

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

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

December 31, 2024 and 2023



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, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2024 and 2023, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 Standard

As discussed in Note 1 to the financial statements, in 2024, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Substantial Doubt about the District's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 2 to the financial statements, the District's significant operating losses raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 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 GAAP requires 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2026, 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
February 10, 2026

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Net Position
December 31, 2024 and 2023

ASSETS	2024	2023
<i>Current assets</i>		
Cash and cash equivalents	\$ 598,421	\$ 1,164,097
Receivables:		
Patient accounts, net	2,681,173	2,672,420
Estimated third-party payor settlements	2,099,000	436,000
Taxes	59,328	49,435
Grants	22,813	29,771
Other	156,433	116,237
Inventories	152,000	135,113
Prepaid expenses	94,720	51,094
Total current assets	5,863,888	4,654,167
<i>Noncurrent assets</i>		
Assets limited as to use:		
Cash and cash equivalents:		
Designated by Board for capital additions	8,572	18,428
Nondepreciable capital assets	183,696	16,698
Depreciable capital assets, net of accumulated depreciation	9,516,038	10,701,317
Total noncurrent assets	9,708,306	10,736,443
Total assets	\$ 15,572,194	\$ 15,390,610

See accompanying notes to financial statements.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Net Position (Continued)
December 31, 2024 and 2023

LIABILITIES AND NET POSITION	2024	2023
<i>Current liabilities</i>		
Current portion of long-term debt	\$ 414,956	\$ 275,000
Current portion of subscription liabilities	587,203	342,970
Accounts payable	2,801,159	2,114,774
Refunds payable for overpayments on patient accounts	807,631	-
Accrued compensation and related liabilities	830,631	560,693
Deferred grant revenue	9,458	341,979
Accrued compensated absences	525,444	462,224
Total current liabilities	5,976,482	4,097,640
<i>Noncurrent liabilities</i>		
Long-term debt, net of current maturities	8,862,752	7,064,626
Subscription liabilities, net of current maturities	1,267,349	1,556,493
Total noncurrent liabilities	10,130,101	8,621,119
Total liabilities	16,106,583	12,718,759
<i>Net position</i>		
Net investment in capital assets	791,542	1,478,926
Unrestricted, restated	(1,325,931)	1,192,925
Total net position, restated	(534,389)	2,671,851
Total liabilities and net position	\$ 15,572,194	\$ 15,390,610

See accompanying notes to 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, 2024 and 2023

	2024	2023
<i>Operating revenues</i>		
Net patient service revenue	\$ 13,288,899	\$ 10,177,428
Grants	1,549,592	104,973
Other	525,697	227,898
Total operating revenues	15,364,188	10,510,299
<i>Operating expenses</i>		
Salaries and wages	8,019,321	6,380,628
Employee benefits	2,073,523	1,473,787
Supplies	890,732	1,080,702
Professional fees	5,168,211	5,321,119
Depreciation and amortization	1,287,536	1,240,753
Repairs and maintenance	117,569	56,018
Utilities	345,594	267,430
Insurance	238,644	211,690
Rent	110,798	106,464
Other	1,297,690	891,065
Total operating expenses	19,549,618	17,029,656
<i>Operating loss</i>	(4,185,430)	(6,519,357)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	600,282	583,063
Taxation for emergency medical services	372,875	319,082
Taxation for bond principal and interest	419,651	415,109
Interest expense	(413,618)	(409,221)
Total nonoperating revenues (expenses), net	979,190	908,033
<i>Change in net position</i>	(3,206,240)	(5,611,324)
<i>Net position, beginning of year, restated</i>	2,671,851	8,283,175
Net position, end of year, restated	\$ (534,389)	\$ 2,671,851

See accompanying notes to financial statements.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 12,424,777	\$ 8,673,376
Grant receipts	1,005,315	709,101
Other receipts	525,697	227,898
Payments to and on behalf of employees	(9,581,168)	(7,645,294)
Payments to suppliers and contractors	(7,278,777)	(6,428,034)
Net cash from operating activities	(2,904,156)	(4,462,953)
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	590,389	582,459
Taxation for emergency medical services	372,875	319,082
Net cash from noncapital financing activities	963,264	901,541
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	419,651	415,109
Proceeds from issuance of long-term debt	2,000,000	-
Principal paid on long-term debt	(326,507)	(270,988)
Principal paid on subscription liabilities	(44,911)	(218,416)
Purchase of capital assets	(269,255)	(339,925)
Proceeds from capital grants	-	470,021
Cash paid for interest on long-term debt and subscription liabilities	(413,618)	(409,221)
Net cash from capital and related financing activities	1,365,360	(353,420)
Net change in cash and cash equivalents	(575,532)	(3,914,832)
Cash and cash equivalents, beginning of year	1,182,525	5,097,357
Cash and cash equivalents, end of year	\$ 606,993	\$ 1,182,525

