



Office of the Washington State Auditor
Pat McCarthy

March 15, 2018

Board of Commissioners
Cascade Medical Center
Leavenworth, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Cascade Medical Center's financial statements for the fiscal years ended December 31, 2016 and 2015. The District contracted with the CPA firm for this audit under an agreement with the State Auditor's Office.

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy
State Auditor
Olympia, WA

**Chelan County
Public Hospital District No. 1
doing business as
Cascade Medical Center**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2016 and 2015



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Leavenworth, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Chelan County Public Hospital District No. 1 doing business as Cascade Medical Center (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the 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 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 June 14, 2017, 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 for the year ended December 31, 2016. We issued a similar report for the year ended December 31, 2015, dated May 25, 2016, which has not been included with the 2016 financial and compliance report. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 14, 2017

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Net Position
December 31, 2016 and 2015

ASSETS	2016	2015
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,725,561	\$ 631,638
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$404,000 and \$450,000, respectively	2,658,823	2,541,556
Taxes	17,563	18,316
Estimated third-party payor settlements	44,512	64,513
Electronic health records incentive payment	198,757	248,446
Other	13,238	77,468
Inventories	176,958	156,660
Prepaid expenses	114,354	224,759
Cash and cash equivalents limited as to use	485,593	405,011
Taxes receivable limited as to use	53,885	56,121
Total current assets	5,489,244	4,424,488
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	1,940,078	2,072,414
Capital assets, net of accumulated depreciation	13,230,282	14,301,785
Total noncurrent assets	15,170,360	16,374,199
Total assets	\$ 20,659,604	\$ 20,798,687

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Net Position (Continued)
December 31, 2016 and 2015

LIABILITIES AND NET POSITION	2016	2015
<i>Current liabilities</i>		
Accounts payable	\$ 305,896	\$ 345,505
Accrued compensation and related liabilities	902,392	791,141
Accrued interest payable	53,900	55,023
Estimated third-party payor settlements	7,103	11,328
Current maturities of long-term debt and capital lease obligations	493,852	487,462
Total current liabilities	1,763,143	1,690,459
<i>Long-term debt and capital lease obligations, less current maturities</i>	12,885,153	13,373,025
Total liabilities	14,648,296	15,063,484
<i>Net position</i>		
Net investment in capital assets	(202,623)	386,275
Restricted	299,281	234,473
Unrestricted	5,914,650	5,114,455
Total net position	6,011,308	5,735,203
Total liabilities and net position	\$ 20,659,604	\$ 20,798,687

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$685,000 and \$557,000, respectively	\$ 13,330,544	\$ 12,187,014
Electronic health records incentive	197,572	236,710
Grants	17,053	17,269
Other	136,280	141,104
Total operating revenues	13,681,449	12,582,097
<i>Operating expenses</i>		
Salaries and wages	8,325,367	7,847,475
Employee benefits	1,709,081	1,771,232
Depreciation and amortization	1,426,222	1,421,853
Supplies	1,095,985	900,435
Professional fees and other purchased services	1,113,779	910,053
Utilities	153,394	153,201
Insurance	201,003	204,210
Leases and rentals	61,487	62,024
Repairs and maintenance	250,103	225,861
Other	772,200	755,706
Total operating expenses	15,108,621	14,252,050
<i>Operating loss</i>	(1,427,172)	(1,669,953)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	1,615,992	1,568,963
Taxation for bond principal and interest	564,769	553,566
Investment income	13,898	4,450
Interest expense	(696,577)	(718,206)
Gain (loss) on disposal of assets	3,860	(47,858)
Contributions and other nonoperating revenues	4,861	6,957
Total nonoperating revenues, net	1,506,803	1,367,872
Excess of revenues (expenses) over expenses (revenues) before capital grants and contributions	79,631	(302,081)
<i>Capital grants and contributions</i>	196,474	106,503
Change in net position	276,105	(195,578)
Net position, beginning of year	5,735,203	5,930,781
Net position, end of year	\$ 6,011,308	\$ 5,735,203

