

Washington State Auditor's Office
Financial Statements Audit Report

Grant County Public Hospital District
No. 2
(Quincy Valley Medical Center)

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1011509

Issue Date
March 27, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

March 27, 2014

Board of Commissioners
Quincy Valley Medical Center
Quincy, Washington

Report on Financial Statements

Please find attached our report on the Quincy Valley Medical Center's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Grant County
January 1, 2012 through December 31, 2012**

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Schedule of Audit Findings and Responses

Quincy Valley Medical Center Grant County January 1, 2012 through December 31, 2012

1. **The District has insufficient revenue to cover operating expenses, increasing the risk that it will not be able to continue services at current levels.**

Description of Condition

Grant County Public Hospital District No.2's financial activities for 2012 revealed a continued decline in its financial health, resulting in increased borrowing from the County to pay for operations and to address cash flow shortages. The borrowing is through registered warrants. Interest is charged on these funds, resulting in additional expense to the District.

	2009	2010	2011	2012
Registered Warrants	\$1,529,157	\$1,202,966	\$2,912,760	\$2,820,618

As shown in the table above, the District's registered warrant balance at Grant County was approximately \$2.8 million at the end of 2012. We extended our review of the District's financial health to December 2013 and noted the unaudited registered warrant balance has increased significantly to \$3.5 million.

Cause of Condition

The District attributes the increase in its registered warrants to lower Medicare reimbursement rates and an increase in bad debts due to non-payment of patient accounts. Although the District has streamlined operations and improved cash collections, it has not been successful in improving its financial health. As shown in the table below, revenue write-offs and bad debt expense was approximately \$5 million at the end of 2012, which is the highest it has been in the past four years.

	2009	2010	2011	2012
Revenue deduction and allowances and bad debt	\$2,810,953	\$3,166,979	\$3,174,723	\$4,999,046

Effect of Condition

Although the District has taken steps to improve its financial condition, its financial health continues to decline. As a result, the District may not be able to maintain services at present levels.

Recommendation

We recommend the District's Board re-evaluate its strategic plan to address key financial impacts such as the increase in revenue write-offs and bad debt expense and its reliance on borrowing money to fund ongoing operations. We further recommend the Board ensure the plan is being followed and the desired results achieved to resolve its cash-flow issues.

District's Response

Quincy Valley Medical Center (QVMC) recognizes the concerns brought up during the state audit and the financial challenges facing the Hospital District. The District has been successful in increasing the Gross Revenue by \$2,072,919 from 2011 to 2012 and it did see total operating revenue increase by \$1,070,889 over that same period of time. The District actually ended 2012 with an Excess of Revenue of \$549,028.

However, the District does face continued pressure from reduced reimbursement and increasing bad debt and charity care numbers. April 1, 2013 the federal government started sequestration which resulted in a 2 percent reduction in payments the hospital receives from Medicare for services provided. In addition, the District has experienced a large increase in the volume of bad debt, much of it due to changing insurance plans that have higher deductibles (which increase the patient owed portion) and a large increase in bad debt for services provided to Live Nation concert goers attending the Gorge concerts. The combined effect of those reductions in collections has been an increase in the Warrants the District owes to the County.

As a result, the District is pursuing these solutions: QVMC is proactively seeking financial assistance from Live Nation for uncompensated care and additional expenses in the same manner that Live Nation compensates the Grant County Sheriff's office for providing law enforcement services at the Gorge Amphitheatre. The District has calculated the amount of unpaid patient charges and extra expenses related to the 2013 Gorge concert patients amounts to more than \$500,000.

In addition, QVMC is going to ask district voters in 2014 to support and approve a 25 cent lid lift (as authorized by statute). The lid lift will enable QVMC to receive a sustainable level of ongoing revenues that will cover the portion of bad debt and would amount to almost \$600,000 per year based on 2013 valuations.

Also, in an effort to spread the financial burden of funding the hospital's operations, QVMC has approached the City to take over a portion of the warrants currently held by the County. This would allow the county warrant level to fall back into a historic level.

Auditor's Remarks

We appreciate the steps the District is taking to address this issue. We will review the condition during our next audit.

Status of Prior Audit Findings

Quincy Valley Medical Center Grant County January 1, 2012 through December 31, 2012

The status of findings contained in the prior years' audit reports of the Quincy Valley Medical Center is provided below:

1. **The District has insufficient revenue to cover operating expenses, increasing the risk that it will not be able to continue services at current levels.**

Report No. 1009503, dated April 15, 2013

Background

Grant County Public Hospital No. 2's net position has declined in two of the last four years.

