



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Grant County Public Hospital District No. 4

(McKay Healthcare and Rehabilitation Center)

For the period January 1, 2012 through December 31, 2013

Published May 23, 2016

Report No. 1016315





Washington State Auditor's Office

May 23, 2016

Board of Commissioners
McKay Healthcare and Rehabilitation Center
Soap Lake, Washington

Report on Financial Statements

Please find attached our report on the McKay Healthcare and Rehabilitation 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
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
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	10
Independent Auditor’s Report On Financial Statements	13
Financial Section.....	16
About The State Auditor’s Office.....	41

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

McKay Healthcare and Rehabilitation Center Grant County January 1, 2012 through December 31, 2013

2013-001 Grant County Public Hospital District No. 4 continues to rely on using registered warrants to cover daily operating costs.

Description of Condition

During prior audits of the District, we noted that it relied on registered warrants from the Grant County Treasurer's Office to pay for daily operating costs.

Registered warrants are short-term funding available through the Treasurer's Office to pay daily operating expenses and long-term debt obligations when a local government has a cash shortfall. The District began using registered warrants in 2009 and the balance has fluctuated over the past years. However, the balance has been consistently over \$300,000 since 2009 and has increased significantly in 2015.

Fiscal Year	Ending Cash Balance	Ending Registered Warrant Balance
2009	\$ 97,358	\$ 439,750
2010	\$ 35,041	\$ 738,266
2011	\$ 20,675	\$ 448,094
2012	\$ 75,476	\$ 364,290
2013	\$ 89,821	\$ 447,842
2014	\$ 79,386	\$ 390,873
October 2015	\$ 168,697	\$ 1,123,710
November 2015	\$ 59,072	\$ 1,129,993

Cause of Condition

Although the District increased revenues in the audit period above its 2011 levels, it was not able to keep expenses at a level sufficiently lower than its revenues to significantly reduce its reliance on registered warrants. In addition, the District had significant turnover in key administrative positions during the last several years, including its Administrator, which has impeded management's ability to maintain a consistent strategy for addressing the District's reliance on registered warrants.

More recently, the District has struggled to maximize its patient census levels and use all its available patient rooms.

Effect of Condition

The District's current level of registered warrants has significantly exceeded the \$750,000 limit that Grant County originally approved for the District. Unless it reduces its reliance on registered warrants, the District may not be able to continue meeting its monthly financial obligations while providing its current level of services.

If the District were to discontinue operations, Grant County could continue to levy, to the extent legally allowed, approximately \$200,000 in annual property tax until the debt to the County has been repaid.

Recommendation

We recommend the District's board develop a formal plan to address its financial condition including customer services, future operating income and cash flow. We further recommend the Board closely monitor and evaluate to ensure the plan is followed and the desired results achieved.

District's Response

Public Hospital District No. 4 of Grant County d/b/a McKay Healthcare (McKay Healthcare) recognizes the concerns raised during the state audit and the financial challenges that it faces. As discussed in Note 14 to the 2013 financial statements, although McKay Healthcare's revenues were in excess of its expenses from 2011 – 2014, McKay operated at a significant loss in 2015 due primarily to lower than expected resident census that persisted through most of the year.

In 2015, several factors combined to result in lower than expected resident census. These factors include: 1) under funding Medicaid; 2) the needs and reimbursement patterns changed under several federal healthcare reforms; 3) resident demographics changed due to the loss of long term base care residents; and 4) admission criteria had become restrictive of the type of residents that its nursing skills could serve resulting in fewer referrals and lower reimbursement rates. As a result, several entities stopped referring patients to McKay Healthcare.

In the fall of 2015, the District began to focus on solutions to these issues by increasing the skills of its nursing staff, removing barriers to admission and beginning its outreach to area and regional hospitals. These initial efforts resulted in an increase of resident census from a low of 19 in July 2015 to 27

today with a solid patient mix of 9 Medicare. Importantly, McKay Healthcare's December 2015 through January 2016 referrals and admissions have more than doubled compared with same time period a year ago and its referral to admission percentage was 92% in January 2016. With this census and patient mix on the rise, combined with additional cost controls, McKay Healthcare is on the right track. However, there is a lot more work to be done.

Through several work sessions in December 2015, McKay Healthcare identified the key issues and outlined a strategic plan to improve its operations and to reduce the District's reliance on borrowing money from Grant County. With the cooperation of the County Commissioners, McKay Healthcare continued these work sessions in January 2016 to develop the strategic plan action list and began to assign responsibilities for its implementation, a copy of which is attached.

McKay Healthcare is pursuing actions to increase its resident census through new contracts to establish a new base level of resident care; operational changes to enhance resident census and patient mix that will focus on referrals and admission tracking; improve financial management including budgeting and expense tracking, billing and accounts receivable collections, and reducing its operating costs per patient day. At McKay Healthcare's request, the County has reduced its interest rate on borrowed funds from over 4% to 3.85%. At the same time, McKay Healthcare is beginning to work collaboratively with area hospitals and communities to look for opportunities to share expenses, increase their awareness of McKay Healthcare and identify new referral sources and access to medical providers. Finally, McKay Healthcare is evaluating how rapidly it can provide new services, such as Alzheimer care.

There are numerous challenges and pressures facing McKay Healthcare. Importantly, McKay Healthcare intends to assess and be ready to respond to future healthcare changes that will come its way. McKay Healthcare Commissioners are committed to the changes outlined in its Strategic Plan and reestablishing the facility as a viable and vital resource for our communities long into the future.

Auditor's Remarks

We appreciate the steps the District is taking to address this concern. We will review the District's financial condition during our next audit of the District.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

McKay Healthcare and Rehabilitation Center Grant County January 1, 2012 through December 31, 2013

2013-002 The District's controls over financial statement preparation are inadequate to ensure accurate financial reporting.

Background

Management's responsibility is to design, implement, and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls over financial statement reporting that affected the District's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Four of the previous five audits reported weaknesses in the District's internal controls over financial reporting and insufficient records supporting financial amounts, resulting in a disclaimer of opinion for 2004 through 2010. Our audit noted improvements in the District's process for preparing its 2011 financial statements, and we were able to report that those financial statements were fairly stated in all material respects.

