bed acute care hospital and rural health clinics in Ritzville and Washtucna, Washington. The District provides healthcare services to patients in the Adams County, Washington (the County) area. The services provided include acute care hospital, emergency room, clinic, and the related ancillary services (laboratory, imaging, physical therapy, etc.).

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The Board of Commissioners consists of five elected community members. Commissioner positions are at-large and are elected for six-year terms. Two positions are elected every two years, with the final position elected in the sixth year.

The District also has dual status as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code). The District is exempt from federal income tax.

The District has no material component units. The East Adams County Healthcare Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized primarily to solicit and accept charitable contributions in order to provide support to the District. The Foundation's financial position is not material to the District and has not been included in these financial statements.

b. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – All cash receipts are deposited directly to the District's bank account. Periodically, such cash is transferred to the Adams County Treasurer (County Treasurer), who acts as the District's Treasurer. Warrants are issued by the District against the cash deposited with the County Treasurer, and the warrants are paid by the County Treasurer from these funds. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of three months or less as cash and cash equivalents.

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

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

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

b. Summary of Significant Accounting Policies (continued)

Assets limited as to use – Assets limited as to use include assets limited by the Board of Commissioners (the Board) for future capital improvements and health insurance deductions over which the Board retains control and may, at its discretion, subsequently use for other purposes. In 2023, the Board approved moving approximately \$1,320,000 from assets limited as to use to operating cash and cash equivalents.

Compensated absences – The District’s policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Depending on years of completion, vacation accrues from 152 to 272 hours per year. Employees terminated after completion of an introductory period of no less than 90 calendar days of employment will be eligible to cash out the prorated accrued unused vacation pay. Sick leave is a benefit granted to all regular employees and accumulated at a rate of one hour for every 40 hours worked. A maximum of 40 hours of unused accrued sick leave may be carried over to the following calendar year. All vacation pay is accrued and expensed when incurred. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is assets that must be used for a particular purpose, as specified by creditors, donors, or contributors external to the District. The District did not have a restricted net position balance in 2022 or 2021. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

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

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

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

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

b. Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services, the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Subsequent events – Subsequent events have been reviewed through July 29, 2025, the date on which the financial statements were available to be issued.

Change in accounting principles – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The District adopted Statement No. 87 during the year ended December 31, 2022, with no effect on the financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The District adopted Statement No. 96 during the year ended December 31, 2022. See Notes 5 and 6 for additional information on the subscription assets and liabilities recorded by the District.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

2. Prior Period Adjustment:

The District has restated its financial statements as of and for the year ended December 31, 2021, for the correction of an error. The District previously recorded net patient accounts receivable for Medicare patients that were based on incorrect rates and that did not all get paid. As a result of corrections for this error, the District's net assets have been restated and decreased by \$2,034,862 to reflect these changes. The effects of the restatement are as follows:

Net position at December 31, 2021, as previously reported	\$	12,185,369
Adjustment to patient accounts receivable, net		(2,034,862)
Net position at December 31, 2021, as restated	\$	10,150,507
Change in net position for the year ended December 31, 2021, as previously reported	\$	2,498,147
Adjustment to patient care service revenue		(2,034,862)
Change in net position for the year ended December 31, 2021, as restated	\$	463,285

3. Bank Deposits and Investments:

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

As of December 31, 2022 and 2021, the District had no deposit balances that were uninsured and uncollateralized. The District's deposits are covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool (LGIP); savings accounts in qualified public depositories; and certain other investments. The County Treasurer invests the District's funds in authorized investments at the District's discretion.

The amounts deposited in the LGIP at December 31, 2022 and 2021, were \$1,896,662 and \$1,865,658, respectively.

State statutes limit investments in bonds, debentures, or notes of any corporation to be rated "A" or higher by nationally recognized statistical rating organizations.

All of the District's investments were in the LGIP at December 31, 2022 and 2021.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients did not change significantly from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	2022	2021
Patients and their insurance carriers	\$ 1,213,040	\$ 1,684,198
Medicare	1,093,351	1,683,149
Medicaid	156,400	93,584
Total patient accounts receivable	2,462,791	3,460,931
Less allowance for uncollectible amounts	204,655	311,000
Patient accounts receivable, net	\$ 2,258,136	\$ 3,149,931

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

5. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and whose estimated useful life is greater than three years. Major expenses for capital assets, including repairs that increase the useful life, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues (expenses).