	2008	2009	2010	2011
Revenues	\$10,540,142	\$11,329,744	\$11,322,989	\$11,066,816
Expenses	\$10,255,420	\$10,825,217	\$11,557,655	\$11,479,523
Net gain (loss)	\$284,722	\$504,527	(\$234,666)	(\$412,707)

As the District's financial position declines, the District borrows money from the County to pay for operations and to address cash-flow shortages. This borrowing is through registered warrants. Interest is charged on these funds, resulting in an additional expense to the District.

	2008	2009	2010	2011
Registered Warrants	\$1,207,434	\$1,529,157	\$1,202,966	\$2,912,760

As shown in the table above, the District's registered warrant balance at Grant County was approximately \$2.9 million at the end of 2011. As of November 2012, the District's registered warrant balance was approx. \$2.7 million.

The District's internal financial data show a net income of approximately \$701,000 as of November 2012. However, the District does not have cash on hand to cover one month's average expenditures.

Status

The District has taken steps to address its financial condition, which resulted in a positive change in net position in 2012. However, the District continues to borrow from the County to pay for operations and to address cash flow shortages.

We recommend the District continue taking action to address its cash flow issues.

Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**Quincy Valley Medical Center
Grant County
January 1, 2012 through December 31, 2012**

Board of Commissioners
Quincy Valley Medical Center
Quincy, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Quincy Valley Medical Center, Grant County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 28, 2014. Our report includes information about the status of the District's financial condition. This information is more fully described in Finding 1 in the Schedule of Audit Findings and Responses.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.

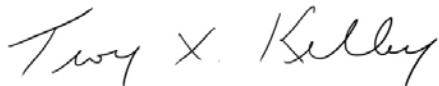
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the 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. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

February 28, 2014

Independent Auditor's Report on Financial Statements

**Quincy Valley Medical Center
Grant County
January 1, 2012 through December 31, 2012**

Board of Commissioners
Quincy Valley Medical Center
Quincy, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Quincy Valley Medical Center, Grant County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Quincy Valley Medical Center, as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 11 to the financial statements and described in Finding 1 in the Schedule of Audit Findings and Responses, the District's financial position has not improved, and the District continues to borrow money from the County in the form of registered warrants in order to pay for operations and to address cash-flow shortages. As of December 31, 2013, the District had a total registered warrant balance of approximately \$3.5 million. As a result, there exists uncertainty about the District's ability to maintain current services at present levels under these conditions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014 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 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 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

February 28, 2014

Financial Section

**Quincy Valley Medical Center
Grant County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012 and 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012 and 2011

Statement of Revenues, Expenses and Changes in Net Position – 2012 and 2011

Statement of Cash Flows – 2012 and 2011

Notes to Financial Statements – 2012 and 2011

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012 AND 2011**

Introduction

The management of Grant County Public Hospital District No. 2 dba Quincy Valley Medical Center (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's financial activities for the fiscal years ended December, 2012, 2011, and 2010. Please read it in conjunction with the District's financial statements.

Using This Annual Report

The District's core financial statements consist of three reports:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows

These reports, together with the related notes to the financial statements, provide the reader with information about the resources, activities, and financial obligations of the District.

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

The District's financial statements begin on page 7. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

The Statement of Net Position

The statement of net position reports the District's assets, liabilities, and net position (the difference between assets and liabilities) as of December 31. The statements of net position for the fiscal the years ended 2012, 2011, and 2010 are presented side by side (comparatively). This presentation assists the reader to identify significant changes between the years.

	December 31,		
	2012	2011	2010
Assets:			
Current Assets	\$ 3,318,214	\$ 2,854,790	\$ 2,011,229
Capital Assets, Net of Accumulated Depreciation	3,519,549	3,898,883	2,921,275
Other Noncurrent Assets	63,408	56,110	57,334
Total Assets	<u>\$ 6,901,171</u>	<u>\$ 6,809,783</u>	<u>\$ 4,989,838</u>
Liabilities:			
Current Liabilities	\$ 5,746,970	\$ 4,758,516	\$ 3,428,767
Other Noncurrent Liabilities	2,365,007	3,811,101	2,908,198
Total Liabilities	<u>\$ 8,111,977</u>	<u>\$ 8,569,617</u>	<u>\$ 6,336,965</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 779,795	\$ 848,640	\$ 823,334
Unrestricted	(1,990,601)	(2,608,474)	(2,170,461)
Total Net Assets	<u>\$ (1,210,806)</u>	<u>\$ (1,759,834)</u>	<u>\$ (1,347,127)</u>
 Total Liabilities and Net Assets	 <u>\$ 6,901,171</u>	 <u>\$ 6,809,783</u>	 <u>\$ 4,989,838</u>

Total liabilities decreased from year-end 2011 to 2012. The decrease in liabilities is due to partial EMR loan repayments plus normal bond payments and purchased property payments.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

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

This report, sometimes referred to as the statement of operations, captures the District's activity for a period of time.