See accompanying notes to 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, 2024 and 2023

	2024	2023
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 598,421	\$ 1,164,097
Cash and cash equivalents designated by Board for capital additions	8,572	18,428
Total cash and cash equivalents	\$ 606,993	\$ 1,182,525
<i>Reconciliation of Operating Loss to Net Cash from Operating Activities</i>		
Operating loss	\$ (4,185,430)	\$ (6,519,357)
<i>Adjustments to reconcile operating loss to net cash from operating activities</i>		
Depreciation and amortization	1,287,536	1,240,753
Provision for bad debts	730,903	1,033,048
(Increase) decrease in assets:		
Receivables:		
Patient accounts, net	(739,656)	(1,447,332)
Estimated third-party payor settlements	(1,663,000)	(436,000)
Grants	6,958	262,149
Other	(40,196)	(116,237)
Inventories	(16,887)	144,876
Prepaid expenses	(43,626)	(32,423)
Increase (decrease) in liabilities:		
Accounts payable	950,974	1,394,001
Refunds payable for overpayments on patient accounts	807,631	(161,768)
Accrued compensation and related liabilities	368,407	321,503
Estimated third-party payor settlements	-	(492,000)
Deferred grant revenue	(551,235)	341,979
Accrued compensated absences	183,465	3,855
Net cash from operating activities	\$ (2,904,156)	\$ (4,462,953)

Noncash Capital Financing and Investing Activities:

During the year ended December 31, 2024, the District refinanced approximately \$269,000 of vendor invoices into long-term debt.

See accompanying notes to financial statements

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements
Years Ended December 31, 2024 and 2023

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 a rural health clinic in Ritzville, 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 (the Board) consists of five elected community members. Board 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 District is exempt from federal income tax.

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 (GAAP) 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 GAAP 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 Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

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 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 \$1,870,000 from assets limited as to use to operating cash and cash equivalents.

Deferred grant revenue – The District drew down grant funds in 2023 and 2022 using duplicate expenses. The amount was recorded as deferred grant revenue as of December 31, 2023, but was recognized as grant revenue when additional, allowable grant expenses were compiled and submitted to the grantor in 2024.

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. For unpaid, accumulated sick leave, the District does not have a policy to pay any amounts when employees separate from service with the District. However, a liability is estimated based on the amount of accumulated sick leave expected to be used by the employees. Compensated absence liabilities are computed using the regular pay rates in effect at the statements of net position dates, plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

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 2024 or 2023. *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 Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

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.

Change in accounting principles – In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*. The objective of this statement is to update the recognition and measurement guidance for compensated absences. The District adopted Statement No. 101 during the year ended December 31, 2024. This change in accounting principle resulted in additional accrued compensated absences of approximately \$172,000 being recognized at December 31, 2024, 2023, and 2022.

Net position as of December 31, 2022, decreased by approximately \$172,000. The change in accounting principle had no impact on change in net position in 2024 or 2023.

Reclassifications – Certain reclassifications have been made to the 2023 financial statements to conform to the classifications used in the 2024 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through February 10, 2026, the date on which the financial statements were available to be issued.

2. Going Concern:

As of December 31, 2024, the District has had several consecutive years of significant operating losses that have resulted in negative net position. The District’s cash reserves have been severely depleted. The District has not had sufficient funds to pay its vendors and has accumulated significant balances in accounts payable and long-term debt. These conditions raise substantial doubt about the District’s ability to continue as a going concern.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

2. Going Concern (continued):

As of February 10, 2026, the District's management is actively working on a number of initiatives to improve its financial position and ensure its ability to continue operations. These actions include:

- Notifying vendors of the District's financial situation and negotiating for forgiveness of liabilities or extension of payment due dates,
- Reducing staffing through layoffs and reducing other expenses,
- Adding a restaurant to generate additional revenue from both staff and the public,
- Converting the hospital type to Rural Emergency Hospital (REH),
- Increasing emergency medical services and general tax levies,
- Requiring employees to take paid time off and limiting the option to buy out,
- Applying for grants,
- Increasing the chargemaster to allow for a 6% annual allowed increase, and
- Joining the Rural Collaborative to allow for reduction to expenses with improved pricing for purchasing and services such as physician payer credentialing.