All capital assets, other than land and construction in progress, are depreciated by the straight-line method using these asset lives:

Land improvements	10 to 20 years
Buildings	5 to 40 years
Fixed equipment	10 to 20 years
Movable equipment	3 to 20 years
Subscription asset	7 years

Subscription assets are amortized over the shorter of the subscription term or their respective estimated useful lives. Amortization of subscription assets is reported with depreciation expense.

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

	Balance December 31, 2021	Additions	Retirements	Transfers	Balance December 31, 2022
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 16,698	\$ -	\$ -	\$ -	\$ 16,698
Construction in progress	106,840	429,852	-	(536,692)	-
Total capital assets not being depreciated or amortized	123,538	429,852	-	(536,692)	16,698
<i>Capital assets being depreciated or amortized</i>					
Land improvements	244,149	-	-	-	244,149
Buildings	10,560,026	-	-	-	10,560,026
Fixed equipment	1,780,768	-	-	-	1,780,768
Movable equipment	4,251,790	603,272	-	243,168	5,098,230
Subscription asset	-	2,284,949	-	293,524	2,578,473
Total capital assets being depreciated or amortized	16,836,733	2,888,221	-	536,692	20,261,646
<i>Less accumulated depreciation and amortization for</i>					
Land improvements	126,979	20,969	-	-	147,948
Buildings	3,253,755	508,834	-	-	3,762,589
Fixed equipment	639,730	111,419	-	-	751,149
Movable equipment	3,873,863	93,256	-	-	3,967,119
Subscription asset	-	30,696	-	-	30,696
Total accumulated depreciation and amortization	7,894,327	765,174	-	-	8,659,501
<i>Total capital assets being depreciated or amortized, net</i>	8,942,406	2,123,047	-	536,692	11,602,145
Total capital assets, net	\$ 9,065,944	\$ 2,552,899	\$ -	\$ -	\$ 11,618,843

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

5. Capital Assets (continued):

	Balance December 31, 2020	Additions	Retirements	Transfers	Balance December 31, 2021
<i>Capital assets not being depreciated</i>					
Land	\$ 16,698	\$ -	\$ -	\$ -	\$ 16,698
Construction in progress	-	106,840	-	-	106,840
Total capital assets not being depreciated	16,698	106,840	-	-	123,538
<i>Capital assets being depreciated</i>					
Land improvements	244,149	-	-	-	244,149
Buildings	10,560,026	-	-	-	10,560,026
Fixed equipment	1,770,045	10,723	-	-	1,780,768
Movable equipment	4,183,902	136,213	(68,325)	-	4,251,790
Total capital assets being depreciated	16,758,122	146,936	(68,325)	-	16,836,733
<i>Less accumulated depreciation for</i>					
Land improvements	106,010	20,969	-	-	126,979
Buildings	2,744,311	509,444	-	-	3,253,755
Fixed equipment	528,311	111,419	-	-	639,730
Movable equipment	3,828,410	113,778	(68,325)	-	3,873,863
Total accumulated depreciation	7,207,042	755,610	(68,325)	-	7,894,327
Total capital assets being depreciated, net	9,551,080	(608,674)	-	-	8,942,406
Total capital assets, net	\$ 9,567,778	\$ (501,834)	\$ -	\$ -	\$ 9,065,944

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

6. Long-term Debt:

Schedules of changes in the District's long-term debt follow:

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 5,595,000	\$ -	\$ (125,000)	\$ 5,470,000	\$ 130,000
Bond premium on 2014 unlimited tax general obligation bonds	81,041	-	(3,588)	77,453	-
2015 limited tax general obligation bonds	2,100,000	-	(125,000)	1,975,000	130,000
Bond premium on 2015 limited tax general obligation bonds	95,559	-	(7,398)	88,161	-
Total long-term debt	\$ 7,871,600	\$ -	\$ (260,986)	\$ 7,610,614	\$ 260,000

	Balance December 31, 2020	Additions	Reductions	Balance December 31, 2021	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 5,715,000	\$ -	\$ (120,000)	\$ 5,595,000	\$ 125,000
Bond premium on 2014 unlimited tax general obligation bonds	84,629	-	(3,588)	81,041	-
2015 limited tax general obligation bonds	2,220,000	-	(120,000)	2,100,000	125,000
Bond premium on 2015 limited tax general obligation bonds	102,957	-	(7,398)	95,559	-
Total long-term debt	\$ 8,122,586	\$ -	\$ (250,986)	\$ 7,871,600	\$ 250,000