	December 31,		
	2012	2011	2010
Net Patient Service Revenue	\$ 9,866,240	\$ 9,617,644	\$ 9,770,257
Other Operating Revenue	1,212,537	390,244	261,915
Total Operating Revenues	<u>\$ 11,078,777</u>	<u>\$ 10,007,888</u>	<u>\$ 10,032,172</u>
Salaries and Benefits	\$ 6,266,782	\$ 6,163,878	\$ 6,438,588
Supplies	760,142	870,473	904,083
Depreciation and Amortization	520,600	251,349	301,957
Other Operating Expenses	3,745,365	4,090,934	3,710,639
Total Operating Expenses	<u>\$ 11,292,889</u>	<u>\$ 11,376,634</u>	<u>\$ 11,355,267</u>
Operating Loss	<u>\$ (214,112)</u>	<u>\$ (1,368,746)</u>	<u>\$ (1,323,095)</u>
Nonoperating Revenue (Expenses)	<u>\$ 763,140</u>	<u>\$ 956,039</u>	<u>\$ 1,088,429</u>
Excess of Revenue (Expense)	\$ 549,028	\$ (412,707)	\$ (234,666)
Total Net Assets (Deficit) - Beginning of Year	<u>(1,759,834)</u>	<u>(1,347,127)</u>	<u>(1,112,461)</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (1,210,806)</u>	<u>\$ (1,759,834)</u>	<u>\$ (1,347,127)</u>

The District experienced excess of revenue over expense of \$549,028 for 2012. Contributing factors to the excess of revenue over expense were:

- The District changed the coding procedures for the Emergency Department, adding an RN coder who reviews documentation in advance of bills being submitted for payment.
- During 2012, the District met the federal "meaningful use" requirements to be reimbursed for the purchase of the electronic medical record system, required by the HITECH Act, paving the way for Medicare and Medicaid reimbursement.
- In October 2012, the District entered into an agreement with an orthopedic surgeon who committed to renting space in our clinic in order to see patients and perform surgeries at our facility using our surgery support staff.
- The District began respiratory therapy services in 2012.
- The District changed outsourced service providers for billing and collecting the self-pay accounts.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

The Statement of Revenues, Expenses, and Changes in Net Position (Continued)

The District has a mix of government, insurance, and private payers. Medicare represents approximately 29 percent of the District revenues; Medicaid and state programs approximate 26 percent; commercial insurance companies approximate 32 percent; and private individuals approximate 13 percent.

Neither Medicare nor Medicaid pays all of the District charges for patient care. The District has also negotiated discounts with some insurance plans. Together these contractual allowances represented approximately 34 percent of District charges in 2012 and approximately 18 percent in 2011.

In addition to the results from operations, the District receives operating tax revenue from District taxpayers.

In addition to contractual allowances, the District experienced \$1,153,639 in bad debts and \$141,573 in charity care for fiscal year-end December 31, 2012. Collectively, bad debt and charity care are referred to as Uncompensated Care. The process of qualifying for charity care involves determining that the patient does not qualify for insurance coverage, either private or government subsidized, such as Medicaid. Many patients, who might otherwise qualify for charity care, refuse to apply for Medicaid or do not complete the application process. In the absence of a complete charity care application these accounts are attributed to bad debt. Management believes that many of these patients would, in fact, qualify for charity care.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and potential lenders with a general overview of the District's finances and to demonstrate the District's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Hospital Administration at 908 10th Avenue Southwest, Quincy, WA 98848.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011**

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 187,085	\$ 411,840
Patient Accounts Receivable, Net	1,615,215	1,821,953
Taxes Receivable	62,562	60,755
Other Receivables	894,546	16,546
Inventories	538,989	530,925
Prepaid Expenses	19,817	12,771
Total Current Assets	3,318,214	2,854,790
ASSETS LIMITED AS TO USE	56,343	47,821
CAPITAL ASSETS		
Land	444,175	444,175
Construction in Progress	80,893	1,311,596
Depreciable Capital Assets, Net	2,994,481	2,143,112
Total Capital Assets, Net	3,519,549	3,898,883
OTHER ASSETS		
Deferred Financing Costs, Net	7,065	8,289
Total Assets	\$ 6,901,171	\$ 6,809,783