Description of Condition

Our audit identified a deficiency that represents a material weakness:

- The District contracts with a service organization that maintains the District's general ledger and prepares its financial statements. However, District management's final review of the prepared financial statements prior to audit was not adequate to detect significant or material errors.

Cause of Condition

Due to turnover in its key administrative financial positions and limited knowledge of Generally Accepted Accounting Principles (GAAP), the District relied upon a contracted firm to provide accurate financial statements, schedules and note disclosures. The District did not perform an effective review to ensure the financial statements were accurately prepared and presented.

Effect of Condition

Inaccurate financial reports limit access to financial information used by District officials, the public, state and federal agencies and other interested parties. It also hinders the audit process and increases audit costs.

We identified the following significant errors during our audit of the District's financial statements:

- The District reported a restricted asset of \$152,185 in 2013 for unreconciled differences between its cash and outstanding warrants accounts and the information reported from the County Treasurer. The unreconciled differences are normally small; however, the significant amount in December 2013 was not researched and corrected before the District's financial statements were prepared.
- The District incorrectly reported a liability of \$152,185 in 2013, related primarily to its intent to use certain funds for a planned capital improvement project.

We also identified less significant errors during the course of our audit which were communicated to District management.

Recommendation

We recommend the District improve its final review process to ensure the financial statements, schedules and note disclosure are free of errors and comply with reporting requirements.

District's Response

The District will assure a more substantive internal review of financial statement reports prepared by its professional accounting firm prior to filing. The District's Administrator and Commission appointees will also review financial statement reports for accuracy prior to filing.

Auditor's Remarks

We appreciate the District's commitment to resolving this matter, and we will review the changes in the District's review process during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial

reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards*, Section 265 as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. 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.

Significant deficiency. 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.

**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**

**McKay Healthcare and Rehabilitation Center
Grant County
January 1, 2012 through December 31, 2013**

Board of Commissioners
McKay Healthcare and Rehabilitation Center
Soap Lake, 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 McKay Healthcare and Rehabilitation Center, Grant County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2016.

Our report includes information about the status of the District's financial condition. That information is fully described in Finding 2013-001 in the Schedule of Audit Findings and Responses. The District's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response. The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-002 to be material weaknesses.

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.

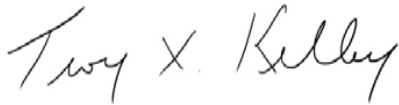
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 10, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

McKay Healthcare and Rehabilitation Center Grant County January 1, 2012 through December 31, 2013

Board of Commissioners
McKay Healthcare and Rehabilitation Center
Soap Lake, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the McKay Healthcare and Rehabilitation Center, Grant County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 16.

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 McKay Healthcare and Rehabilitation Center, as of December 31, 2013 and 2012, 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 Regarding Fiscal Sustainability

As discussed in Notes 12 and 14 to the 2013 financial statements and described in 2013-001 in the Schedule of Audit Findings and Responses, the District's financial condition 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 shortage. As of November 2015, the District's total registered warrants balance increased significantly to approximately \$1.13 million. The District's cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the District's ability to maintain services at present levels under these conditions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic 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

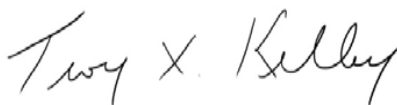
basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Response to Finding

The District's response to the finding identified above 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2016 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 10, 2016

FINANCIAL SECTION

**McKay Healthcare and Rehabilitation Center
Grant County
January 1, 2012 through December 31, 2013**

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Net Position – 2012

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2013

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

Statement of Cash Flows – 2013

Statement of Cash Flows – 2012

Notes to Financial Statements – 2013

Notes to Financial Statements – 2012

Grant County Hospital District No. 4

**STATEMENT OF NET POSITION
December 31, 2013**

ASSETS

Current Assets:

Cash and Cash Equivalents	<u>\$116,277</u>
Short-Term Investments	<u>8,163</u>
Accounts Receivables (Net)	<u>328,460</u>
Receivables from Third Party Payers (Net)	<u>44,495</u>
Pledges and Other Receivables (Net)	<u>0</u>
Restricted Assets	<u>8,262</u>
Inventories	<u>17,331</u>
Prepayments	<u>0</u>
Other Current Assets	<u>25,657</u>
TOTAL CURRENT ASSETS	<u>\$548,645</u>

Noncurrent Assets:

Investments	<u>108,000</u>
Deferred Charges	<u>0</u>
Investment in Joint Venture(s)	<u>0</u>
Other Assets	<u>70,852</u>
Restricted Assets	<u>0</u>
Capital Assets Not Being Depreciated ¹	
Land	<u>12,179</u>
Construction in Progress	<u>0</u>
Capital Assets Being Depreciated:	
Improvements to Land	<u>2,747</u>
Buildings	<u>739,285</u>
Equipment	<u>402,449</u>
Intangible Assets	<u>0</u>
Less Accumulated Depreciation	<u>(872,300)</u>
Total Capital Assets (Net)	<u>284,360</u>
TOTAL NONCURRENT ASSETS	<u>463,212</u>
TOTAL ASSETS	<u>\$1,011,857</u>

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	<u>0</u>
--	----------

The notes to financial statements are an integral part of this statement

Grant County Hospital District No. 4

**STATEMENT OF NET POSITION
December 31, 2013**

LIABILITIES

Current Liabilities:

Accounts Payable	<u>\$104,085</u>
Payable to Third Party Payers	<u>20,384</u>
Payables from Restricted Assets	<u>8,262</u>
Compensated Absences	<u>0</u>
Claims and Judgments	<u>0</u>
Bonds, Notes and Loans Payable	<u>0</u>
Accrued Expenses	<u>82,617</u>
Other Current Liabilities	<u>447,842</u>

TOTAL CURRENT LIABILITIES 663,190

Noncurrent Liabilities:

Payables from Restricted Assets	<u>0</u>
Compensated Absences	<u>0</u>
Claims and Judgments	<u>0</u>
Bonds, Notes and Loans Payable	<u>0</u>
Other Noncurrent Liabilities	<u>63,173</u>

TOTAL NONCURRENT LIABILITIES 63,173

TOTAL LIABILITIES \$726,363

DEFERRED INFLOWS OF RESOURCES

Accumulated Increase in Fair Value of

Hedging Derivatives	<u>0</u>
Deferred Service Concession Arrangement	
Receipts	<u>0</u>

TOTAL DEFERRED INFLOWS OF RESOURCES \$0

NET POSITION

Net Investment in Capital Assets	<u>\$284,360</u>
Unrestricted	<u>1,135</u>
TOTAL NET POSITION	<u>\$285,495</u>

The notes to financial statements are an integral part of this statement.