The terms and due dates of the District's long-term debt follow:

- Unlimited Tax General Obligation (UTGO) Bonds dated December 30, 2014, in the original amount of \$6,370,000. The bonds are due in varying principal installments from \$130,000 to \$420,000, plus semiannual interest at varying interest rates from 3.3 percent to 5.125 percent through December 2044. The District issued the bonds to pay costs of capital improvements to the District's facilities to comply with state building code regulations. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. The UTGO Bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a tax upon the taxable property within the District. The voters of the District approved the 2014 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

6. Long-term Debt (continued):

- Limited Tax General Obligation (LTGO) Bonds dated February 5, 2015, in the original amount of \$2,905,000. The bonds are due in varying principal installments from \$130,000 to \$210,000, plus semiannual interest at varying interest rates from 4 percent to 5 percent through December 2034. The District issued the bonds to pay costs of capital improvements to the District's facilities to comply with state building code regulations. All limited tax general obligation bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

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

Years Ending December 31,	LTGO Bonds			UTGO Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 130,000	\$ 91,750	\$ 221,750	\$ 130,000	\$ 263,860	\$ 393,860
2024	135,000	86,550	221,550	140,000	259,570	399,570
2025	140,000	81,150	221,150	145,000	254,950	399,950
2026	145,000	75,550	220,550	155,000	247,700	402,700
2027	150,000	69,750	219,750	165,000	239,950	404,950
2028 - 2032	865,000	236,500	1,101,500	975,000	1,084,500	2,059,500
2033 - 2037	410,000	31,000	441,000	1,265,000	841,269	2,106,269
2038 - 2042	-	-	-	1,680,000	476,881	2,156,881
2043 - 2044	-	-	-	815,000	63,294	878,294
	\$ 1,975,000	\$ 672,250	\$ 2,647,250	\$ 5,470,000	\$ 3,731,974	\$ 9,201,974

Subscription liabilities

A schedule of changes in the District's subscription liabilities follows:

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
<i>Subscription liability</i>	\$ -	\$ 2,117,879	\$ -	\$ 2,117,879	\$ 263,648

The District has recorded a subscription liability for the following subscription arrangement:

- EPIC electronic health records agreement effective November 21, 2022, with payments of \$24,890 per month for 84 months beginning in December 2022. The agreement term ends in November 2029. The subscription liability was calculated using an imputed interest rate of 3.00 percent. The monthly payments increase by approximately 1.4 percent per year.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

6. Long-term Debt (continued):

Scheduled principal and interest payments on subscription liabilities are as follows:

Years Ending December 31,	Subscription Liabilities		
	Principal	Interest	Total
2023	\$ 263,648	\$ 59,288	\$ 322,936
2024	276,151	51,208	327,359
2025	289,144	42,746	331,890
2026	302,649	33,887	336,536
2027	316,682	24,616	341,298
2028 - 2029	669,605	24,982	694,587
	\$ 2,117,879	\$ 236,727	\$ 2,354,606

7. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs did not change significantly in 2022. The District has not changed its charity care or uninsured discount policies during fiscal years 2022 or 2021.

Patient service revenue, net of contractual adjustments, discounts, and bad debts, recognized in the period from these major payor sources, is as follows:

	2022	2021
Patient service revenue (net of contractual allowances and discounts):		
Medicare	\$ 4,685,043	\$ 6,054,696
Medicaid	201,991	153,103
Other third-party payors	4,157,333	2,146,013
Patients	249,549	115,078
Net patient service revenue	\$ 9,293,916	\$ 8,468,890

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

7. Net Patient Service Revenue (continued):

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

- *Medicare* – The hospital has been designated a critical access hospital, and the physician clinics have been designated rural health clinics by Medicare and are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.
- *Medicaid* – The majority of Medicaid beneficiaries are covered through health maintenance organizations operated by commercial insurance companies. The District is reimbursed by these organizations for inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses for the District. Inpatient and outpatient services rendered to Medicaid program beneficiaries not covered through health maintenance organizations are reimbursed on a cost basis as defined by the state of Washington. The District's physician clinics are certified as rural health clinics and are reimbursed by Medicaid for these services based on a prospectively established rate per visit, which is based on historical cost. Nonrural health clinic physician services are reimbursed on a fee schedule.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$66,000 and \$11,000 in the years ended December 31, 2022 and 2021, respectively, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District did not receive any gifts or grants to subsidize charity services during 2022 and 2021.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

8. Property Taxes:

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on February 15 on property values listed as of the prior January 1. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every year with a physical inspection every six years.