See accompanying Notes to Financial Statements.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011**

	2012	2011
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 1,277,451	\$ 225,660
Warrants Payable	2,820,618	2,912,760
Accounts Payable	587,652	581,624
Accrued Interest Payable	9,871	9,871
Accrued Payroll and Related Expenses	125,586	118,338
Accrued Vacation	225,792	210,263
Estimated Third-Party Settlements Payable	700,000	700,000
Total Current Liabilities	5,746,970	4,758,516
LONG-TERM DEBT , Net of Current Portion	2,365,007	3,811,101
Total Liabilities	8,111,977	8,569,617
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	779,795	848,640
Unrestricted	(1,990,601)	(2,608,474)
Total Net Position	(1,210,806)	(1,759,834)
Total Liabilities and Net Position	\$ 6,901,171	\$ 6,809,783

See accompanying Notes to Financial Statements.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Patient Service Revenue:		
Daily Hospital Care	\$ 2,252,137	\$ 2,177,091
Ancillary Services	12,613,149	10,615,276
Total Patient Service Revenue	<u>14,865,286</u>	<u>12,792,367</u>
Revenue Deduction and Allowances and Provision for Bad Debt	<u>(4,999,046)</u>	<u>(3,174,723)</u>
Total Net Patient Service Revenues	9,866,240	9,617,644
Other Operating Revenues:		
Local Government Contributions	9,433	108,281
Other	<u>1,203,104</u>	<u>281,963</u>
Total Operating Revenues	11,078,777	10,007,888
OPERATING EXPENSES		
Salaries and Wages	5,428,047	5,567,623
Employee Benefits	838,735	596,255
Professional Fees	1,481,473	1,522,219
Supplies	760,142	870,473
Purchased Services - Utilities	148,602	163,515
Purchased Services - Other	1,344,122	1,551,100
Insurance	134,613	131,727
Other	230,716	296,947
Rent	405,839	425,426
Depreciation and Amortization	<u>520,600</u>	<u>251,349</u>
Total Operating Expenses	<u>11,292,889</u>	<u>11,376,634</u>
OPERATING LOSS	(214,112)	(1,368,746)
NONOPERATING REVENUES (EXPENSES)		
Taxation for Operations	1,080,944	1,014,280
Interest Earnings	2,860	981
Interest Expense	(370,320)	(293,278)
Other	6,418	1,098
Grants and Donations	41,938	223,863
Gain on Disposal of Assets	<u>1,300</u>	<u>9,095</u>
Total Nonoperating Revenues (Expenses)	<u>763,140</u>	<u>956,039</u>
CHANGES IN NET POSITION	549,028	(412,707)
Net Position - Beginning of Year	<u>(1,759,834)</u>	<u>(1,347,127)</u>
NET POSITION - END OF YEAR	<u>\$ (1,210,806)</u>	<u>\$ (1,759,834)</u>

See accompanying Notes to Financial Statements.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patient Services	\$ 10,072,978	\$ 8,767,007
Cash Received from Other Revenue	1,212,537	199,855
Cash Paid for Employee Salaries, Wages, and Benefits	(6,244,005)	(6,127,696)
Cash Paid for Other Expenses	(4,606,731)	(3,150,420)
Net Cash Provided (Used) by Operating Activities	434,779	(311,254)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received from Taxation for Operations	201,137	1,041,315
Cash Received from Grants and Donations	41,938	223,863
Net Cash Provided by Noncapital Financing Activities	243,075	1,265,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	-	1,118,454
Principal Payments on Long-Term Debt	(394,303)	(199,799)
Interest Paid	(369,096)	(292,054)
Cash Received from Disposal of Assets	-	12,000
Payments for Purchase of Property, Buildings, and Equipment	(133,548)	(1,230,764)
Net Cash Used by Capital and Related Financing Activities	(896,947)	(592,163)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	2,860	981
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,233)	362,742
Cash and Cash Equivalents - Beginning of Year	459,661	96,919
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 243,428	\$ 459,661
RECONCILIATION TO CASH AND CASH EQUIVALENTS ON THE STATEMENTS OF NET POSITION		
Cash and Cash Equivalents	\$ 187,085	\$ 411,840
Assets Limited as to Use	56,343	47,821
Total Cash and Cash Equivalents	\$ 243,428	\$ 459,661