Grant County Hospital District No. 4

**STATEMENT OF NET POSITION
December 31, 2012**

ASSETS

Current Assets:

Cash and Cash Equivalents	<u>\$75,476</u>
Short-Term Investments	<u>8,000</u>
Accounts Receivables (Net)	<u>350,722</u>
Receivables from Third Party Payers (Net)	<u>54,404</u>
Pledges and Other Receivables (Net)	<u>0</u>
Restricted Assets	<u>12,520</u>
Inventories	<u>17,331</u>
Prepayments	<u>0</u>
Other Current Assets	<u>8,775</u>
TOTAL CURRENT ASSETS	<u>\$527,229</u>

Noncurrent Assets:

Investments	<u>108,000</u>
Deferred Charges	<u>0</u>
Investment in Joint Venture(s)	<u>0</u>
Other Assets	<u>9,940</u>
Restricted Assets	
Capital Assets Not Being Depreciated ¹	
Land	<u>12,179</u>
Construction in Progress	<u>0</u>
Capital Assets Being Depreciated:	
Improvements to Land	<u>2,747</u>
Buildings	<u>654,270</u>
Equipment	<u>348,576</u>
Intangible Assets	<u>0</u>
Less Accumulated Depreciation	<u>(837,251)</u>
Total Capital Assets (Net)	<u>180,520</u>
TOTAL NONCURRENT ASSETS	<u>298,460</u>

TOTAL ASSETS \$825,689

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	<u>0</u>
--	----------

The notes to financial statements are an integral part of this statement

Grant County Hospital District No. 4

**STATEMENT OF NET POSITION
December 31, 2012**

LIABILITIES

Current Liabilities:

Accounts Payable	<u>\$102,479</u>
Payable to Third Party Payers	<u>0</u>
Payables from Restricted Assets	<u>12,520</u>
Compensated Absences	<u>0</u>
Claims and Judgments	<u>0</u>
Bonds, Notes and Loans Payable	<u>0</u>
Accrued Expenses	<u>36,142</u>
Other Current Liabilities	<u>364,290</u>

TOTAL CURRENT LIABILITIES 515,431

Noncurrent Liabilities:

Payables from Restricted Assets	<u>0</u>
Compensated Absences	<u>0</u>
Claims and Judgments	<u>0</u>
Bonds, Notes and Loans Payable	<u>0</u>
Other Noncurrent Liabilities	<u>68,733</u>

TOTAL NONCURRENT LIABILITIES 68,733

TOTAL LIABILITIES \$584,165

DEFERRED INFLOWS OF RESOURCES

Accumulated Increase in Fair Value of

Hedging Derivatives	<u>0</u>
Deferred Service Concession Arrangement	
Receipts	<u>0</u>

TOTAL DEFERRED INFLOWS OF RESOURCES \$0

NET POSITION

Net Investment in Capital Assets	<u>\$180,520</u>
Unrestricted	<u>\$61,004</u>
TOTAL NET POSITION	\$241,524

The notes to financial statements are an integral part of this statement.

Grant County Hospital District No. 4

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended December 31, 2013**

OPERATING REVENUES:

Patient Revenue (Net)	<u>\$2,223,588</u>
Other Operating Revenues	<u>613,135</u>
Total Operating Revenues	<u>2,836,723</u>

OPERATING EXPENSES:

Salaries and Wages	<u>1,381,041</u>
Employee Benefits	<u>584,462</u>
Professional Services	<u>336,674</u>
Supplies	<u>245,215</u>
Utilities	<u>113,743</u>
Depreciation	<u>35,048</u>
Leases and Rentals	<u>32</u>
Other Operating Expenses	<u>336,695</u>

Total Operating Expenses	<u>3,032,910</u>
--------------------------	------------------

OPERATING INCOME (LOSS)	<u>(\$196,187)</u>
-------------------------	--------------------

The notes to financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended December 31, 2013

NONOPERATING REVENUES (EXPENSES):

Property Taxes	<u>204,776</u>
Non-Capital Grants	<u>0</u>
Investment Income	<u>163</u>
(Interest Expense and Related Charges)	<u>0</u>
Income (Loss) of Joint Venture(s)	<u>0</u>
Gains (Losses) on Capital Asset Disposition	<u>0</u>
Other Nonoperating Revenues	<u>11,042</u>
(Other Nonoperating Expenses)	<u>0</u>
Total Nonoperating Revenues (Expenses)	<u>215,981</u>
Income before Contributions, Addition to Permanent and Term Endowments, Extraordinary and Special Items	<u>19,794</u>
Capital Contributions:	
Capital Grants	<u>0</u>
Additions to Permanent and Term Endowments	<u>0</u>
Extraordinary Items	<u>0</u>
Special Items	<u>0</u>
CHANGE IN NET POSITION	<u>19,794</u>
TOTAL NET POSITION – beginning of the year	<u>\$241,524</u>
Prior Period Adjustments	<u>24,175</u>
TOTAL NET POSITION – end of the year	<u>\$285,495</u>

The notes to financial statements are an integral part of this statement.

