



**Office of the Washington State Auditor
Pat McCarthy**

January 23, 2017

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, 2015 and 2014.

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,

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, 2015 and 2014

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
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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, 2015 and 2014, 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 financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2015 and 2014, 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 May 25, 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 for the year ended December 31, 2015. We issued a similar report for the year ended December 31, 2014, dated July 8, 2015, which has not been included with the 2015 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, 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
May 25, 2016

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Net Position
December 31, 2015 and 2014

ASSETS	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 631,638	\$ 950,897
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$450,000 and \$575,000, respectively	2,541,556	2,156,134
Taxes	18,316	21,148
Estimated third-party payor settlements	64,513	2,795
Electronic health records incentive payment	248,446	585,086
Other	77,468	21,576
Inventories	156,660	187,676
Prepaid expenses	224,759	143,593
Cash and cash equivalents limited as to use	405,011	638,047
Taxes receivable limited as to use	56,121	64,831
Total current assets	4,424,488	4,771,783
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	2,072,414	1,397,815
Capital assets, net of accumulated depreciation	14,301,785	15,625,973
Total noncurrent assets	16,374,199	17,023,788
Total assets	\$ 20,798,687	\$ 21,795,571

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, 2015 and 2014

LIABILITIES AND NET POSITION	2015	2014
<i>Current liabilities</i>		
Accounts payable	\$ 345,505	\$ 468,943
Accounts payable, construction	-	110,450
Accrued compensation and related liabilities	791,141	720,803
Accrued interest payable	55,023	56,001
Estimated third-party payor settlements	11,328	200,000
Current maturities of long-term debt and capital lease obligations	487,462	454,085
Total current liabilities	1,690,459	2,010,282
<i>Long-term debt and capital lease obligations, less current maturities</i>	13,373,025	13,854,508
Total liabilities	15,063,484	15,864,790
<i>Net position</i>		
Net investment in capital assets	386,275	1,150,929
Restricted	234,473	144,489
Unrestricted	5,114,455	4,635,363
Total net position	5,735,203	5,930,781
Total liabilities and net position	\$ 20,798,687	\$ 21,795,571

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, 2015 and 2014

	2015	2014
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$557,000 and \$508,000, respectively	\$ 12,187,014	\$ 11,571,248
Electronic health records incentive payment	236,710	982,599
Grants	17,269	7,672
Other	141,104	163,047
Total operating revenues	12,582,097	12,724,566
<i>Operating expenses</i>		
Salaries and wages	7,847,475	7,462,803
Employee benefits	1,771,232	1,682,178
Depreciation and amortization	1,421,853	1,454,155
Supplies	900,435	870,159
Professional fees and other purchased services	910,053	786,554
Utilities	153,201	163,611
Insurance	204,210	212,915
Leases and rentals	62,024	62,455
Repairs and maintenance	225,861	209,340
Other	755,706	572,277
Total operating expenses	14,252,050	13,476,447
<i>Operating loss</i>	(1,669,953)	(751,881)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	1,568,963	1,539,054
Taxation for bond principal and interest	553,566	532,834
Investment income	4,450	1,943
Interest expense	(718,206)	(750,950)
Loss on disposal of assets	(47,858)	-
Contributions and other nonoperating revenues	6,957	33,753
Total nonoperating revenues, net	1,367,872	1,356,634
Excess of revenues (expenses) over expenses (revenues) before capital grants and contributions	(302,081)	604,753
<i>Capital grants and contributions</i>	106,503	90,925
Change in net position	(195,578)	695,678
Net position, beginning of year	5,930,781	5,235,103
Net position, end of year	\$ 5,735,203	\$ 5,930,781