Taxes are due in two equal installments on April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

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

For 2022, the District's regular tax levy was approximately \$0.51 per \$1,000 on a total assessed valuation of \$1,025,178,028, for a total regular levy of \$521,244. The District's Emergency Medical Services (EMS) tax levy was approximately \$0.30 per \$1,000 on a total assessed valuation of \$1,025,178,028, for a total EMS levy of \$307,742. The District's general obligation bond tax levy was approximately \$0.39 per \$1,000 on a total assessed valuation of \$1,022,739,428, for a total general obligation bond levy of \$400,000.

For 2021, the District's regular tax levy was approximately \$0.60 per \$1,000 on a total assessed valuation of \$855,877,898, for a total regular levy of \$516,083. The EMS tax levy was approximately \$0.36 per \$1,000 on a total assessed valuation of \$855,877,898, for a total EMS levy of \$304,695. The District's general obligation bond tax levy was approximately \$0.47 per \$1,000 on a total assessed valuation of \$853,541,298, for a total general obligation bond levy of \$400,000.

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

9. Deferred Compensation Plan:

The District sponsors and administers a defined contribution retirement plan. The Adams County Public Hospital District No. 2 403(b) TDA Plan (the Plan) is available to all employees who have completed one year of service. Employees may contribute up to 100 percent of their pretax annual compensation, subject to certain Code limitations. The District matches contributions up to 6 percent of each covered employee's compensation depending on years of service. Employees are always 100 percent vested in all employee and employer contributions. Benefit terms, including contribution requirements, are established and may be amended by the District. Total employer contributions to the Plan were \$125,982 and \$107,538 for the years ended December 31, 2022 and 2021, respectively.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

10. Contingencies:

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

Medical malpractice claims – The District purchases malpractice liability insurance through Coverys. The Coverys policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy.

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

The current malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000 plus an additional \$1,000,000 of annual excess coverage.

No liability has been accrued for future coverage for acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year. The District’s malpractice insurance policy has no deductible. Therefore, all qualifying expenses would be covered by the policy.

Unemployment and workers’ compensation risk transfer pools – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Fund and for workers’ compensation benefits through the Public Hospital District Workers’ Compensation Trust. Both are risk transfer pools administered by the Washington State Hospital Association. Premiums are based upon prior claims history and are charged to operations as they are paid. Workers’ compensation expense was approximately \$111,000 and \$16,000 in 2022 and 2021, respectively.

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

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

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

11. Concentrations of Risk:

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

The mix of gross receivables from patients was as follows:

	2022	2021
Medicare	13 %	48 %
Medicaid	35	5
Other third-party payors	46	37
Patients	6	10
	100 %	100 %

Physicians – The District is dependent on local physicians in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on the District's operations.

12. Paycheck Protection Program Loan:

In May 2020, the District was granted a loan from US Bank in the aggregate amount of \$885,719, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted March 27, 2020.

The District applied for PPP loan forgiveness in April 2021 and forgiveness was approved.

The District received a second PPP loan from Columbia State Bank in the amount of \$1,007,887, dated April 6, 2021. The District applied for PPP loan forgiveness for this loan in December 2021 and forgiveness was approved.

The loan forgiveness for both PPP loans, totaling \$1,893,606, was recorded as a gain on forgiveness of Paycheck Protection Program loan in the statements of revenues, expenses, and changes in net position for the year ended December 31, 2021.

13. CARES Act Provider Relief Fund:

In April through May 2020, the District received \$3,548,623 of funding from the CARES Act Provider Relief Fund. The District received additional Provider Relief Fund payments of \$329,608 in 2021 and \$19,541 in 2022. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the years ended December 31, 2022 and 2021, the District recognized \$185,775 and \$262,657, respectively, of grant revenue from these funds. As of December 31, 2022, the District has used all CARES Act funds on healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2022 and 2021

14. COVID-19 Pandemic:

The COVID-19 pandemic created economic uncertainties which negatively impacted the District's financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Washington temporarily suspending all elective surgeries and other elective procedures. In addition, the District experienced declines in volumes of outpatient and ancillary services, such as radiology, laboratory, emergency department, and clinic visits.