Grant County Hospital District No. 4

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended December 31, 2012**

OPERATING REVENUES:

Patient Revenue (Net)	<u>\$2,348,715</u>
Other Operating Revenues	<u>422,451</u>
Total Operating Revenues	<u>2,771,166</u>

OPERATING EXPENSES:

Salaries and Wages	<u>1,456,539</u>
Employee Benefits	<u>521,142</u>
Professional Services	<u>285,579</u>
Supplies	<u>241,419</u>
Utilities	<u>92,098</u>
Depreciation	<u>32,541</u>
Leases and Rentals	<u>3,005</u>
Other Operating Expenses	<u>279,016</u>

Total Operating Expenses	<u>2,911,338</u>
--------------------------	------------------

OPERATING INCOME (LOSS)	<u>(\$140,173)</u>
-------------------------	--------------------

The notes to financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**For the Fiscal Year Ended December 31, 2012**

NONOPERATING REVENUES (EXPENSES):

Property Taxes	<u>206,370</u>
Non-Capital Grants	<u>0</u>
Investment Income	<u>15,260</u>
(Interest Expense and Related Charges)	<u>0</u>
Income (Loss) of Joint Venture(s)	<u>0</u>
Gains (Losses) on Capital Asset Disposition	<u>0</u>
Other Nonoperating Revenues	<u>0</u>
(Other Nonoperating Expenses)	<u>0</u>
Total Nonoperating Revenues (Expenses)	<u>221,630</u>
Income before Contributions, Addition to Permanent and Term Endowments, Extraordinary and Special Items	<u>81,457</u>
Capital Contributions:	
Capital Grants	<u>0</u>
Additions to Permanent and Term Endowments	<u>0</u>
Extraordinary Items	<u>0</u>
Special Items	<u>0</u>
CHANGE IN NET POSITION	<u>81,457</u>
TOTAL NET POSITION – beginning of the year	<u>\$160,067</u>
Prior Period Adjustments	<u>0</u>
TOTAL NET POSITION – end of the year	<u>\$241,524</u>

The notes to financial statements are an integral part of this statement.

Grant County Hospital District No. 4

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2013**

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Receipts from patients	2,245,850
Payments to suppliers and contractors	(947,200)
Payments to employees	(1,919,028)
<u>Adj Prior Period Revenue</u>	<u>24,175</u>
<u>Other Professional Services</u>	<u></u>
Other receipts (payments)	645,982
Net cash provided (used) by operating activities	49,780

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Property taxes	204,776
Noncapital grants and contributions	
Contributions to permanent endowments	
<u>Taxes Receivable</u>	<u>(2,555)</u>
Net cash provided (used) by noncapital financing activities	202,221

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	
Proshare restricted to capital acquisitions	0
Capital grants and contributions	0
Changes in Capital Assets	(138,889)
Principal paid on capital debt	(5,560)
Interest paid on capital debt	0
Other receipts (payments)	11,042
Net cash provided (used) by capital and related financing activities	(133,407)

**CASH FLOWS FROM INVESTING
ACTIVITIES**

Proceeds from sales of investments [Detail A]	(82,214)
Purchases of investment	
Interest	163
Net cash provided (used) by investing activities	(82,052)
Net increase (decrease) in cash and cash equivalents	36,543
Balances – beginning of the year	87,996
Balances – end of the year	124,539

**NONCASH INVESTING, CAPITAL AND
FINANCING ACTIVITIES**

Borrowing under capital lease	
Contribution of capital asset from	
Increase in fair value of investment	

The notes to financial statements are an integral part of this statement

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2013

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES**

Operating income (loss)	<u>(196,186)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	<u>35,048</u>
Adjust for Prior Year Revenue	<u>24,175</u>
Provision for bad debt	<u>(461)</u>
Change in assets and liabilities:	
Receivables, net	<u>35,186</u>
Inventories	<u> </u>
Other assets	<u> </u>
Accounts payable	<u>105,542</u>
Accrued expenses	<u> </u>
Other liabilities related to operating activities	<u>46,475</u>
Net cash provided by operating activities	<u>(49,781)</u>

Detail A

Change in Resident Trust Liability	(\$4,258)
Restricted Funds	(\$61,075)
Change in Prepaid Insurance	(\$16,882)

The notes to financial statements are an integral part of this statement.

Grant County Hospital District No. 4

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2012**

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Receipts from patients	2,326,360
Payments to suppliers and contractors	(834,361)
Payments to employees	(1,969,737)
<u>Adj Prior Period Revenue</u>	<u>0</u>
<u>Other Professional Services</u>	<u>0</u>
Other receipts (payments)	374,816
Net cash provided (used) by operating activities	(102,922)

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Property taxes	206,370
Noncapital grants and contributions	
Contributions to permanent endowments	
<u>Taxes Receivable</u>	<u>3,351</u>
Net cash provided (used) by noncapital financing activities	209,721

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	
Property taxes restricted to capital acquisitions	
Capital grants and contributions	
Changes in Capital Assets	(42,794)
Principal paid on capital debt	(3484)
Interest paid on capital debt	(316)
Other receipts (payments)	14,771
Net cash provided (used) by capital and related financing activities	(31,823)

**CASH FLOWS FROM INVESTING
ACTIVITIES**

Proceeds from sales of investments [Detail A]	(8,144)
Purchases of investment	
Interest	489
Net cash provided (used) by investing activities	(7,656)
Net increase (decrease) in cash and cash equivalents	67,322
Balances – beginning of the year	20,675
Balances – end of the year	87,996

**NONCASH INVESTING, CAPITAL AND
FINANCING ACTIVITIES**

Borrowing under capital lease	
Contribution of capital asset from	
Increase in fair value of investment	

The notes to financial statements are an integral part of this statement

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2012

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES**

Operating income (loss)	<u>(140,173)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	<u>32,541</u>
Adjust for Prior Year Revenue	<u></u>
Provision for bad debt	<u>(23,855)</u>
Change in assets and liabilities:	
Receivables, net	<u>(36,194)</u>
Inventories	<u></u>
Other assets	<u></u>
Accounts payable	<u>66,756</u>
Accrued expenses	<u></u>
Other liabilities related to operating activities	<u>(1,996)</u>
Net cash provided by operating activities	<u>(102,922)</u>

Detail A

Investment in Memorial Fund	(\$173)
Change in Resident Trust Liability	(\$1,643)
Restricted Funds	\$2,447
Change in Prepaid Insurance	(\$8,775)

The notes to financial statements are an integral part of this statement.