See accompanying Notes to Financial Statements.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (214,112)	\$ (1,368,746)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	520,600	251,349
Provision for Bad Debts	(1,295,212)	(578,058)
(Increase) Decrease in Assets:		
Patient Receivables	1,501,950	175,958
Inventories	(8,064)	(97,142)
Prepaid Expenses	(7,046)	(8,612)
Increase (Decrease) in Liabilities:		
Warrants Payable	(92,142)	1,562,783
Accounts Payable	6,028	163,569
Accrued Payroll and Related Expenses	7,248	26,262
Accrued Vacation	15,529	9,920
Estimated Third-Party Settlements Payable	-	(448,537)
Net Cash Provided (Used) by Operating Activities	\$ 434,779	\$ (311,254)

See accompanying Notes to Financial Statements.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Grant County Public Hospital District No. 2 dba Quincy Valley Medical Center (the District) owns and operates Quincy Valley Hospital, a 25-bed acute care facility and Quincy Valley Medical Center, a Medicare certified rural health clinic. The District provides health care services to patients in the Quincy, Washington, and surrounding area. Services provided by the District include an acute care hospital, inpatient and outpatient surgery, emergency room, physician's clinic, and other related ancillary procedures (lab, x-ray, therapy, etc.) associated with those services.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental units as established by the Governmental Accounting Standards Board (GASB). The District uses enterprise fund accounting.

The District's statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the donor have been met.

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Accounts Receivable, Net

The District provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectibility based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the District. Accounts that are deemed uncollectible are charged against these allowances and sent to a collection agency.

Inventories

Inventories consist of medical, surgical, and pharmaceutical supplies, and are stated at the lower of cost (last-in, first-out) or market.

Assets Limited as To Use

This group of assets relates to certain cash and assets set aside for future bond principal and interest payment, future operations, and for acquisition or replacement of property, buildings, and equipment (Note 3).

Capital Assets

Such assets are stated at cost or estimated fair market value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation or amortization is removed from the accounts and the resulting gain or loss is classified in nonoperating revenues and expenses. All capital assets, other than land, are being depreciated or amortized (in the case of capital leases), using the straight-line method over the following asset lives:

Land Improvements	10 to 20 Years
Buildings and Leasehold Improvements	5 to 40 Years
Equipment	3 to 20 Years

Deferred Financing Costs

The financing costs of the 2001 Limited Tax General Obligation Bonds have been capitalized and are being amortized over a period of approximately 15 years, the term of the related bonds.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Joint Venture

The District is a partner in the Rural Health Quality Network, LLC, a Washington nonprofit corporation. The network was formed to provide quality development, medical staff support, and peer review services to its members, which are other rural health care providers in Washington State. The District's investment in the network is immaterial to the District's financial statements as a whole and is not recorded on the statements of net position. The District's portion of any net receipts from the participation in the network, or any other gains or losses related to the investment of the network are immaterial as a whole and not recorded on these statements.

Property Taxes

The District is permitted to levy an annual expense fund levy upon the taxable property within the District without a vote of the taxpayers. The District records property taxes on the accrual method.

Tax Levy

The District received approximately 8.91 percent and 9.32 percent of its financial support from property taxes in 2012 and 2011, respectively. These funds were available for the following at December 31:

	2012	2011
Operations	\$ 1,080,944	\$ 1,014,280

Property taxes are levied by the county on the District's behalf on January 1 and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding May 31. The state assessed value base of the taxing district of approximately \$4.7 billion with a maximum levy rate of 0.1724 per \$1,000 assessed value for the years ended December 31, 2012 and 2011, respectively. The property tax calendar includes these dates:

Levy Date	January 1
Lien Date	January 1
Tax Bill Mailed	February 14
First Installment Payment Due	April 30
Second Installment Payment Due	October 31

Property taxes are considered delinquent on the day following each payment due date and interest must be paid on delinquent taxes. No allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Bearing Warrants Payable

The District had outstanding warrants held by Grant County of \$2,820,618 and \$2,912,760 at 2012 and 2011, respectively, bearing interest of 4.50 percent at each date. The District issues interest-bearing warrants to its creditors. Grant County redeems warrants for cash and holds the warrants until such time as the District redeems the warrants plus accrued interest from the county.

The registered warrant activity for the years ended December 31 is as follows:

Registered Warrants	Beginning Balance	Draws	Repayments	Ending Balance
Registered Warrants - 2012	\$2,912,760	\$11,431,828	\$11,523,970	\$ 2,820,618
Registered Warrants - 2011	\$1,202,966	\$12,807,943	\$11,106,907	\$ 2,912,760

Compensated Absences

The District's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave days up to a specified maximum.