While management believes these initiatives will stabilize the District's financial condition, there is no assurance that these plans will be successful. Accordingly, the ability of the District to continue as a going concern is dependent upon the successful implementation of these plans.

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.

In 2026, the District was approved by the State of Washington to become a REH. The District is awaiting approval from Medicare for this status. If approved, the District will no longer provide inpatient services, and its payment methodologies will change for payments from Medicaid and Medicare.

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, 2024 and 2023, 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, 2024 and 2023, were \$2,356 and \$30,281, 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, 2024 and 2023.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

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 has not changed 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:

	2024	2023
Patients and their insurance carriers	\$ 1,648,280	\$ 1,369,612
Medicare	1,395,907	1,875,272
Medicaid	637,415	352,514
Total patient accounts receivable	3,681,602	3,597,398
Less allowance for uncollectible amounts	1,000,429	924,978
Patient accounts receivable, net	\$ 2,681,173	\$ 2,672,420

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

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 assets	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 and amortization expense.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

5. Capital Assets (continued):

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

	Balance December 31, 2023	Additions	Retirements	Transfers	Balance December 31, 2024
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 16,698	\$ -	\$ (2,300)	\$ -	\$ 14,398
Construction in progress	-	169,298	-	-	169,298
Total capital assets not being depreciated or amortized	16,698	169,298	(2,300)	-	183,696
<i>Capital assets being depreciated or amortized</i>					
Land improvements	244,149	-	-	-	244,149
Buildings	10,560,026	57,000	(16,051)	-	10,600,975
Fixed equipment	1,780,768	-	-	-	1,780,768
Movable equipment	5,438,155	66,458	(15,423)	-	5,489,190
Subscription assets	2,578,473	-	-	-	2,578,473
Total capital assets being depreciated or amortized	20,601,571	123,458	(31,474)	-	20,693,555
<i>Less accumulated depreciation and amortization for</i>					
Land improvements	168,917	20,970	-	-	189,887
Buildings	4,269,377	515,799	(10,273)	-	4,774,903
Fixed equipment	862,569	111,419	-	-	973,988
Movable equipment	4,200,342	270,994	-	-	4,471,336
Subscription assets	399,049	368,354	-	-	767,403
Total accumulated depreciation and amortization	9,900,254	1,287,536	(10,273)	-	11,177,517
Total capital assets being depreciated or amortized, net	10,701,317	(1,164,078)	(21,201)	-	9,516,038
Total capital assets, net	\$ 10,718,015	\$ (994,780)	\$ (23,501)	\$ -	\$ 9,699,734

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

5. Capital Assets (continued):

	Balance December 31, 2022	Additions	Retirements	Transfers	Balance December 31, 2023
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 16,698	\$ -	\$ -	\$ -	\$ 16,698
Total capital assets not being depreciated or amortized	16,698	-	-	-	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	5,098,230	339,925	-	-	5,438,155
Subscription assets	2,578,473	-	-	-	2,578,473
Total capital assets being depreciated or amortized	20,261,646	339,925	-	-	20,601,571
<i>Less accumulated depreciation and amortization for</i>					
Land improvements	147,948	20,969	-	-	168,917
Buildings	3,762,589	506,788	-	-	4,269,377
Fixed equipment	751,149	111,420	-	-	862,569
Movable equipment	3,967,119	233,223	-	-	4,200,342
Subscription assets	30,696	368,353	-	-	399,049
Total accumulated depreciation and amortization	8,659,501	1,240,753	-	-	9,900,254
<i>Total capital assets being depreciated or amortized, net</i>	11,602,145	(900,828)	-	-	10,701,317
Total capital assets, net	\$ 11,618,843	\$ (900,828)	\$ -	\$ -	\$ 10,718,015