Grant County Public Hospital District No. 4
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

These Notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grant County Public Hospital District No. 4 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from GAAP):

a. **Reporting Entity**

The Grant County Public Hospital District No. 4 is a municipal corporation governed by an elected five (5) member board. As required by GAAP, management has considered all potential component units in defining the reporting entity. (The Grant County Public Hospital District No. 4 has no component units.)

b. **Basis of Accounting and Presentation**

The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in the *Accounting and Reporting Manual for Hospitals*.

The district's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

c. **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the district considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

d. **Investments**

. See Note 2b

e. **Receivables**

a. Receivables are recorded when services are rendered. Receivables are reviewed at year-end and an allowance is booked as an estimate of uncollectible receivables.

b. Collected:

- i. Insurance companies are billed once a month whether it is Medicaid, Medicare, and Group Insurance we bill after the month i.e. December is billed in January. Once Primary insurance is billed and paid, then secondary insurance is billed.
- ii. Private Pay is billed once a month – after the previous month has closed, then monthly statements are sent out about the 20th of each month.

c. Reviewed:

- i. It is reviewed once a week to see what is still outstanding – follow up is made on claims that are outside the 30 day processing timeframe. Follow up with the appropriate insurance company is made to check status after 30 days after the claims were filed.

d. Bad Debts:

- i. If the resident has Medicaid as secondary insurance, then there is an allowable bad debt to be written off after the claim has paid – this is done when a claim has completed processing.
- ii. If, after the claim has been processed and denied, attempts are made to collect the claim through the appeals process and/or contacting resident for private pay through letters, phone calls, etc. After all resources are exhausted and it has been determined you are unable to collect, a form is filled out along w/documentation to be sent to the board for review and determination to write off the charges.

f. Restricted Assets

McKay holds funds belonging to the residents for resident personal use. These funds are held separately from all other funds in an interest bearing account as defined by the Department of Social and Health Services.

<u>Purpose</u>	<u>Amount</u>
Resident Trust Fund	\$8,262

McKay has begun holding ProShare funds as a Restricted Resource for use of replacing the boiler. Funds intended for this use were received starting December 2013.

g. Inventories

Inventories accounts have not been verified or re-valued.

h. Capital Assets

Depleted and exhausted assets were removed from the books at December 31, 2013. Assets with a useful life of longer than one (1) year valued at over \$750 have been added. See note 4 for further details

i. Compensated Absences

Employees receive vacation and sick leave

Vacation is accrued based on length of service and is available for use after one year. If proper notice is given, employees are eligible to receive a payout of remaining vacation time.

Sick leave does not vest as part of a retirement or a termination benefit. Upon resignation, any outstanding sick leave is lost.

j. Net Position Classification

Net position is classified and displayed in three components. (1) Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted – component of net position with constraints placed on their use either by creditors, grantors, donors, etc. or by law through constitutional provisions or enabling legislation¹. (3) Unrestricted – all other assets that do not meet the definition of *restricted* or *net investment in capital assets*.

k. Operating Revenues and Expenses

The district's operating statement distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. They also include payments from federal government for health care services rendered to eligible individuals. Net operating revenue is calculated from revenue recognized at a standard room rate adjusted to actual payer rates per individual payer schedule. Other operating revenues include retail revenue from the district's cafeteria, gift shop and pharmacy, class registration fees, and health information and laboratory service revenues. Non exchange revenue, including taxes, grants and contributions received for purposes other than capital assets acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

m. Patient Service Revenues

Revenues from patient services are reported on the full-accrual basis in the period in which services are provided at established rates, whether or not collection in full is anticipated. Contractual adjustments, the result of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual adjustments include differences between established rates and amounts estimated by management to be collected under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual adjustments.

q. Budgets

The district maintains an operating budget approved by the board prior to the start of each year.

s. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The district's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). These are as follows:

Memorial Funds	\$8,162
Friends of McKay	\$1

b. Investments

Land held for Investment	\$108,000
--------------------------	-----------

NOTE 3 – 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. Assessed values are established by the county assessor at 100 percent 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. The 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 people.

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.)

District	Tax Year	Regular Levy Assessed Value	Regular Levy Rate per \$1,000	Regular Levy Total \$ Levied ⁱ	Regular Levy billed by Treasurer	Collected by Treasurer and Distributed to PHD #4
PHD #4	2013	\$406,899,571	0.503276	\$204,783	\$204,752	\$201,659
	2012	\$412,728,477	0.500001	\$206,365	\$206,365	ⁱⁱ \$208,753
	2011	\$400,890,980	0.500000	\$200,445 ⁱⁱⁱ	\$200,474	\$199,931

ⁱ Regular levy only. No excess, refund, bond, or M & O levy amounts.

ⁱⁱ Collections of tax receivables for prior years resulted in distribution above the levy amount in 2012.

ⁱⁱⁱ Removed Delancy Houghton building from tax roll formerly leased to PHD # 4.

NOTE 4 – CAPITAL ASSETS

- a. Capital assets are defined by the district as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of 1 year(s).

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets are recorded at cost. Straight Line depreciation is used on all depreciable assets. Assets lives follow the **Estimated Useful Lives of Depreciable Hospital Assets**, current edition.