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 13,229,053	\$ 11,551,202
Other receipts	200,510	85,212
Receipts from grants	17,053	17,269
Receipts from electronic health records incentive	247,261	573,350
Payments to and on behalf of employees	(9,923,197)	(9,548,369)
Payments to suppliers and contractors	(3,597,453)	(3,385,078)
Net cash provided by (used in) operating activities	173,227	(706,414)
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	1,616,745	1,571,795
Contributions	4,861	6,957
Net cash provided by noncapital financing activities	1,621,606	1,578,752
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	567,005	562,276
Capital grants and contributions	196,474	106,503
Purchase of capital assets	(350,859)	(255,973)
Principal paid on long-term debt and capital lease obligations	(481,482)	(448,106)
Interest paid on long-term debt and capital lease obligations	(697,700)	(719,184)
Net cash used in capital and related financing activities	(766,562)	(754,484)
<i>Cash flows from investing activities</i>		
Investment income	13,898	4,450
Net increase in cash and cash equivalents	1,042,169	122,304
Cash and cash equivalents, beginning of year	3,109,063	2,986,759
Cash and cash equivalents, end of year	\$ 4,151,232	\$ 3,109,063

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,725,561	\$ 631,638
Cash and cash equivalents limited as to use	485,593	405,011
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	1,940,078	2,072,414
Total cash and cash equivalents	\$ 4,151,232	\$ 3,109,063
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
<i>Operating loss</i>	\$ (1,427,172)	\$ (1,669,953)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,426,222	1,421,853
Provision for bad debts	684,809	557,448
Decrease (increase) in assets:		
Patient accounts receivable, net	(802,076)	(942,870)
Estimated third-party payor settlements	20,001	(61,718)
Other receivables	64,230	(55,892)
Electronic health records incentive payment	49,689	336,640
Inventories	(20,298)	31,016
Prepaid expenses	110,405	(81,166)
Increase (decrease) in liabilities:		
Accounts payable	(39,609)	(123,438)
Accrued compensation and related liabilities	111,251	70,338
Estimated third-party payor settlements	(4,225)	(188,672)
Net cash provided by (used in) operating activities	\$ 173,227	\$ (706,414)

See accompanying notes to basic financial statements.

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements
Years Ended December 31, 2016 and 2015**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Chelan County Public Hospital District No. 1 doing business as Cascade Medical Center (the District) owns and operates Cascade Medical Center, a nine-bed acute care hospital and rural health clinic. The District provides healthcare services to residents in Chelan County, Washington (the County). Services provided by the District include acute care hospital, emergency room, ambulance, physicians' clinic, and other related ancillary procedures (lab, x-ray, physical therapy, etc.) associated with those services.

The District, governed by a five-member Board of Commissioners (the Board) elected to six-year terms, 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 District is not a component unit of Chelan County, Washington.

Related organization – The Cascade Medical Center Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized in 1992 for the primary purpose of soliciting charitable donations and raising funds on behalf of, and in support to, the District. Although the District does not control the Foundation, the majority of resources or income that the Foundation holds and invests is used for the benefit of the District. The Foundation provided contributions of approximately \$150,000 and \$15,000 to the District in 2016 and 2015, respectively. The Foundation is not material to the District and is therefore not reported as a component unit of the District.

b. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – All cash receipts are deposited directly with the Chelan County Treasurer (County Treasurer) who acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the discretion of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

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

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense. Prepaid expenses include prepaid insurance and other expenses.

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

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 consist of amounts restricted for bond principal and interest payments, amounts restricted by donors, and amounts set aside by the Board for designated purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Taxes receivable limited as to use – Such assets are set aside for repayment of bond principal and interest as required by bond indenture.

Capital assets – Capital assets are defined by the District as assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals that do not increase the useful life of the asset are accounted for as expenses when incurred. Capital assets are recorded at historical cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Capital assets acquired under capital leases are amortized over the shorter of the estimated useful life or the length of the lease.

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

Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following estimated useful service lives:

Land improvements	10 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

Compensated absences – The District’s policy is to permit employees to accumulate earned but unused paid time off (PTO). All PTO is accrued when incurred at varying rates depending on the employee’s position and contract. Unused PTO is accumulated and paid to the employee when the employee terminates employment with the District.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position 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 net position*.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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, grants, 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.

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.

Grants and contributions – From time to time, the District receives federal and state grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts 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.

Subsequent events – The District has evaluated subsequent events through June 14, 2017, the date on which the financial statements were available to be issued.

2. Bank Deposits:

Custodial credit risk is the risk that, in the event of a depository institution failure, the District’s deposits may not be refunded 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 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; savings accounts in qualified public depositories; and certain other investments.