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

6. Long-term Debt and Subscription Liabilities:

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

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 5,340,000	\$ -	\$ (140,000)	\$ 5,200,000	\$ 145,000
Bond premium on 2014 unlimited tax general obligation bonds	73,865	-	(3,588)	70,277	-
2015 limited tax general obligation bonds	1,845,000	-	(135,000)	1,710,000	140,000
Bond premium on 2015 unlimited tax general obligation bonds	80,761	-	(7,398)	73,363	-
Multicare health systems loan	-	2,000,000	-	2,000,000	-
Omni Staffing Services	-	264,589	(40,521)	224,068	129,956
Total long-term debt	\$ 7,339,626	\$ 2,264,589	\$ (326,507)	\$ 9,277,708	\$ 414,956

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 5,470,000	\$ -	\$ (130,000)	\$ 5,340,000	\$ 140,000
Bond premium on 2014 unlimited tax general obligation bonds	77,453	-	(3,588)	73,865	-
2015 limited tax general obligation bonds	1,975,000	-	(130,000)	1,845,000	135,000
Bond premium on 2015 unlimited tax general obligation bonds	88,161	-	(7,400)	80,761	-
Total long-term debt	\$ 7,610,614	\$ -	\$ (270,988)	\$ 7,339,626	\$ 275,000

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

6. Long-term Debt and Subscription Liabilities (continued):

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 \$145,000 to \$420,000, plus semiannual interest at varying interest rates from 4 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.
- 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 \$140,000 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.
- Omni Staffing Services Financing Agreement dated September 25, 2024, in the original amount of \$264,588. This represents a two-year finance agreement in which the District and Omni Staffing Services mutually agreed to convert an existing liability balance for services rendered into a long-term finance agreement. The contract is due in 24 equal monthly payments of \$12,209, with a compounding interest rate of 10 percent included in the payments. The first payment was due on October 5, 2024.
- Multicare Loan Agreement dated November 5, 2024, in the original amount of \$2,000,000. The principal for this loan is due after 24 months in full, with no principal payments to be made payable in the interim. Quarterly installments of interest are payable to the debtor at a rate of the term SOFR Reference Rate for a one-month tenor, as published by the Chicago Mercantile Exchange, plus 1.85 percent annually. The interest rate on the loan was 5.52 percent as of December 31, 2024. The first interest payment was due January 2, 2025, and subsequent payments will be due the first business day of each January, April, July, and October until the date of maturity.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

6. Long-term Debt and Subscription Liabilities (continued):

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
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	155,000	63,750	218,750	175,000	231,700	406,700
2029	165,000	56,000	221,000	185,000	224,700	409,700
2030 - 2034	955,000	147,750	1,102,750	1,080,000	1,001,969	2,081,969
2035 - 2039	-	-	-	1,415,000	707,763	2,122,763
2040 - 2044	-	-	-	1,880,000	299,813	2,179,813
	\$ 1,710,000	\$ 493,950	\$ 2,203,950	\$ 5,200,000	\$ 3,208,545	\$ 8,408,545

Years Ending December 31,	Omni Staffing Contract			Multicare Contract		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 129,956	\$ 16,558	\$ 146,514	\$ -	\$ 37,000	\$ 37,000
2026	94,112	3,563	97,675	2,000,000	37,000	2,037,000
	\$ 224,068	\$ 20,121	\$ 244,189	\$ 2,000,000	\$ 74,000	\$ 2,074,000

Subscription liabilities

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 percent. The monthly payments increase by approximately 1.4 percent per year.

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

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Amounts Due Within One Year
<i>Subscription liability</i>	\$ 1,899,463	\$ -	\$ (44,911)	\$ 1,854,552	\$ 587,203

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
<i>Subscription liability</i>	\$ 2,117,879	\$ -	\$ (218,416)	\$ 1,899,463	\$ 342,970

The District has not made all of its scheduled payments. As a result, the reductions in the schedule above are lower than what the agreement requires. Also, the current portion has increased each year as it includes past-due amounts.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

6. Long-term Debt and Subscription Liabilities (continued):

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

Years Ending December 31,	Subscription Liability		
	Principal	Interest	Total
2025	\$ 587,203	\$ 98,926	\$ 686,129
2026	302,649	33,887	336,536
2027	316,682	24,616	341,298
2028	331,263	14,916	346,179
2029	316,755	4,771	321,526
	\$ 1,854,552	\$ 177,116	\$ 2,031,668

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 2024. The District has not changed its charity care or uninsured discount policies during fiscal years 2024 or 2023.