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	<u>12,179</u>	<u> </u>	<u> </u>	<u>12,179</u>
Construction in progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Intangible assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total capital assets not being depreciated</u>	<u>12,179</u>	<u> </u>	<u> </u>	<u>12,179</u>
Capital assets being depreciated:				
Buildings	<u>657,017</u>	<u>85,015</u>	<u> </u>	<u>742,032</u>
Equipment	<u>348,576</u>	<u>53,873</u>	<u> </u>	<u>402,449</u>
Intangible assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total capital assets being depreciated</u>	<u>1,005,593</u>	<u>138,888</u>	<u> </u>	<u>1,144,481</u>
Less accumulated depreciation for:				
Buildings	<u>614,912</u>	<u>8,543</u>	<u> </u>	<u>623,455</u>
Equipment	<u>222,340</u>	<u>26,505</u>	<u> </u>	<u>248,845</u>
Intangible assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total accumulated depreciation</u>	<u>837,252</u>	<u>35,048</u>	<u> </u>	<u>872,300</u>
<u>Total capital assets being depreciated, net</u>	<u>168,341</u>	<u>103,840</u>	<u> </u>	<u>272,181</u>
TOTAL CAPITAL ASSETS, NET	<u>\$180,520</u>	<u>\$ 103,840</u>	<u>\$ </u>	<u>\$284,360</u>

NOTE 5 – LONG-TERM DEBT AND LIABILITIES

- a. McKay Healthcare owns an investment property in which they owe \$63,173 that they carry on the books at \$108,000 at an 8% interest rate. The property has been vacated and McKay Healthcare is no longer receiving rental income as of December 31, 2013

Year Ending December 31	Principal	Interest
2014	\$6,009.73	\$4,830.47
2015	6,482.55	4,357.65
2016	7,020.61	3,819.59
2017	7,603.31	3,236.89
2018-2021	36,863.01	5,805.74
Total	\$63,979.21	\$22,050.34

NOTE 6 – THIRD PARTY CONTRACTUAL AGREEMENTS

- a. The District maintains contracts with various vendors in the normal course of business.

NOTE 7 – PENSION

- a. The District offers a government deferred retirement plan for all employees after one-year of continuous employment. This is on a matching contribution. The employee contributes 3% of wages and McKay contributes 3% as a matching contribution. The employee may contribute more than 3% of the obligatory amount required if he/she chooses. The employee contribution is before taxes, thus it lowers your tax burden now, but taxes must be paid on withdrawal.

NOTE 8 – RISK MANAGEMENT

- a. The district per virtue of operating in the healthcare industry incurs a certain amount of risk this may include resident care related injuries and/or wrongful termination. Liability is maintained at \$1,000,000 per occurrence. This includes general liability, professional liability and auto liability.
- b. Risk Management insurance is covered through GuideOne Insurance Company and also covers property, general liability, professional liability, auto liability, employee theft, and excess liabilities.

NOTE 9 – CONTINGENT LIABILITIES AND LITIGATION

- a. There are no ongoing contingent liabilities or litigation.

NOTE 10 – CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. No single patient comprises more than five percent of total receivables at year-end.¹

The mix of patient receivables at December 31, 2013, was as follows:

Medicare	32.75 %
Medicaid	28.68 %
Self-Pay (and Private Insurance)	29.63 %
Other Third Party Payors	8.94 %

NOTE 11 – TERMINATION BENEFITS

- a. Employees that put in proper notice will be paid accrued vacation time. At December 31, 2013, approximately 27 employees were eligible for this benefit in the amount of \$31,005 calculated by taking total hours available times wage rates of individual employees.

NOTE 12 – SHORT-TERM DEBT

- a. The District is dependent on warrants issued from the county to supplement everyday operational costs.

Beginning Balance 1/1/2013	Issued	Redeemed	Canceled	Ending Balance 12/31/2013
\$364,290	\$3,137,407	(\$3,012,960)	(\$40,895)	\$447,842

NOTE 13 – OTHER

- a. There are no related party transactions other than warrants processed by Grant County.
- b. Consolidated Billing Services, Inc. preforms the Payroll, Accounts Payable, and Accounts Receivable function for the district. They also prepare monthly and yearly financial statements.
- c. There was an Unknown change in equity for \$24,175 during 2013.

NOTE 14 – FINANCIAL CONDITION

Although McKay Healthcare's revenues were in excess of its expenses from 2011 – 2014, McKay operated at a significant loss in 2015 due primarily to lower than expected resident census that persisted through most of the year.

In 2015, several factors combined to result in lower than expected resident census. These factors include: 1) under funding Medicaid; 2) the needs and reimbursement patterns changed under several federal healthcare reforms; 3) resident demographics changed due to the loss of long term base care residents; and 4) admission criteria had become restrictive of the type of residents that its nursing skills could serve resulting in fewer referrals and lower reimbursement rates. As a result, several entities stopped referring patients to McKay Healthcare.

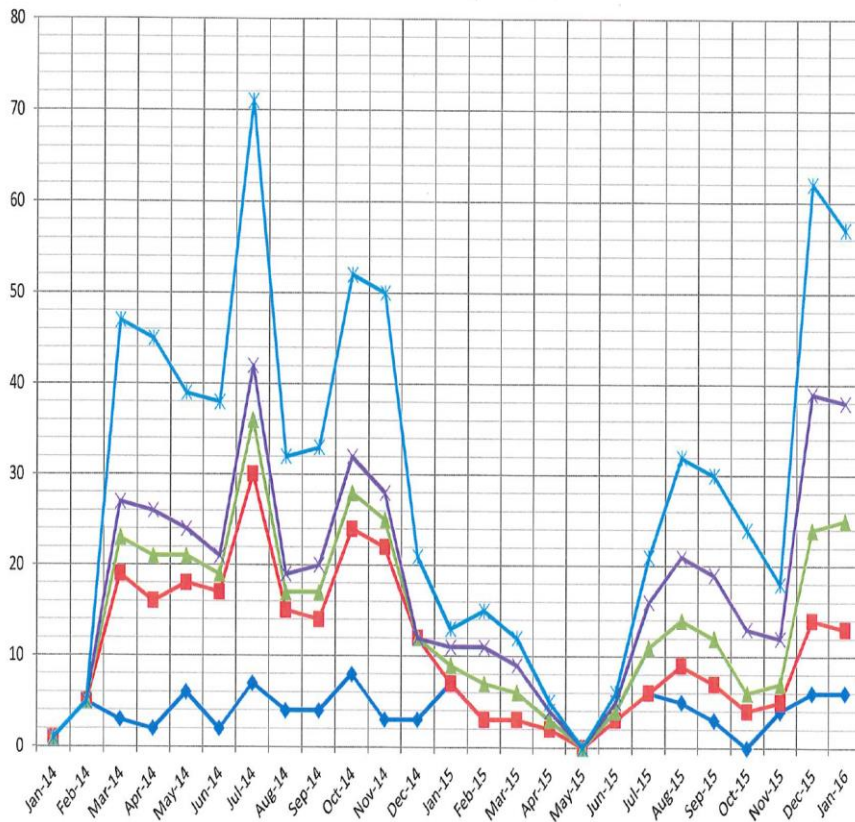
In the fall of 2015, the District began to focus on solutions to these issues by increasing the skills of its nursing staff, removing barriers to admission and beginning its outreach to area and regional hospitals. These initial efforts resulted in an increase of resident census from a low of 19 in July 2015 to 27 today with a solid patient mix of 9 Medicare. Importantly, McKay Healthcare's December 2015 through January 2016 referrals and admissions have more than doubled compared with same time period a year ago and its referral to admission percentage was 92% in January 2016. (See Referrals History 2014 – 2016 below). With this census and patient mix on the rise, combined with additional cost controls, McKay Healthcare is on the right track. However, there is a lot more work to be done.