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, 2015 and 2014

	2015	2014
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 11,551,202	\$ 12,055,379
Other receipts	85,212	188,304
Receipts from grants	17,269	7,672
Receipts from electronic health records incentive	573,350	397,513
Payments to and on behalf of employees	(9,548,369)	(9,068,058)
Payments to suppliers and contractors	(3,385,078)	(3,057,004)
Net cash provided by (used in) operating activities	(706,414)	523,806
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	1,571,795	1,540,521
Contributions	6,957	33,753
Net cash provided by noncapital financing activities	1,578,752	1,574,274
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	562,276	538,153
Capital grants and contributions	106,503	90,925
Purchase of capital assets	(255,973)	(138,142)
Principal paid on long-term debt and capital lease obligations	(448,106)	(409,718)
Interest paid on long-term debt and capital lease obligations	(719,184)	(738,964)
Net cash used in capital and related financing activities	(754,484)	(657,746)
<i>Cash flows from investing activities</i>		
Investment income	4,450	1,943
Net increase in cash and cash equivalents	122,304	1,442,277
Cash and cash equivalents, beginning of year	2,986,759	1,544,482
Cash and cash equivalents, end of year	\$ 3,109,063	\$ 2,986,759

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, 2015 and 2014

	2015	2014
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 631,638	\$ 950,897
Cash and cash equivalents limited as to use	405,011	638,047
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	2,072,414	1,397,815
Total cash and cash equivalents	\$ 3,109,063	\$ 2,986,759
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
<i>Operating loss</i>	\$ (1,669,953)	\$ (751,881)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,421,853	1,454,155
Provision for bad debts	557,448	508,269
Decrease (increase) in assets:		
Patient accounts receivable, net	(942,870)	(951,162)
Estimated third-party payor settlements	(61,718)	727,024
Other receivables	(55,892)	25,257
Electronic health records incentive payment	336,640	(585,086)
Inventories	31,016	21,776
Prepaid expenses	(81,166)	(96,358)
Increase (decrease) in liabilities:		
Accounts payable	(123,438)	(105,111)
Accrued compensation and related liabilities	70,338	76,923
Estimated third-party payor settlements	(188,672)	200,000
Net cash provided by (used in) operating activities	\$ (706,414)	\$ 523,806

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, 2015 and 2014**

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 of 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 \$15,000 and \$51,000 to the District in 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014

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 May 25, 2016, 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, 2015 and 2014, were \$2,862,909 and \$2,395,126, respectively.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

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.

	2015	2014
Receivables from patients and their insurance carriers	\$ 1,274,322	\$ 1,573,959
Receivables from Medicare	1,375,785	988,166
Receivables from Medicaid	340,582	169,139
Total patient accounts receivable	2,990,689	2,731,264
Less allowance for uncollectible accounts	449,133	575,130
Patient accounts receivable, net	\$ 2,541,556	\$ 2,156,134

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

4. Assets Limited as to Use:

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

	2015	2014
<i>Current assets</i>		
Internally designated by Board, cash and cash equivalents:		
Third-party payor cost settlements	\$ 150,954	\$ 300,878
Memorial fund	65,681	110,846
Emergency medical services	10,024	146,665
Restricted by bond agreement for bond principal and interest payment, cash and cash equivalents	178,352	79,658
Taxes receivable restricted for debt service, interest, and emergency medical services	56,121	64,831
Total current assets limited as to use	461,132	702,878
<i>Noncurrent assets</i>		
Internally designated by Board for capital additions and replacements	2,072,414	1,397,815
Total assets limited as to use	\$ 2,533,546	\$ 2,100,693

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

5. Capital Assets:

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)
Total capital assets being depreciated, net	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, 2015 and 2014