The District received government grants as described in Note 13 above, as part of the federal government's response to the pandemic. In addition, the District received other federal government grants, including \$200,000 in June 2021 from the Rural Health Clinic COVID-19 Testing and Mitigation Program.

The District also received Washington State Health Care Authority funding of approximately \$443,000 in response to the pandemic.

The District was awarded a grant for \$370,000 in May 2021 from the federal Center for Disease Control's COVID-19 Health Disparities program.

Medicare sequestration was suspended from May 1, 2020 through March 31, 2022, which increased Medicare reimbursement by 2 percent.

The District also entered into the PPP loan described in Note 12 above, also a part of the federal government's response to the pandemic.

The District also received Medicare accelerated payments of \$2,004,410 in April through May 2020. The Medicare accelerated payments began to be repaid within 120 days of receipt.

The District also implemented cost containment efforts in response to COVID-19.

In addition to accepting funding from the CARES Act Provider Relief Fund and the other funding sources noted above, the hospital resumed the services that had been temporarily suspended. However, the pandemic continued to affect the District's operations in 2021 and 2022.

15. Subsequent Events:

In November 2024, the District obtained a loan from Multicare Health System for \$2,000,000. The loan bears interest at 1.85 percent and matures in November 2026. Interest-only payments are due monthly. The loan may be extended for two additional 12-month periods.

In June 2025, the District was approved for a Distressed Hospital Grant in the amount of \$2,000,000 from the State of Washington Health Care Authority.

SINGLE AUDIT

AUDITORS' SECTION



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

Board of Commissioners
Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Ritzville, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated July 29, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 questions costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

D3A PLLC

Spokane Valley, Washington
July 29, 2025



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

Board of Commissioners
Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Ritzville, Washington

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare's (the District) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2022. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

Qualified Opinion on the Congressional Directives Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Congressional Directives program (Federal Assistance Listing Number 93.493) for the year ended December 31, 2022.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2022.

Basis for Qualified and Unmodified Opinions

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

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

Matter Giving Rise to Qualified Opinion on the Congressional Directives Program

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Assistance Listing 93.493 Congressional Directives as described in finding number 2022-003 for Procurement. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

D3A PLLC

Spokane Valley, Washington
July 29, 2025

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors' report issued:	<i>Unmodified</i>	
Internal control over financial reporting:		
• Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
• Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards:

Internal control over major federal reporting:		
• Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
• Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Type of auditors' report issued on compliance for major federal programs:		
• Department of Health and Human Services, Health Center Program, Congressional Directives	<i>Qualified</i>	
• Department of Agriculture, Community Facilities Loans and Grants Cluster	<i>Unmodified</i>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> X </u> yes	<u> </u> no

Identification of major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.493	Congressional Directives
10.766	Community Facilities Loans and Grants Cluster

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

Auditee qualified as low-risk auditee? yes X no

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

Section II – Financial Statement Findings

2022-001 Account Reconciliations

<i>Condition</i>	There should not be any significant or material adjusting journal entries made during the audit process. Tax revenue, accumulated depreciation, grant revenue, accounts receivable, the allowance for uncollectible accounts, third-party settlements, accounts payable, accrued payroll, and patient revenue were not adequately reconciled during the year.
<i>Criteria</i>	[] Compliance Finding [] Significant Deficiency [X] Material Weakness During the audit process, numerous adjusting journal entries were both prepared by management and proposed by the audit team to achieve accurate account balances. Significant adjustments were made to correct balances related to tax revenue, accumulated depreciation, grant revenue, accounts receivable, the allowance for uncollectible accounts, third-party settlements, accounts payable, accrued payroll, and patient revenue. Management was unable to completely reconcile many of the discrepancies, determine appropriate adjustments needed to correct the balances, or provide supporting schedules demonstrating which invoices or system reports made up the balances.
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	Although performed regularly by management, reconciliations and review are not being executed with the level of precision necessary to identify needed adjustments in a timely manner.
<i>Effect</i>	Financial reports depended upon by management, the Board of Commissioners, and external financial statement users may not present an accurate image of the District's financial position.
<i>Recommendation</i>	All statement of net position accounts should be reconciled to system reports listing the individual balances making up the total balance in each account, adjusting as necessary each month. Accurate and consistent schedules should be used from year to year when making adjustments to account balances.
<i>Management's Response</i>	The "systemic" noncompliance for account reconciliations is a result of multiple factors: first and foremost, inability to hire any accounting/finance support personnel. The Chief Financial Officer (CFO) was the ONLY person and there was not sufficient time to perform the tasks. Second, the CFO was new to a CFO role and did not have sufficient experience or expertise. Both the first and second explanations are in part attributed to a small, rural hospital with limited resources to pay and/or attract qualified personnel. In June 2025, the hospital was able to secure an accountant and an experienced CFO. The process improvements of monthly reconciliations between the subledgers and the general ledger and the supporting documents like bank statements and the general ledger are being done.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