Grants and Contributions

From time to time, the District receives grants from the county and the state of Washington, as well as contributions from individuals and private organizations. Revenues from grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Net Position

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

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 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 associated with providing health care services – the District's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

Such revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Foregone revenue for charity care provided during fiscal years 2012 and 2011 measured by the District's standard charges was \$141,573 and \$76,456, respectively.

NOTE 2 DEPOSITS AND INVESTMENTS

The *Revised Code of Washington* (RCW), Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the state of Washington Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. State law requires collateralization of all deposits with federal depository insurance or other acceptable collateral. The District's cash on deposit with banks is insured through the FDIC up to \$250,000 per financial institution. Cash on deposit with the state of Washington Local Government Investment Pool and with qualified public depositories is protected against loss by the PDPC, as provided for by RCW 39.58, subject to certain limitations.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	<u>2,012</u>	<u>2,011</u>
Current Assets - Cash and Cash Equivalents	\$ 142,480	\$ 379,255
Noncurrent Assets:		
Debt Service Fund	44,605	42,396
Bank Balances	<u>187,085</u>	<u>421,651</u>
Reconciling Items	<u>-</u>	<u>(9,811)</u>
Total Cash and Cash Equivalents per Balance Sheets	<u>\$ 187,085</u>	<u>\$ 411,840</u>

NOTE 3 ASSETS LIMITED AS TO USE

The composition of assets limited as to use was as follows at December 31:

	<u>2012</u>	<u>2011</u>
Internally Designated by the Board for Payment of Unclaimed Property Liability:		
Cash and Cash Equivalents	\$ 11,370	\$ 5,082
Internally Designated by the Board for Limited and Unlimited Tax Obligation Bonds:		
Cash and Cash Equivalents	44,605	42,396
Taxes Receivable	368	343
Total	<u>\$ 56,343</u>	<u>\$ 47,821</u>

Cash and cash equivalents included in assets limited as to use are not considered cash and cash equivalents for purposes of presenting cash flows.

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinic Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible health care organizations that demonstrate meaningful use of certified EHR technology. The incentive payments for Critical Access Hospitals are made based on actual costs incurred to attain meaningful use and are contingent on the hospital continuing to meet the escalating meaningful use criteria. For the first payment year, the hospital must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the hospital must demonstrate meaningful use for the entire year. The incentive payments for Critical Access Hospitals are made in one lump sum.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)

The District demonstrated meaningful use for a continuous 90-day period for the year ended December 31, 2012, and expects to receive \$878,000 in incentive payments based on actual costs incurred to attain meaningful use during fiscal year 2012. The revenue has been recognized as other operating revenue in the statements of revenues, expenses, and changes in net position. The final amount for this payment will be determined based on information from the District's Medicare cost report for the year ended December 31, 2012. Events could occur that would cause the final payment to differ materially upon final settlement. At December 31, 2012, the District has recorded an allowance for possible settlements that could have an impact on the final incentive payment.

NOTE 5 ACCOUNTS RECEIVABLE

The District has a concentration of credit risk with respect to unsecured patient accounts receivable. The majority of the District's patients are geographically concentrated in Grant County, Washington, and are insured under third-party payer agreements. As of each statement of net position date, a substantial portion of the patient accounts receivable is due from the Medicare and Medicaid programs.

Patient accounts receivable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Receivable from Patients and their Insurance Carriers	\$ 1,909,551	\$ 1,878,178
Receivable from Medicare	604,386	557,231
Receivable from Medicaid	231,464	307,537
Total Patient Accounts Receivable	<u>2,745,401</u>	<u>2,742,946</u>
Less: Allowance for Doubtful Accounts	1,130,186	920,993
Total Patient Accounts Receivable, Net	<u>\$ 1,615,215</u>	<u>\$ 1,821,953</u>

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 CAPITAL ASSETS

Capital asset additions, retirements, and balances were as follows at December 31:

	2011	Additions/ Transfers	Retirements	2012
Land	\$ 444,175	\$ -	\$ -	\$ 444,175
Construction in Progress	1,311,596	(1,230,703)	-	80,893
Total Nondepreciable Assets	1,755,771	(1,230,703)	-	525,068
Land Improvements	208,696	-	-	208,696
Buildings and Improvements	4,998,051	9,871	-	5,007,922
Equipment	2,738,669	1,362,098	-	4,100,767
Total Depreciable Assets	7,945,416	1,371,969	-	9,317,385
Total Assets Before Depreciation	9,701,187	141,266	-	9,842,453
Less Accumulated Depreciation for:				
Land Improvements	203,289	636	-	203,925
Buildings and Improvements	3,323,506	184,534	-	3,508,040
Equipment	2,275,509	335,430	-	2,610,939
Total Accumulated Depreciation	5,802,304	520,600	-	6,322,904
Total Capital Assets, Net	<u>\$3,898,883</u>	<u>\$ (379,334)</u>	<u>\$ -</u>	<u>\$ 3,519,549</u>
	2010	Additions/ Transfers	Retirements	2011
Land	\$ 17,786	\$ 426,389	\$ -	\$ 444,175
Construction in Progress	547,080	764,516	-	1,311,596
Total Nondepreciable Assets	564,866	1,190,905	-	1,755,771
Land Improvements	208,696	-	-	208,696
Buildings and Improvements	4,998,051	-	-	4,998,051
Equipment	2,871,408	42,922	(175,661)	2,738,669
Total Depreciable Assets	8,078,155	42,922	(175,661)	7,945,416
Total Assets Before Depreciation	8,643,021	1,233,827	(175,661)	9,701,187
Less Accumulated Depreciation for:				
Land Improvements	202,591	698	-	203,289
Buildings and Improvements	3,135,294	188,212	-	3,323,506
Equipment	2,383,861	62,439	(170,791)	2,275,509
Total Accumulated Depreciation	5,721,746	251,349	(170,791)	5,802,304
Total Capital Assets, Net	<u>\$2,921,275</u>	<u>\$ 982,478</u>	<u>\$ (4,870)</u>	<u>\$ 3,898,883</u>

Construction in progress at December 31, 2012, consists of various remodeling projects that are planned to be completed and capitalized in 2013. All projects are funded internally.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 7 LONG-TERM DEBT

A schedule of changes in the District's long-term debt was as follows at December 31:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Amounts Due Within 1 Year
Bonds and Notes Payable:					
2001 LTGO Bonds	\$ 2,103,831	\$ -	\$ (63,710)	\$ 2,040,121	\$ 71,492
2004 LTGO Bonds	100,601	-	(33,811)	66,790	31,392
2007 WTB Surgery	344,372	-	(63,621)	280,751	63,937
2010 Mortgage Church	271,215	-	(62,152)	209,063	64,896
2010 EMR Loan	1,216,742	-	(171,009)	1,045,733	1,045,733
Total Noncurrent Liabilities	<u>\$ 4,036,761</u>	<u>\$ -</u>	<u>\$ (394,303)</u>	<u>\$ 3,642,458</u>	<u>\$ 1,277,451</u>

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Amounts Due Within 1 Year
Bonds and Notes Payable:					
2001 LTGO Bonds	\$ 2,167,922	\$ -	\$ (64,091)	\$ 2,103,831	\$ 66,743
2004 LTGO Bonds	125,011	-	(24,410)	100,601	29,837
2007 WTB Surgery	401,885	-	(57,513)	344,372	60,594
2010 Mortgage Church	325,000	-	(53,785)	271,215	68,486
2010 EMR Loan	98,288	1,118,454	-	1,216,742	-
Total Noncurrent Liabilities	<u>\$ 3,118,106</u>	<u>\$ 1,118,454</u>	<u>\$ (199,799)</u>	<u>\$ 4,036,761</u>	<u>\$ 225,660</u>

Long-Term Debt

The terms and due dates of the District's long-term debt at December 31, 2012 and 2011 are as follows:

- Limited tax general obligation bonds, dated December 3, 2001, held by the United States Department of Agriculture; for the purpose of refinancing an interim loan used for construction, bond refinancing, and capital purchases, as well as additional financing for capital additions. Payments of \$80,465 are due semiannually on June 1 and December 1, including interest at a fixed rate of 4.5 percent per annum.
- Limited tax general obligation bonds, dated November 1, 2004, for the purpose of replacing the hospital boiler and making various pharmacy improvements; monthly payments of \$2,837 including interest payments at variable rates from 4.73 percent for the first 60 months of the note term to a monthly bank adjusted rate for the remainder of term.
- Washington Trust Bank note, dated January 26, 2007, for the purpose of remodeling existing hospital space in order to add a surgery unit and make other hospital improvements; monthly payments of \$6,454 including interest payments at variable rates from 5.23 percent for the first 120 months of the note term to a monthly bank adjusted rate for the remainder of the term.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Long-Term Debt (Continued)

- Wheatland Bank note, dated December 10, 2010, for the purpose of purchasing a church property adjacent to the hospital; monthly payments of \$5,985 including interest payments at a rate of 4 percent per annum.
- Washington Trust Bank note, dated December 2, 2010, for the purpose of purchasing electronic medical records system, hardware, software, and other related equipment; monthly payments will be made on interest of the principal used up to \$1,500,000 at a rate of 3.6 percent. The note is due at maturity on January 5, 2013 in full.