Through several work sessions in December 2015, McKay Healthcare identified the key issues and outlined a strategic plan to improve its operations and to reduce the District's reliance on borrowing money from Grant County. With the cooperation of the County Commissioners, McKay Healthcare continued these work sessions in January 2016 to develop the strategic plan action list and began to assign responsibilities for its implementation, a copy of which is attached.

McKay Healthcare is pursuing actions to increase its resident census through new contracts to establish a new base level of resident care; operational changes to enhance resident census and patient mix that will focus on referrals and admission tracking; improve financial management including budgeting and expense tracking, billing and accounts receivable collections, and reducing its operating costs per patient day. At McKay Healthcare's request, the County has reduced its interest rate on borrowed funds from over 4% to 3.85%. At the same time, McKay Healthcare is beginning to work collaboratively with area hospitals and communities to look for opportunities to share expenses, increase their awareness of McKay Healthcare and identify new referral sources and access to medical providers. Finally, McKay Healthcare is evaluating how rapidly it can provide new services, such as Alzheimer care.

There are numerous challenges and pressures facing McKay Healthcare. Importantly, McKay Healthcare intends to assess and be ready to respond to future healthcare changes that will come its way. McKay Healthcare Commissioners are committed to the changes outlined in its Strategic Plan and reestablishing the facility as a viable and vital resource for our communities long into the future.

REFERRALS HISTORY 2014-2016



	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16
REFERRALS			20	19	15	17	29	13	13	20	22	9	2	4	3	1	0	1	5	11	11	11	6	23	19
ACCEPTED			4	5	3	2	6	2	3	4	3	0	2	4	3	1	0	1	5	7	7	7	5	15	13
ADMITTED			4	5	3	2	6	2	3	4	3	0	2	4	3	1	0	1	5	5	5	2	2	10	12
REJECTED			16	14	12	15	23	11	10	16	19	9	0	0	0	0	0	0	0	4	4	4	1	8	7
DISCHARGED	1	5	3	2	6	2	7	4	4	8	3	3	7	3	3	2	0	3	6	5	3	0	4	6	6

Grant County Public Hospital District No. 4

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2012

These Notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grant County Public Hospital District No. 4 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from GAAP):

a. Reporting Entity

The Grant County Public Hospital District No. 4 is a municipal corporation governed by an elected five (5) member board. As required by GAAP, management has considered all potential component units in defining the reporting entity. (The Grant County Public Hospital District No. 4 has no component units.)

b. Basis of Accounting and Presentation

The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in the *Accounting and Reporting Manual for Hospitals*.

The district's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenue as cash is received by the District. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the district considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

d. Investments

The district holds land recorded at a historical cost of \$108,000 at December 31, 2012.

e. Receivables

a. Receivables are recorded when services are rendered. Receivables are reviewed at year-end and an allowance is booked as an estimate of uncollectible receivables.

b. Collected:

- i. Insurance companies are billed once a month whether it is Medicaid, Medicare, and Group Insurance we bill after the month i.e. December is billed in January. Once Primary insurance is billed and paid, then secondary insurance is billed.
- ii. Private Pay is billed once a month – after the previous month has closed, then monthly statements are sent out about the 20th of each month.

c. Reviewed

- i. It is reviewed once a week to see what is still outstanding – follow up is made claims are outside the 30 day processing timeframe. Follow up with the appropriate insurance company to check status after 30 days after the claims were filed.

d. Bad Debts

- i. If the resident has Medicaid as secondary insurance, then there is an allowable bad debt to be written off after the claim has paid – this is done when a claim has completed processing.
- ii. If, after the claim has been processed and denied, attempts are made to collect the claim through the appeals process and/or contacting resident for private pay through letters, phone calls, ect. After all resources are exhausted and it has been determined you are unable to collect a form is filled out along w/documentation to be sent to the board for review and determination to write off the charges.

- f. Restricted Assets
McKay holds funds belonging to the residents for resident personal use. These funds are held separately from all other funds in an interest bearing account as defined by DSHS.
- g. Inventories
Inventories accounts have not been verified or re-valued.
- h. Capital Assets
Depleted and exhausted assets were removed from the books at December 31, 2012. Assets with as useful life of longer than one (1) year valued at over \$750 have been added.
- i. Compensated Absences
Sick leave does not vest as part of a retirement or a termination benefit. Upon resignation, any outstanding sick leave is lost.
- j. Net Position Classification
Net position is classified and displayed in three components. (1) Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted – component of net position with constraints placed on their use either by creditors, grantors, donors, etc. or by law through constitutional provisions or enabling legislation¹. (3) Unrestricted – all other assets that do not meet the definition of *restricted* or *net investment in capital assets*.
- k. Restricted Resources
When the District has both restricted and unrestricted resources available to finance particular program/activities, it is the district's policy to use restricted resources before unrestricted resources.
- l. Operating Revenues and Expenses
The district's operating statement distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. They also include payments from federal government for health care services rendered to eligible individuals. Net operating revenue is calculated from revenue recognized at a standard room rate adjusted to actual payer rates per individual payer schedule. Other operating revenues include retail revenue from the district's cafeteria, gift shop and pharmacy; class registration fees, and health information and laboratory service revenues. Non exchange revenue, including taxes, grants and contributions received for purposes other than capital assets acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.
- m. Patient Service Revenues
Revenues from patient services are reported on the full-accrual basis in the period in which services are provided at established rates, whether or not collection in full is anticipated. Contractual adjustments, the result of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual adjustments include differences between established rates and amounts estimated by management to be collected under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual adjustments.
- q. Budgets
The district maintains an operating budget.
- s. Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The district's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

b. Investments See note 1.d.