Section II – Financial Statement Findings (continued)

2022-002 Manual Journal Entries

<i>Condition</i>	The review process for manual journal entries is not adequately designed and does not operate effectively enough to prevent, detect, and correct potential misstatements. Many of the manual journal entries posted during the year were not reviewed by someone other than the CFO, who prepared and posted the journal entries.
<i>Criteria</i>	[] Compliance Finding [] Significant Deficiency [X] Material Weakness Local governmental entities are required to maintain internal controls over financial accounting and reporting systems to ensure public funds are properly safeguarded. Review of manual journal entries reduces the risk of errors and the risk that a single employee could conduct inappropriate or illegal activities, conceal such activities, and not be discovered.
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	There was no consistently followed process during the year to ensure that each manual journal entry was properly reviewed by someone other than the person preparing and posting the entry.
<i>Effect</i>	There is an increased risk of fraudulent or erroneous journal entries being posted to the general ledger and not being detected by the District’s internal controls.
<i>Recommendation</i>	All manual journal entries posted to the general ledger should be regularly and thoroughly reviewed by an individual with the training and sufficient knowledge to detect mistakes. Journal entries should not be reviewed by the same individual who posted them. We recommend the CFO and administrative assistant print and review a report monthly showing all manual journal entries posted during the month, verifying all entries were properly reviewed in accordance with the District’s policies. We further recommend providing additional training and explanation to each individual involved with the manual journal entry process, to strengthen understanding of what is being reviewed.
<i>Management’s Response</i>	All manual journal entries will be researched, prepared, and signed by the accountant. The CFO will then review the accounts, entries, and supporting documentation and sign off as “reviewed and approved” prior to the accountant posting the journal entry into the financial software. Each manual journal entry (including those uploading using an Excel template) will have a unique identifier of month/year-01 numbered in sequential order. Each signed manual journal entry document will then be scanned into an electronic file folder to be provided to the audit firm.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2022

Section III – Federal Award Findings and Questioned Costs

2022-003 Procurement and Suspension and Debarment

Federal Organization	U.S. Department of Health and Human Services
Assistance Listing Number	93.493 Congressional Directives
<i>Condition</i>	The District did not maintain sufficient supporting records demonstrating that the appropriate steps were taken to meet the procurement and suspension and debarment compliance requirements.
<i>Criteria</i>	[X] Compliance Finding [] Significant Deficiency [X] Material Weakness Entities receiving federal awards must have and use their documented procurement and suspension and debarment policies. Title 2 CFR 200.320 outlines the acceptable methods of procurement and suspension and debarment and establishes the maximum thresholds allowed. Purchases below the simplified acquisition threshold, but above the micro-purchase threshold, require price or rate quotations to be obtained from an adequate number of qualified sources. Noncompetitive procurement can be used only in certain circumstances as allowed for in 2 CFR 200.320(c).
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	The District's internal controls over compliance did not include adequate controls over the retention of supporting documentation for the procurement and suspension and debarment process using federal funds.
<i>Effect</i>	We were unable to verify that federal procurement and suspension and debarment compliance requirements were followed.
<i>Questioned Costs</i>	None identified.
<i>Recommendation</i>	We recommend the District review, update, and follow its procurement and suspension and debarment policies in accordance with federal guidelines and maintain documentation showing evidence of the procedures completed for each expenditure using federal awards.
<i>Management's Response</i>	Full and complete process of issuing request for proposal (RFP) and securing bids have been explained and trained for the Chief Financial Officer and Chief Executive Officer. The District will comply within the standard framework of all interested bid parties and will be provided with an RFP stating selection committee, selection criteria, and date and time of electronic bid submission. If a sole source is appropriate, then the CFO will prepare a sole source resolution for the Board of Commissioners to review and approve during an advanced notice held meeting open to the public. The sole source document will include at minimum one of the five designed sole source qualifications.