Amounts held in the Washington State Local Government Investment Pool at December 31, 2016 and 2015, were \$3,313,664 and \$2,777,173, respectively.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

3. 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:

	2016	2015
Receivables from patients and their insurance carriers	\$ 1,604,187	\$ 1,274,322
Receivables from Medicare	1,186,594	1,375,785
Receivables from Medicaid	272,043	340,582
Total patient accounts receivable	3,062,824	2,990,689
Less allowance for uncollectible accounts	404,001	449,133
Patient accounts receivable, net	\$ 2,658,823	\$ 2,541,556

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

4. Assets Limited as to Use:

The composition of assets limited as to use is set forth in the following table:

	2016	2015
<i>Current assets</i>		
Internally designated by Board, cash and cash equivalents:		
Third-party payor cost settlements	\$ 151,588	\$ 150,954
Memorial fund	79,228	65,681
Emergency medical services	9,381	10,024
Restricted by bond agreement for bond principal and interest payment, cash and cash equivalents	245,396	178,352
Taxes receivable restricted for debt service, interest, and emergency medical services	53,885	56,121
Total current assets limited as to use	539,478	461,132
<i>Noncurrent assets</i>		
Internally designated by Board for capital additions and replacements	1,940,078	2,072,414
Total assets limited as to use	\$ 2,479,556	\$ 2,533,546

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

5. Capital Assets:

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

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 522,015	\$ -	\$ -	\$ -	\$ 522,015
<i>Capital assets being depreciated</i>					
Land improvements	964,170	13,037	-	-	977,207
Buildings and improvements	10,158,758	-	-	-	10,158,758
Fixed equipment	8,339,951	-	-	-	8,339,951
Major movable equipment	4,260,127	341,682	(197,623)	-	4,404,186
Total capital assets being depreciated	23,723,006	354,719	(197,623)	-	23,880,102
<i>Less accumulated depreciation for</i>					
Land improvements	(428,641)	(66,793)	-	-	(495,434)
Buildings and improvements	(3,583,230)	(505,750)	-	-	(4,088,980)
Fixed equipment	(2,704,135)	(505,106)	-	-	(3,209,241)
Major movable equipment	(3,227,230)	(348,573)	197,623	-	(3,378,180)
Total accumulated depreciation	(9,943,236)	(1,426,222)	197,623	-	(11,171,835)
<i>Total capital assets being depreciated, net</i>	13,779,770	(1,071,503)	-	-	12,708,267
Capital assets, net	\$ 14,301,785	\$ (1,071,503)	\$ -	\$ -	\$ 13,230,282

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

5. Capital Assets (continued):

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

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 522,015	\$ -	\$ -	\$ -	\$ 522,015
Construction in progress	158,758	-	(48,308)	(110,450)	-
Total capital assets not being depreciated	680,773	-	(48,308)	(110,450)	522,015
<i>Capital assets being depreciated</i>					
Land improvements	964,170	-	-	-	964,170
Buildings and improvements	10,158,758	-	-	-	10,158,758
Fixed equipment	8,339,951	-	-	-	8,339,951
Major movable equipment	4,012,653	145,973	(8,949)	110,450	4,260,127
Total capital assets being depreciated	23,475,532	145,973	(8,949)	110,450	23,723,006
<i>Less accumulated depreciation for</i>					
Land improvements	(362,255)	(66,386)	-	-	(428,641)
Buildings and improvements	(3,077,481)	(505,749)	-	-	(3,583,230)
Fixed equipment	(2,199,029)	(505,106)	-	-	(2,704,135)
Major movable equipment	(2,891,567)	(344,612)	8,949	-	(3,227,230)
Total accumulated depreciation	(8,530,332)	(1,421,853)	8,949	-	(9,943,236)
<i>Total capital assets being depreciated, net</i>	14,945,200	(1,275,880)	-	110,450	13,779,770
Capital assets, net	\$ 15,625,973	\$ (1,275,880)	\$ (48,308)	\$ -	\$ 14,301,785

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Long-term Debt and Capital Lease Obligations:

A schedule of changes in long-term debt and capital lease obligations follows:

	Balance December 31, 2015			Balance December 31, 2016	Amounts Due Within One Year
		Additions	Reductions		
<i>Long-term debt</i>					
Parking lot note	\$ 252,109	\$ -	\$ (4,190)	\$ 247,919	\$ 4,526
2005 UTGO bonds	6,110,000	-	(170,000)	5,940,000	195,000
2006 UTGO bonds	1,825,000	-	(50,000)	1,775,000	55,000
2009 LTGO bonds	5,545,000	-	(115,000)	5,430,000	135,000
2005 UTGO bond discount	(68,077)	-	4,568	(63,509)	-
2006 UTGO bond premium	41,083	-	(2,770)	38,313	-
2009 LTGO bond discount	(97,226)	-	4,182	(93,044)	-
Total long-term debt	13,607,889	-	(333,210)	13,274,679	389,526
<i>Capital lease obligations</i>	252,598	-	(148,272)	104,326	104,326
Total long-term debt and capital lease obligations	\$ 13,860,487	\$ -	\$ (481,482)	\$ 13,379,005	\$ 493,852
	Balance December 31, 2014			Balance December 31, 2015	Amounts Due Within One Year
		Additions	Reductions		
<i>Long-term debt</i>					
Parking lot note	\$ 255,987	\$ -	\$ (3,878)	\$ 252,109	\$ 4,190
2005 UTGO bonds	6,260,000	-	(150,000)	6,110,000	170,000
2006 UTGO bonds	1,865,000	-	(40,000)	1,825,000	50,000
2009 LTGO bonds	5,660,000	-	(115,000)	5,545,000	115,000
2005 UTGO bond discount	(72,645)	-	4,568	(68,077)	-
2006 UTGO bond premium	43,853	-	(2,770)	41,083	-
2009 LTGO bond discount	(101,407)	-	4,181	(97,226)	-
Total long-term debt	13,910,788	-	(302,899)	13,607,889	339,190
<i>Capital lease obligations</i>	397,805	-	(145,207)	252,598	148,272
Total long-term debt and capital lease obligations	\$ 14,308,593	\$ -	\$ (448,106)	\$ 13,860,487	\$ 487,462

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Long-term Debt and Capital Lease Obligations (continued):

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

- ***Unlimited Tax General Obligation (UTGO) Bonds, Series 2005*** – The District issued unlimited tax general obligation bonds, dated December 6, 2005, with a face amount of \$6,800,000. The bonds were issued to pay for a portion of the costs of expanding and remodeling the District's facilities. The UTGO Bonds are general obligations of the District and are secured by an irrevocable pledge by the District to levy and collect taxes each year sufficient to pay the bond principal and interest payments when due. Through 2030, annual principal installments ranging from \$195,000 to \$725,000 are required, plus semiannual interest payments payable June 1 and December 1, ranging from 4.05% to 4.45%. Scheduled maturities on and after December 1, 2016, are subject to redemption at the option of the District, in whole or in part, at par plus accrued interest to the date fixed for redemption.
- ***Unlimited Tax General Obligation (UTGO) Bonds, Series 2006*** – The District issued unlimited tax general obligation bonds, dated November 1, 2006, with a face amount of \$2,000,000. The bonds were issued to obtain additional funds for costs relating to expanding and remodeling the District's facilities. The UTGO Bonds are general obligations of the District and are secured by an irrevocable pledge by the District to levy and collect taxes each year sufficient to pay the bond principal and interest payments when due. Through 2030, annual principal installments ranging from \$55,000 to \$775,000 are required, plus semiannual interest payments payable June 1 and December 1, ranging from 3.90% to 4.75%. Scheduled maturities on and after December 1, 2017, will be subject to redemption at the option of the District on and after December 1, 2016, in whole or in part, at par plus accrued interest to the date fixed for redemption.
- ***Limited Tax General Obligation (LTGO) Bonds, Series 2009*** – The District issued limited tax general obligation bonds, dated April 1, 2009, with a face amount of \$5,850,000. The bonds were issued at a discount with net proceeds of \$5,535,268. The proceeds were used to finance a portion of the costs of expanding and remodeling the District's facilities. The LTGO 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 of the District. Interest is payable June 1 and December 1, at rates that range from 4.20% to 6.00%. The bonds mature in principal installments of \$135,000 in 2017 ranging to \$420,000 in 2038. Scheduled maturities on and after June 1, 2023, will be subject to redemption at the option of the District on and after June 1, 2019, in whole or in part, at par plus accrued interest to the date fixed for redemption.
- ***Note payable*** – Parking lot note payable dated October 31, 2009, in the original amount of \$274,300. The debt service is payable in varying monthly principal installments through 2038, plus interest at a rate of 7.75%.
- ***Capital lease obligations*** – in the original amount of \$731,258; payments of \$14,423, due monthly, including imputed interest at 6.50% to 6.82% through August 2017; collateralized by equipment purchased under the obligations.