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

	2024	2023
Patient service revenue (net of contractual allowances and discounts):		
Medicare	\$ 8,205,127	\$ 6,018,495
Medicaid	2,655,364	2,161,919
Other third-party payors	2,293,213	1,869,884
Patients	135,195	127,130
Net patient service revenue	\$ 13,288,899	\$ 10,177,428

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

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 clinic is certified as a rural health clinic and is 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 increased by approximately \$558,000 and \$356,000 in the years ended December 31, 2024 and 2023, 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 the years ended 2024 and 2023.

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.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

8. Property Taxes (continued):

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 2024, the District's regular tax levy was approximately \$0.54 per \$1,000 on a total assessed valuation of \$1,161,676,841, for a total regular levy of \$622,728. The District's EMS tax levy was approximately \$0.31 per \$1,000 on a total assessed valuation of \$1,161,676,841 for a total EMS levy of \$360,350. The District's general obligation bond tax levy was approximately \$0.35 per \$1,000, on a total assessed valuation of \$1,157,349,741, for a total general obligation bond levy of \$404,000.

For 2023, the District's regular tax levy was approximately \$0.56 per \$1,000 on a total assessed valuation of \$1,081,634,341, for a total regular levy of \$604,305. The District's EMS tax levy was approximately \$0.28 per \$1,000 on a total assessed valuation of \$1,081,634,341, for a total EMS levy of \$307,000. The District's general obligation bond tax levy was approximately \$0.37 per \$1,000, on a total assessed valuation of \$1,078,347,941, 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 Internal Revenue 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 \$148,020 and \$162,820 for the years ended December 31, 2024 and 2023, respectively.

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 Physicians Insurance A Mutual Company (Physicians). The Physicians 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.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

10. Contingencies (continued):

Medical malpractice claims (continued) – 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 if 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 \$63,000 and \$61,000 in 2024 and 2023, 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.

Fraud investigations – During the audit of the District for the fiscal year ended December 31, 2024, several incidents of alleged and confirmed fraud were identified. These matters are resolved or currently under investigation and have been escalated to appropriate authorities. At this time, the Washington State Auditor’s Office has five active investigations. The Washington Medical Commission has three active investigations. The United States Drug Enforcement Agency has two active investigations. The United States Health Resources and Services Administration Office of Inspector General has one active investigation. The Department of Justice has been notified. No accrual has been recognized in these financial statements for any loss due to fraud.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Notes to Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

11. Medical Self-insurance Plan:

The District partially self-insures the cost of employee healthcare benefits. The first \$35,000 in claims per eligible participant is covered by the District. The District also purchases annual stop-loss insurance coverage for all claims in excess of \$35,000 per participant. During the years ended December 31, 2024 and 2023, the District accrued a stop-loss receivable of approximately \$156,000 and \$116,000, respectively. Accrued compensation and related liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Changes in the District's claim liability amounts are as follows.

	2024	2023
Claim liability, beginning of year	\$ 249,993	\$ -
Current year claims and changes in estimates	986,708	1,073,624
Claims payments	(911,011)	(823,631)
Claim liability, end of year	\$ 325,690	\$ 249,993

12. 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:

	2024	2023
Medicare	32 %	38 %
Medicaid	23	25
Other third-party payors	21	19
Patients	24	18
	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.



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 (GAAS) 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, 2024, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents, and have issued our report thereon dated February 10, 2026.

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. 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 2024-001, 2024-002, 2024-003, 2024-004, and 2024-005 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2024-003, 2024-004, and 2024-005.

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 responses. 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
February 10, 2026

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Responses
Year Ended December 31, 2024

2024-001 Account Reconciliations

<i>Condition</i>	There should not be any significant or material adjusting journal entries made during the audit process. Accounts receivable, the allowance for uncollectible accounts, accounts payable, capital assets, net patient service revenue, interest expense, interest payable, compensated absences, net assets, prepaid expenses, supplies expense, professional fees expense, patient refunds payable, tax revenue, and taxes receivable were not adequately reconciled during the year.
<i>Criteria</i>	<p>[] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> <p>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 accounts receivable, the allowance for uncollectible accounts, accounts payable, capital assets, net patient service revenue, interest expense, interest payable, compensated absences, net assets, prepaid expenses, supplies expense, professional fees expense, patient refunds payable, tax revenue, and taxes receivable. 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.</p>
<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, and 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 the 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 in progress.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2023