5. Capital Assets (continued):

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

	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
<i>Capital assets not being depreciated</i>					
Land	\$ 522,015	\$ -	\$ -	\$ -	\$ 522,015
Construction in progress	48,308	110,450	-	-	158,758
Total capital assets not being depreciated	570,323	110,450	-	-	680,773
<i>Capital assets being depreciated</i>					
Land improvements	964,170	-	-	-	964,170
Buildings and improvements	10,158,758	-	-	-	10,158,758
Fixed equipment	8,310,114	29,837	-	-	8,339,951
Major movable equipment	4,024,641	93,835	(105,823)	-	4,012,653
Total capital assets being depreciated	23,457,683	123,672	(105,823)	-	23,475,532
<i>Less accumulated depreciation for</i>					
Land improvements	(295,870)	(66,385)	-	-	(362,255)
Buildings and improvements	(2,571,731)	(505,750)	-	-	(3,077,481)
Fixed equipment	(1,694,544)	(504,485)	-	-	(2,199,029)
Major movable equipment	(2,619,855)	(377,535)	105,823	-	(2,891,567)
Total accumulated depreciation	(7,182,000)	(1,454,155)	105,823	-	(8,530,332)
Total capital assets being depreciated, net	16,275,683	(1,330,483)	-	-	14,945,200
Capital assets, net	\$ 16,846,006	\$ (1,220,033)	\$ -	\$ -	\$ 15,625,973

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

6. Long-term Debt and Capital Lease Obligations:

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

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
<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
	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Amounts Due Within One Year
<i>Long-term debt</i>					
Parking lot note	\$ 259,577	\$ -	\$ (3,590)	\$ 255,987	\$ 3,878
2005 UTGO bonds	6,385,000	-	(125,000)	6,260,000	150,000
2006 UTGO bonds	1,900,000	-	(35,000)	1,865,000	40,000
2009 LTGO bonds	5,770,000	-	(110,000)	5,660,000	115,000
2005 UTGO bond discount	(77,213)	-	4,568	(72,645)	-
2006 UTGO bond premium	46,622	-	(2,769)	43,853	-
2009 LTGO bond discount	(105,589)	-	4,182	(101,407)	-
Total long-term debt	14,178,397	-	(267,609)	13,910,788	308,878
<i>Capital lease obligations</i>	539,914	-	(142,109)	397,805	145,207
Total long-term debt and capital lease obligations	\$ 14,718,311	\$ -	\$ (409,718)	\$ 14,308,593	\$ 454,085

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

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 \$170,000 to \$725,000 are required, plus semiannual interest payments payable June 1 and December 1, ranging from 3.95% to 4.45%. Scheduled maturities on and after December 1, 2016, will be subject to redemption at the option of the District on and after December 1, 2015, 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 \$50,000 to \$775,000 are required, plus semiannual interest payments payable June 1 and December 1, ranging from 3.85% 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, (after payment of \$189,279 in loan fees and other issuance costs and a discount of \$125,453). 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 \$115,000 in 2016 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%.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

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

- **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 ultrasound equipment and Healthland accounting system acquired under the capital leases had capitalized costs of \$44,739 and \$856,779, respectively, and accumulated depreciation of \$40,265 and \$406,679, respectively, as of December 31, 2015. The ultrasound equipment and Healthland accounting system acquired under the capital leases had capitalized costs of \$44,739 and \$856,779, respectively, and accumulated depreciation of \$31,317 and \$235,323, respectively, as of December 31, 2014.

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

	UTGO Bonds Payable	
	Principal	Interest
2016	\$ 220,000	\$ 347,615
2017	250,000	338,975
2018	285,000	328,933
2019	325,000	317,346
2020	360,000	304,008
2021-2025	2,495,000	1,252,285
2026-2030	4,000,000	573,779
	\$ 7,935,000	\$ 3,462,941
	Other Long-Term Debt	
	Principal	Interest
2016	\$ 119,190	\$ 332,102
2017	139,466	326,940
2018	144,825	320,911
2019	155,213	314,644
2020	160,631	306,575
2021-2025	940,712	1,397,124
2026-2030	1,237,550	1,102,523
2031-2035	1,647,324	688,867
2036-2038	1,252,198	153,302
	\$ 5,797,109	\$ 4,942,988

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

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

	Capital Lease Obligations	
	Principal	Interest
2016	\$ 148,272	\$ 12,057
2017	104,326	2,560
	\$ 252,598	\$ 14,617

On December 22, 2015, the District entered into a line of credit agreement with Coastal Community Bank. The agreement allows the District to borrow up to \$2,000,000 through June, 22, 2016. The line of credit was in anticipation of issues with the implementation of ICD-10. There have not been significant issues and no draws have been taken on the line of credit.