The lease obligations are reflected in the District's assets and liabilities. The Healthland accounting system had capitalized costs of \$856,779, and accumulated depreciation of \$578,035, as of December 31, 2016. The accounting system had capitalized costs of \$856,679, and accumulated depreciation of \$406,779, as of December 31, 2015.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Long-term Debt and Capital Lease Obligations (continued):

Scheduled principal and interest repayments on long-term debt obligations are as follows:

	UTGO Bonds Payable	
	Principal	Interest
2017	\$ 250,000	\$ 338,975
2018	285,000	328,933
2019	325,000	317,346
2020	360,000	304,008
2021	400,000	289,048
2022-2026	2,760,000	1,144,027
2027-2030	3,335,000	392,989
	\$ 7,715,000	\$ 3,115,326

	Other Long-Term Debt	
	Principal	Interest
2017	\$ 139,526	\$ 326,940
2018	144,825	320,911
2019	155,213	314,644
2020	160,631	306,575
2021	171,084	298,218
2022-2026	988,580	1,346,151
2027-2031	1,311,770	1,030,397
2032-2036	1,748,534	589,347
2037-2038	857,756	77,703
	\$ 5,677,919	\$ 4,610,886

	Capital Lease Obligations	
	Principal	Interest
2017	\$ 104,326	\$ 2,560
	\$ 104,326	\$ 2,560

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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 that 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 have not changed significantly from the prior year. The District made changes to its Charity Care and Financial Assistance policy in 2016 to comply with new federal and state requirements. The sliding scale income requirements and discounts provided under the updated policy did not change significantly. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

	2016	2015
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,113,400	\$ 7,947,253
Medicaid	1,305,956	1,183,975
Other third-party payors	3,884,372	3,113,540
Patients	850,576	703,772
	14,154,304	12,948,540
Less:		
Charity care	138,951	204,078
Provision for bad debts	684,809	557,448
Net patient service revenue	\$ 13,330,544	\$ 12,187,014

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

- *Medicare* – The District is licensed as a critical access hospital and the clinic as a rural health clinic by Medicare and is reimbursed for most inpatient, outpatient, and clinic services at cost with final settlement determined after submission of annual cost reports by the District subject to audits thereof by the Medicare administrative contractor.
- *Medicaid* – Most 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). Rural health clinic services are paid on a prospectively set rate per visit.

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

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

7. Net Patient Service Revenue (continued):

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$17,000 and \$6,000 for the years ended December 31, 2016 and 2015, 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 determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients were \$143,000 and \$181,000 for the years ended December 31, 2016 and 2015, respectively.

8. Electronic Health Records Incentive Payments:

The District recognized Medicaid electronic health records (EHR) incentive payments during the years ended December 31, 2016 and 2015. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognized the first of its four Medicaid incentive payments in the year that certified EHR technology was adopted, implemented, or upgraded or when such technology was meaningfully used under the Medicare EHR incentive program. The subsequent three payments are issued when meaningful use is demonstrated under Medicare. Medicaid incentive payments of \$198,757 and \$248,446 were recognized as revenue in 2016 and 2015, respectively. The subsequent Medicaid payment will be \$149,067 in 2017.

9. 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 January 1 on property values listed as of the prior May 31. Property taxes are considered delinquent after October 31. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

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

For 2016, the District's regular tax levy was approximately \$0.238 per \$1,000 on a total assessed valuation of \$2,240,327,341, for a total regular levy of \$533,167. The District's Emergency Medical Services (EMS) tax levy was \$0.477 per \$1,000 on a total assessed valuation of \$2,240,327,341, for a total EMS tax levy of \$1,068,448. The District's bond levy was approximately \$0.256 per \$1,000 on a total assessed valuation of \$2,218,627,006, for a total bond levy of \$566,865.

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

9. Property Taxes (continued):

For 2015, the District's regular tax levy was approximately \$0.247 per \$1,000 on a total assessed valuation of \$2,099,771,247, for a total regular levy of \$519,013. The District's Emergency Medical Services (EMS) tax levy was \$0.494 per \$1,000 on a total assessed valuation of \$2,099,771,247, for a total EMS tax levy of \$1,037,919. The District's bond levy was approximately \$0.268 per \$1,000 on a total assessed valuation of \$2,072,669,054, for a total bond levy of \$556,317.