2024-002 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>	<p>[] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> <p>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.</p>
<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 that shows all manual journal entries posted during the month and 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 Responses (Continued)
Year Ended December 31, 2023

2024-003 Reserve for Self-funded Insurance

<i>Condition</i>	The District did not establish and fund a cash reserve account for its self-funded medical benefits for employees.
<i>Criteria</i>	[X] Compliance Finding [] Significant Deficiency [X] Material Weakness Under Washington Administrative Code 200-110-040, governmental entities that self-insure medical benefits are required to establish reserves sufficient to fund 16 weeks of benefit expenses.
<i>Context</i>	This finding is an <i>isolated</i> problem.
<i>Cause</i>	The District experienced significant financial losses in 2023 and 2024 and did not have sufficient cash reserves. Management was also unaware of the reserve requirement for the self-insurance benefits.
<i>Effect</i>	The District may be subject to penalties from the state, including not being able to continue offering its self-insured benefits program.
<i>Recommendation</i>	We recommend the District estimate the required reserve amount and establish an account to hold the required reserves.
<i>Management's Response</i>	The District will set aside the required reserve funds in 2025. In addition, the District is currently going out to bid to move health benefits for employees back to a traditional premium plan coverage starting January 1, 2026.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2023

2024-004 Late Filing of Financial Statement Audit

<i>Condition</i>	The District did not complete and file the audit by the due date required by the state of Washington.
<i>Criteria</i>	<p>[X] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> <p>Under Revised Code of Washington 43.09.230, governmental entities are required to file audited financial statements with the State Auditor's Office within 150 days of year end.</p>
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	Due to management turnover, changes in computers systems, and other factors, the District's management did not provide sufficient documentation to the auditors in a timely manner, which resulted in significant delays in completion of the audit.
<i>Effect</i>	The District may be subject to penalties from the state, including not being able to issue warrants, until the financial statements are filed. In addition, the Board of Commissioners and other users of the financial statements do not have reliable financial information to use for decision-making purposes.
<i>Recommendation</i>	We recommend the District prioritize completing the audits each year by reconciling accounts timely and sending requested documents to the auditors as soon as is administratively possible.
<i>Management's Response</i>	The District is resolving all outstanding audits to being fully current by engaging with and working with the audit firm to provide accurate and full answers and documentation.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2024

2024-005 Control Environment and Protection of Public Funds

<i>Condition</i>	The District has multiple investigations in process related to alleged and confirmed fraud and other improper uses of public funds.
<i>Criteria</i>	[X] Compliance Finding [] Significant Deficiency [X] Material Weakness The Revised Code of Washington 43.09.230 requires government entities to develop and maintain a system of internal controls that will safeguard assets.
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	The District did not have sufficient internal controls in place to review and approve transactions and management decisions, such as hiring decisions.
<i>Effect</i>	Unauthorized credit cards were used by management, employees were hired that may not have been necessary and may not have been the best candidates available, and errors in payments and financial statement reporting may have been made.
<i>Recommendation</i>	Management should strengthen internal controls to ensure there is adequate review and approval of transactions and management personnel decisions. These controls should also include appropriate monitoring controls to verify that expenses are not unnecessarily exceeding budget and that employees have appropriate oversight by department heads. Internal controls should be considered that prevent, detect, and correct for errors and fraud.
<i>Management's Response</i>	In 2025, as the 2024 audit was being prepared we discovered the internal control failures. We immediately addressed with establishing appropriate policies, implementing separation of duties, and establishing Board approval for critical credit card use. The banking authority and reconciliation, particularly the credit cards, and financial reporting was separated between multiple positions and responsibilities. The Board established limited authority and limited positions who are approved for credit cards.

Adams County Public Hospital District No. 2
doing business as East Adams Rural Healthcare
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2024

Prior-year Number	Description	Current Status
2023-001	Account Reconciliations	Repeated
2023-002	Manual Journal Entries	Repeated
2023-003	Grant Tracking	Resolved
2023-004	Reserve for Self-funded Insurance	Repeated
2023-005	Late Filing of Financial Statement Audit	Repeated