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

Year Ending December 31,	Bonds and Notes Payable		
	Principal	Interest	Total
2013	\$ 1,277,451	\$ 112,523	\$ 1,389,974
2014	245,095	101,508	346,603
2015	225,847	90,685	316,531
2016	159,808	81,969	241,777
2017	85,411	79,519	164,930
2018-2022	488,819	315,831	804,650
2023-2027	610,685	193,965	804,650
2028-2032	549,343	63,501	612,844
Total	\$ 3,642,458	\$ 1,039,501	\$ 4,681,959

NOTE 8 NET PATIENT SERVICE REVENUE

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

Medicare

The District is paid on a cost reimbursement method for substantially all hospital, swing bed, and clinic services provided to Medicare beneficiaries. 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 fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 8 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

Hospital inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and review thereof by the Washington State Department of Social and Health Services (DSHS). The DSHS program's administrative procedures preclude final determination of amounts due to the District for such services until after the District's annual cost report is audited or otherwise reviewed or settled upon by DSHS.

Other

The District has entered into payment agreements with certain commercial insurance carriers 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.

Medicare and Medicaid billings and payments are subject to CMS and state regulation that is subject to review and change from time to time and these changes could have both positive and negative impact on the payments under the programs. One such recent change is the Patient Protection and Affordable Care Act. At the date of issuance of the financial statements, the District is not able to determine the impact of this legislation on Medicare and Medicaid reimbursement.

Bad debt expense included in revenue deductions and allowances totaled \$1,295,212 and \$578,058 for 2012 and 2011, respectively.

NOTE 9 RETIREMENT PLAN AND DEFERRED COMPENSATION

The District has a tax sheltered annuity (TSA) plan through Lincoln National Life Insurance Company that is available to substantially all employees. Employees may contribute to the TSA immediately upon employment. Upon employment with the District, the District may make a voluntary contribution to the participating employee's account at the end of the year. The District's contribution is 2 percent of the employee's annual compensation. After one year of service an employee vests 10 percent of the employer's contribution and after five years of services an employee vests 100 percent of the employer contribution. As of the statement of net position dates, the District has not elected to make voluntary contributions since the plan was approved.

The deferred compensation plan noted above was established by the District under section 403(b) of the Internal Revenue Code. The plan is funded from both employee and employer contributions, which are deposited in employee controlled accounts established with Lincoln National Life Insurance Company.

GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 10 COMMITMENTS AND CONTINGENCIES

The District is one of a number of Washington hospitals who are members of the Washington Casualty Company (WCC). WCC is a wholly owned subsidiary of Washington Hospital Insurance Fund, a nonprofit mutual insurance corporation used for payment of liability claims. WCC had experienced financial difficulties over the past several years, including being placed into receivership by the Washington State Insurance Commissioner.

The FinCor, Inc. policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before but not reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The policy provides \$1,000,000 per claim of primary coverage with a \$5,000,000 annual aggregate limit. There are no significant deductible or coinsurance clauses for this policy.

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

NOTE 11 GOING CONCERN

The District reported an excess of revenues over expenses of \$549,028 for the year ended December 31, 2012, which was an increase of \$961,735 from 2011. Included in this increase were revenue increases from changes to the emergency department coding procedures and revenue from the electronic health record incentive program (Note 4). As of December 31, 2012, the District is reporting a total net deficit of \$1,210,806. In addition, current liabilities of the District exceed total current assets by \$1,383,023. Due to the District's financial condition, there remains a concern about the District's ability to continue operations in the future. The board of commissioners and management are continuing their efforts to return the District to financial stability by closely monitoring cash flow, which includes limiting expenses and expenditures, seeking additional revenue opportunities, and monitoring third-party payer reimbursement.

Over the last five years, the District has noted some improved financial performance as inpatient and ancillary volumes have grown significantly. The District's surgery program, reinstated in 2007, was a primary contributor to this, along with expansion in 2012 to include orthopedics. In addition, the District's re-opened rural health clinic continues to see increased patient volumes resulting in revenue increases in many hospital ancillary departments including lab and x-ray.

**GRANT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
DBA QUINCY VALLEY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 11 GOING CONCERN (CONTINUED)

A Charge Master review was conducted in 2011 and implemented in early 2012, which was done in conjunction with a change in the emergency department's coding standards. These changes resulted in increased revenues during 2012.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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