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 has not changed its charity care or uninsured discount policies during fiscal years 2015 or 2014. 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:

	2015	2014
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 7,947,253	\$ 7,288,088
Medicaid	1,183,975	1,117,534
Other third-party payors	3,113,540	3,146,433
Patients	703,772	832,035
	12,948,540	12,384,090
Less:		
Charity care	204,078	304,573
Provision for bad debts	557,448	508,269
Net patient service revenue	\$ 12,187,014	\$ 11,571,248

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

7. Net Patient Service Revenue (continued):

The District has agreements with third-party payors that 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.

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 \$6,000 and increased by approximately \$12,000 for the years ended December 31, 2015 and 2014, 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 \$181,000 and \$279,000 for the years ended December 31, 2015 and 2014, respectively.

8. Electronic Health Records Incentive Payments:

The District recognized electronic health records (EHR) incentive payments of \$236,710 and \$982,599 during the years ended December 31, 2015 and 2014, respectively. 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 recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period. The District first attested to meaningful use with Centers for Medicare and Medicaid (CMS) during 2014. The Medicare EHR reporting period is through December 31 each year.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

8. Electronic Health Records Incentive Payments (continued):

The Medicare incentive payment is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on the days reported in the current Medicare cost report. Medicare incentive payback of \$(11,736) and Medicare incentive payments of \$585,086 were recognized as revenue in 2015, and 2014, respectively.

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 is meaningfully used under the Medicare EHR incentive program. The subsequent three payments will be issued when meaningful use is demonstrated under Medicare. Medicaid incentive payments of \$248,446 and \$397,513 were recognized as revenue in 2015 and 2014, respectively. The subsequent Medicaid payments will be \$198,757 and \$149,067 in 2016 and 2017, respectively.

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 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.

For 2014, the District's regular tax levy was approximately \$0.250 per \$1,000 on a total assessed valuation of \$2,026,872,410, for a total regular levy of \$506,467. The District's Emergency Medical Services (EMS) tax levy was \$0.50 per \$1,000 on a total assessed valuation of \$2,026,872,410, for a total EMS tax levy of \$1,013,436. The District's bond levy was approximately \$0.268 per \$1,000 on a total assessed valuation of \$2,005,251,153, for a total bond levy of \$536,355.

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.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

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 \$356,000 and \$394,000 for the years ended December 31, 2015 and 2014, respectively. Employee contributions to the 457(b) plan were approximately \$33,000 and \$46,000 for the years ended December 31, 2015 and 2014, respectively. Employer pension contributions were approximately \$115,000 and \$127,000 for the years ended December 31, 2015 and 2014, respectively. Benefit terms including contribution requirements are established by and may be amended by the District.

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 2015 or in prior years. It is possible that claims may exceed coverage available in any given year.

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 known or unasserted at this time.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

11. Risk Management and Contingencies (continued):

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 2011, 2012, 2013, 2014, and 2015. 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 2015 and 2014 the District recognized \$-0- and \$25,177 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 \$46,000 and \$37,000 in 2015 and 2014, 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.

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:

	2015	2014
Medicare	42 %	35 %
Medicaid	15	9
Other third-party payors	24	23
Patients	19	33
	100 %	100 %

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

12. Concentrations of Risk (continued):

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, 2013, the District renewed the collective bargaining agreement with the Washington State Nurses Association (WSNA). The contract is effective through September 30, 2016. As of December 31, 2015 and 2014, approximately 13% and 12%, 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, 2015 and 2014, approximately 9% and 8%, 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, 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, and have issued our report thereon dated May 25, 2016.

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
May 25, 2016

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2015**

The audit for the year ended December 31, 2014, reported no audit findings, nor were there any unresolved prior year audit findings from periods ended December 31, 2013, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2015.