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.

10. Retirement Plans:

The District sponsors the Cascade Medical Center 403(b) Retirement Plan and the Cascade Medical Center Lincoln Retirement 457(b) Governmental Deferred Compensation Plan. Both of these plans are deferred compensation retirement plans administered by the District. After employees have completed one year of employment, the District makes a contribution match to the 403(b) plan of up to 3% of the employees' gross pay. Employees are 100% vested in the contributions they make and they become fully vested in employer contributions after two years (50% per year). Employees make contributions to the 403(b) and 457(b) plans. District contributions and interest forfeited by employees who leave employment before two years of service are used to reduce the District's current period contribution requirement. Employee contributions to the 403(b) plan were approximately \$382,000 and \$356,000 for the years ended December 31, 2016 and 2015, respectively. Employee contributions to the 457(b) plan were approximately \$60,000 and \$33,000 for the years ended December 31, 2016 and 2015, respectively. Employer pension contributions were approximately \$108,000 and \$115,000 for the years ended December 31, 2016 and 2015, respectively. Benefit terms including contribution requirements are established by and may be amended by the District.

In 2017, emergency medical technicians were granted retroactive eligibility from July 1, 2005, forward to participate in the Washington Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 by the Washington State Legislature. The District's pension liability under this rule change has not yet been determined.

11. Risk Management and Contingencies:

Medical malpractice coverage – The District maintains professional liability coverage with Washington Casualty Company (WCC). The policy provides coverage on a "claims-made" basis, whereby only malpractice claims reported to the insurance carrier during the policy year are covered. If there are unreported incidents which result in a malpractice claim in a subsequent 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 policy provides \$1,000,000 per claim of primary and comprehensive coverage with a \$5,000,000 annual aggregate limit, plus \$2,000,000 of excess coverage with a \$2,000,000 annual aggregate limit. There is not a deductible on these policies, nor are there any significant coinsurance clauses.

No liability has been accrued for future coverage of incidents that may have occurred in 2016 or in prior years. It is possible that claims may exceed coverage available in any given year.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

11. Risk Management and Contingencies (continued):

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.

Rural health clinic Medicaid reimbursement – Effective January 1, 2009, the state of Washington (the State) changed its methodology for calculating the Medicaid reimbursement rates paid on eligible rural health clinic fee-for-service and managed care encounters. Included in the estimate prepared by management are assumptions regarding allowable encounters and the fee-for-service equivalents for those encounters. These estimates are subject to change based on the State's final reconciliation and settlement of 2014, 2015, and 2016. The difference between the final settlements and the amounts estimated by management could be material; any difference will be recorded when the final settlement becomes known.

Risk transfer pools – The District has a self-insured unemployment plan for its employees and participates in the Public Hospital District Unemployment Compensation Fund, a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. During 2016 and 2015 the District recognized \$39,682 and \$-0-, respectively, of dividends from the Public Hospital Unemployment Compensation Fund, which was offset against unemployment expense. Payments made by the District and charged to unemployment expense were approximately \$8,000 and \$46,000 in 2016 and 2015, respectively.

Other risks – 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.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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 mix of receivables from patients and third-party payors follows:

	2016	2015
Medicare	35 %	42 %
Medicaid	13	15
Other third-party payors	30	24
Patients	22	19
	100 %	100 %

Physicians – The District is dependent on local physicians practicing 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 hospital operations.

Collective bargaining unit – The District has two agreements with labor unions. Effective October 1, 2016, the District renewed the collective bargaining agreement with the Washington State Nurses Association (WSNA). The contract is effective through September 30, 2019. As of December 31, 2016 and 2015, approximately 11% and 13%, respectively, of the District’s employees were represented by this union under the collective bargaining agreement. Effective October 1, 2015, the District also renewed the collective bargaining agreement with Teamsters for the District’s paramedics. The contract is effective through September 30, 2017. As of December 31, 2016 and 2015, approximately 8% and 9%, respectively, of the District’s employees were represented by this union under the collective bargaining agreement.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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
Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Leavenworth, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Chelan County Public Hospital District No. 1 doing business as Cascade Medical Center (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 14, 2017.

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) 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 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. 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 its 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*.

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 14, 2017

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2016**

The audit for the year ended December 31, 2015, reported no audit findings, nor were there any unresolved prior year audit findings from periods ended December 31, 2014, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2016.