AUDITEE'S SECTION

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Total Federal Expenditures
U.S. Department of Health and Human Services Direct Programs:				
Congressional Directives	93.493			\$ 470,021
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		COVID-19	185,775
Rural Health Outreach and Rural Network Development Program	93.912		COVID-19	98,136
Total U.S. Department of Health and Human Services Direct Programs				753,932
U.S. Department of Health and Human Services Pass-Through Program From:				
<i>Washington State Department of Health</i>				
Small Rural Hospital Improvement Grant Program	93.155	HSP26402	COVID-19	264,460
Total U.S. Department of Health and Human Services:				1,018,392
Federal Communications Commission Pass-Through Program From:				
<i>Samaritan Healthcare</i>				
COVID-19 Telehealth Program	32.006	Not Provided	COVID-19	35,240
United States Department of Agriculture				
Community Facilities Loans and Grants Cluster	10.766			260,100
Total expenditures of federal awards				\$ 1,313,732

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

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) under programs of the federal government for the year ended December 31, 2022. Amounts reported on the Schedule for Federal Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution are based upon the June 30, 2022, Provider Relief Fund report. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

2. Summary of Significant Accounting Policies:

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



**Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Corrective Action Plan
Year Ended December 31, 2022**

The current year Schedule of Audit Findings and Questioned Costs reported two findings in Section II – Financial Statement Findings and one matter in Section III – Federal Award Findings and Questioned Costs.

Current year audit findings:

2022-001 Account Reconciliations

Corrective action planned:

Management agrees with the material weakness for account reconciliations. The “systemic” noncompliance for account reconciliations is a result of multiple factors: first and foremost, inability to hire any accounting/finance support personnel. The Chief Financial Officer (CFO) was the ONLY person and there was not sufficient time to perform the tasks. Second, the CFO was new to a CFO role and did not have sufficient experience or expertise. Both the first and second explanations are in part attributed to a small, rural hospital with limited resources to pay and/or attract qualified personnel. In June 2025, the hospital was able to secure an accountant and an experienced CFO. The process improvements of monthly reconciliations between the subledgers and the general ledger and the supporting documents like bank statements and the general ledger are being done.

Reconciliations will be completed for 2023 and 2024 prior to providing the external audit firm for the completion process of those annual audits.

Anticipated completion date:

June – December 2025

***Contact person responsible
for corrective action:***

Viola Babcock, Interim Chief Financial Officer

2022-002 Manual Journal Entries

Corrective action planned:

Management agrees with the material weakness for manual journal entries. All manual journal entries will be researched, prepared, and signed by the accountant. The CFO will then review the accounts, entries, and supporting documentation and sign off as “reviewed and approved” prior to the accountant posting the journal entry into the financial software. Each manual journal entry (including those uploading using an excel template) will have a unique identifier of month/year-01 numbered in sequential order. Each signed manual journal entry document will then be scanned into an electronic file folder to be provided to the audit firm.

Anticipated completion date:

June – December 2025

***Contact person responsible
for corrective action:***

Viola Babcock, Interim Chief Financial Officer



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Healthcare

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**Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Corrective Action Plan (Continued)
Year Ended December 31, 2022**

2022-003 Procurement and Suspension and Debarment

Corrective action planned:

Management agrees with the material weakness and compliance finding for procurement and suspension and debarment. Full and complete process of issuing request for proposal (RFP) and securing bids have been explained and trained for the Chief Financial Officer and Chief Executive Officer. The District will comply within the standard framework of all interested bid parties and will be provided with an RFP stating selection committee, selection criteria, and date and time of electronic bid submission. If a sole source is appropriate, then the CFO will prepare a sole source resolution for the Board of Commissioners to review and approve during an advanced notice held meeting open to the public. The sole source document will include at a minimum one of the five designed sole source qualifications.

Anticipated completion date:

June – December 2025

***Contact person responsible
for corrective action:***

Viola Babcock, Interim Chief Financial Officer

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2022

Prior-year Number	Description	Current Status
2021-001	Account Reconciliations	Repeated
2021-002	Manual Journal Entries	Repeated