NOTE 3 – 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. Assessed values are established by the county assessor at 100 percent 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. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The district may also levy taxes at lower rate. Further amounts of tax need to be authorized by the vote of people.

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.)

District	Tax Year	Regular Levy Assessed Value	Regular Levy Rate per \$1,000	Regular Levy Total \$ Levied ⁱ	Regular Levy billed by Treasurer	Collected by Treasurer and Distributed to PHD #4
PHD #4	2012	\$412,728,477	0.500001	\$206,365	\$206,365	ⁱⁱ \$208,753
	2011	\$400,890,980	0.500000	\$200,445 ⁱⁱⁱ	\$200,474 ^{iv}	\$199,931
	2010	\$373,328,367	0.595610 ^v	\$222,358	\$222,358	\$211,229

ⁱ Regular levy only. No excess, refund, bond, or M & O levy amounts.

ⁱⁱ Collections of tax receivables for prior years resulted in distribution above the levy amount in 2012.

ⁱⁱⁱ Removed Delancy Houghton building from tax roll formerly leased to PHD # 4.

^{iv} Billings by County Treasurer may include penalties and interest above the amount levied.

^v Because Grant County did not take the full amount allowed, PHD # 4 was able to receive more than \$.50/\$1,000 assessed value per RCW 84.52.010.

NOTE 4 – CAPITAL ASSETS

- a. Capital assets are defined by the district as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of 1 year(s).

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred

Capital assets are recorded at cost. Straight Line depreciation is used on all depreciable assets. Assets lives follow the Estimated Useful Lives of Depreciable Hospital Assets, current edition.

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	<u>12,179</u>	<u> </u>	<u> </u>	<u>12,179</u>
Construction in progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Intangible assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total capital assets not being depreciated</u>	<u>12,179</u>	<u> </u>	<u> </u>	<u>12,179</u>
Capital assets being depreciated:				
Buildings	<u>637,728</u>	<u>19,289</u>	<u> </u>	<u>657,017</u>
Equipment	<u>325,071</u>	<u>23,505</u>	<u> </u>	<u>348,576</u>
Intangible assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total capital assets being depreciated</u>	<u>962,798</u>	<u>42,794</u>	<u> </u>	<u>1,005,593</u>
Less accumulated depreciation for:				
Buildings	<u>609,178</u>	<u>5,734</u>	<u> </u>	<u>614,912</u>
Equipment	<u>195,533</u>	<u>26,807</u>	<u> </u>	<u>222,340</u>
Intangible assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Total accumulated depreciation</u>	<u>804,711</u>	<u>32,541</u>	<u> </u>	<u>837,252</u>
<u>Total capital assets being depreciated, net</u>	<u>158,088</u>	<u>10,253</u>	<u> </u>	<u>168,341</u>
TOTAL CAPITAL ASSETS, NET	<u>\$170,267</u>	<u>\$ 10,253</u>	<u>\$ </u>	<u>\$180,520</u>

NOTE 5 – CONSTRUCTION IN PROGRESS

- a. There is no construction is progress at December 31, 2012.

NOTE 6 – SHORT-TERM DEBT

- a. The District is dependent on warrants issued from the county to supplement everyday operational costs.

Beginning Balance 1/1/2012	Issued	Redeemed	Canceled	Ending Balance 12/31/2012
\$448,094	\$3,049,723	(\$3,033,294)	(\$100,233)	\$364,290

NOTE 7 - LEASES

- a. There are no capital leases reported at December 31, 2012.

NOTE 8 – LONG-TERM DEBT AND LIABILITIES

- a. McKay Healthcare owns an investment property in which it purchased for \$108,000 at an 8% interest rate. The property is rented out to Community Cents for in which rental payments meet and exceed month mortgage payments on the property.

NOTE 9 – THIRD PARTY CONTRACTUAL AGREEMENTS

- a. The District maintains contracts with various vendors in the normal course of business.

NOTE 10 – PENSION

- a. The district does not participate in a differed compensation plan. The District offers a government deferred retirement plan for all employees after one-year of continuous employment. This is on a matching contribution. The employee contributes 3% of wages and McKay contributes 3% as a matching contribution. The employee may contribute more than 3% of the obligatory amount required if he/she chooses. The employee contribution is before taxes, thus it lowers your tax burden now, but taxes must be paid on withdrawal.

NOTE 11 – RISK MANAGEMENT

- a. The district per virtue of operating in the healthcare industry incurs a certain amount of risk this may include resident care related injuries and/or wrongful termination. Liability is maintained at \$1,000,000 per occurrence. This included general liability, professional liability and auto liability.
- b. Risk Management insurance is covered through GuideOne Insurance Company and also covers property, general liability, professional liability, auto liability, employee theft, and excess liabilities.

NOTE 12 – CONTINGENT LIABILITIES AND LITIGATION

- a. There are no ongoing contingent liabilities or litigation. The district has a few ongoing L&I and wage reimbursement claims. All claims have been settled and there is no material liability.

NOTE 13 – CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. No single patient comprises more than five percent of total receivables at year-end.¹

The mix of patient receivables at December 31, 2012, was as follows:

Medicare	37.01 %
Medicaid	21.57 %
Self-Pay (and Private Insurance)	27.52 %
Other Third Party Payors	13.90 %

NOTE 14 – TERMINATION BENEFITS

- a. Employees that put in proper notice will be paid accrued vacation time and are eligible for COBRA. Employees that are terminated have no vested benefits.

NOTE 15 – OTHER

- a. There are no related party transactions other than warrants processed by Grant County.

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov