



Office of the Washington State Auditor
Pat McCarthy

February 16, 2017

Board of Commissioners
Coulee Medical Center
Grand Coulee, Washington

**Contracted CPA Firm's Audit Report on Financial Statements and
Federal Single Audit**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Coulee Medical Center's financial statements and compliance with federal grant requirements for the fiscal year ended December 31, 2015.

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 or the compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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

**Douglas, Grant, Lincoln, and Okanogan Counties
Public Hospital District No. 6
doing business as
Coulee Medical Center**

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2015 and 2014



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Table of Contents**

	Page
<i>INDEPENDENT AUDITORS' REPORT</i>	1-2
<i>COMBINED BASIC FINANCIAL STATEMENTS:</i>	
Combined statements of net position	3-4
Combined statements of revenues, expenses, and changes in net position	5
Combined statements of cash flows	6-7
Notes to combined basic financial statements	8-28
<i>SINGLE AUDIT:</i>	
<i>AUDITORS' SECTION:</i>	
<i>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</i>	29-30
<i>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</i>	31-32
Schedule of audit findings and questioned costs	33-34
<i>AUDITEE'S SECTION:</i>	
Schedule of expenditures of federal awards	35

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Grand Coulee, Washington

Report on the Financial Statements

We have audited the accompanying combined financial statements of Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 doing business as Coulee Medical Center (the District) as of and for the year ended December 31, 2015, and the related notes to the combined basic financial statements, which collectively comprise the District's combined 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 combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year (December 31, 2014) Auditors' Report

The financial statements of the District as of and for the year ended December 31, 2014, were audited by Moss Adams, LLP, and whose report dated May 18, 2015, expressed an unmodified opinion of those financial statements.

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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that collectively comprise the District's combined basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the combined basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined basic financial statements or to the combined basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 19, 2016

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Net Position
December 31, 2015 and 2014**

ASSETS	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 902,533	\$ 1,797,387
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$1,166,000 and \$1,099,000, respectively	2,237,122	2,066,804
Estimated third-party payor settlements	56,587	1,141,739
Taxes	-	4,235
Build America Bonds subsidy	146,516	525,998
Other	20,614	-
Inventories	451,200	433,976
Prepaid expenses	353,160	190,510
Total current assets	4,167,732	6,160,649
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by debt agreements	2,543,371	2,629,848
Cash and cash equivalents internally designated for capital acquisitions	160,852	160,852
Capital assets, net	19,593,365	20,663,179
Total noncurrent assets	22,297,588	23,453,879
Total assets	\$ 26,465,320	\$ 29,614,528

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Net Position (Continued)
December 31, 2015 and 2014**

LIABILITIES AND NET POSITION	2015	2014
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 491,751	\$ 479,696
Accounts payable	988,354	869,319
Accrued compensation and related liabilities	517,737	587,037
Accrued vacation	506,863	410,640
Accrued professional liability insurance reserve	310,868	274,000
Estimated third-party payor settlements	29,612	1,421,129
Total current liabilities	2,845,185	4,041,821
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	20,070,960	20,562,711
Total liabilities	22,916,145	24,604,532
<i>Net position</i>		
Net investment in capital assets	(802,216)	146,770
Restricted for debt service	2,543,371	2,629,848
Unrestricted	1,808,020	2,233,378
Total net position	3,549,175	5,009,996
Total liabilities and net position	\$ 26,465,320	\$ 29,614,528

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined 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 \$851,243 and \$1,064,297, respectively	\$ 21,641,162	\$ 16,139,481
Grants	29,361	20,496
Other operating revenues	299,760	290,406
Total operating revenues	21,970,283	16,450,383
<i>Operating expenses</i>		
Salaries and wages	11,255,581	9,983,293
Employee benefits	2,365,906	2,139,129
Professional fees	791,929	1,271,557
Purchased services	2,241,216	2,601,620
Supplies	1,970,663	1,712,837
Utilities	355,983	345,747
Repairs and maintenance	505,106	406,616
Rentals and leases	186,431	217,083
Depreciation	1,965,943	1,954,852
Insurance	334,794	677,249
Other	699,999	535,769
Total operating expenses	22,673,551	21,845,752
<i>Operating loss</i>	(703,268)	(5,395,369)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	158,351	125,000
Contributions	45,217	88,680
Build America Bond subsidy	441,473	450,410
Investment income	6,378	8,192
Interest expense	(1,408,972)	(1,437,130)
Total nonoperating expenses, net	(757,553)	(764,848)
Change in net position	(1,460,821)	(6,160,217)
Net position, beginning of year	5,009,996	11,170,213
Net position, end of year	\$ 3,549,175	\$ 5,009,996

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined 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>		
Cash received from and on behalf of patients	\$ 21,164,479	\$ 17,461,525
Cash received from other revenue	303,801	290,406
Cash received from grants	29,361	20,496
Cash paid to and on behalf of employees	(13,594,564)	(12,095,244)
Cash paid to suppliers and contractors	(7,110,092)	(7,169,897)
Net cash provided by (used in) operating activities	792,985	(1,492,714)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	162,586	155,226
Contributions	20,217	88,680
Net cash provided by noncapital financing activities	182,803	243,906
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(479,696)	(449,729)
Interest paid on long-term debt	(1,408,972)	(1,437,130)
Cash received from Build America Bonds subsidy	821,300	557,814
Purchase of capital assets	(896,129)	(240,543)
Net cash used in capital and related financing activities	(1,963,497)	(1,569,588)
<i>Cash flows from investing activities</i>		
Investment income	6,378	8,192
Net decrease in cash and cash equivalents	(981,331)	(2,810,204)
Cash and cash equivalents, beginning of year	4,588,087	7,398,291
Cash and cash equivalents, end of year	\$ 3,606,756	\$ 4,588,087

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined 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>		
Cash and cash equivalents	\$ 902,533	\$ 1,797,387
Cash and cash equivalents restricted by debt agreement	2,543,371	2,629,848
Cash and cash equivalents internally designated for capital acquisitions	160,852	160,852
Total cash and cash equivalents	\$ 3,606,756	\$ 4,588,087
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (703,268)	\$ (5,395,369)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	1,965,943	1,954,852
Provision for bad debts	851,243	1,064,297
Decrease (increase) in current assets:		
Receivables:		
Patient accounts, net	(1,021,561)	653,379
Estimated third-party payor settlements	1,085,152	(622,740)
Other	4,041	-
Inventories	(17,224)	(37,508)
Prepaid expenses	(162,650)	141,106
Increase (decrease) in liabilities:		
Accounts payable	119,035	220,983
Accrued compensation and related liabilities	(69,300)	42,868
Accrued vacation	96,223	(15,690)
Accrued professional liability insurance reserve	36,868	274,000
Estimated third-party payor settlements	(1,391,517)	227,108
Net cash provided by (used in) operating activities	\$ 792,985	\$ (1,492,714)

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements
Years Ended December 31, 2015 and 2014**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 (the District) owns and operates Coulee Medical Center (the Hospital), which is comprised of a 25-bed critical access hospital and two Medicare certified rural health clinics. The District provides healthcare services to patients in the Grand Coulee, Washington, area. The services provided include acute care, long-term nursing care, emergency room, physicians' clinics, and the related ancillary procedures (laboratory, imaging, therapy, etc.).

The District operates under the laws of the State of Washington for Washington municipal corporations and is governed by an elected five-member board. As organized, the District is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in the accompanying financial statements.

As required by accounting principles generally accepted in the United States of America, the basic financial statements present the District – the primary government – and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operations and financial relationship with the District. Coulee Medical Foundation (the Foundation) is a component unit of the District since its Board of Directors is appointed by the District's Board of Commissioners.

The Foundation is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation was established in 1983 for the purpose of directly supporting the Hospital, which is located in Grand Coulee, Grant County, Washington. The articles of incorporation were amended and bylaws restated in 2009 to establish the specific powers conferred upon the Foundation to develop a program of planned giving for the long-range financing and endowment of the Hospital and to support, improve, enlarge, reconstruct, and in any way benefit the Hospital and any facilities or programs directly related to the Hospital. The Foundation has the power to mortgage, or otherwise hypothecate its real and personal property and to do and perform all acts reasonably necessary to accomplish the purposes of the Foundation, including execution of contracts and grants; to secure the benefits of financing with the assistance of mortgage insurance; to purchase or acquire, own, hold, use, lease, sell, mortgage or encumber real or personal property; incur indebtedness; and issue bonds, notes, and debentures as required to replace the existing Hospital with a new hospital at the same site.

The Foundation has no members, and accordingly, the business and affairs of the Foundation shall be managed by its Board. The Board of Commissioners of the District appoints the Board of the Foundation. The Foundation is governed by a three-member Board of Directors composed of the District Superintendent and two community members.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined 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

Use of estimates – The preparation of combined basic 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 the 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 – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Grant County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District.

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

Accrued vacation – The District's policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum range of 416 to 656 hours, depending on their years of service.

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 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 the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined 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 revenue 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 grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted 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.

Reclassifications – Certain reclassifications have been made to the 2014 financial statements to conform to the classifications used in the 2015 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through May 19, 2016, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool, eligible bankers’ acceptances, and repurchase agreements.

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year end. Category 1 includes deposits and investments that are insured, registered, or held by the District’s agent in the District’s name. Category 2 includes uninsured and unregistered investments that are held by the brokers or dealers trust department or agent in the District’s name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the brokers or dealers, trust department or agent, but not in the District’s name.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

2. Bank Deposits and Investments (continued):

At December 31, 2015 and 2014, all deposits and assets limited as to use of the District are categorized as Category 1 and consist of cash and cash equivalents deposited with banks and the County Treasurer.

Custodial credit risk – 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.

All cash and cash equivalents held by the County Treasurer or deposited with qualified public depositories are protected against loss by the State of Washington Public Deposit Protection Commission, as provided by RCW Chapter 39.58, subject to certain limitations. Qualified public depositories, including Washington Trust Bank and U.S. Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington. The cash on deposit with these banks is also insured through the Federal Deposit Insurance Corporation.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – The possibility that an interest rate change could adversely affect an investment’s fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District has a money market account that is funded by the District and held by U.S. Bank in trust for the exclusive use and benefit of the Foundation and the Department of Housing and Urban Development (HUD) to ensure continuation of medical services for up to 60 days should the District and Foundation default on their debt obligations.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined 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 years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable were reported as current assets by the District consisted of the following amounts:

	2015	2014
Receivables from patients and their insurance carriers	\$ 2,259,824	\$ 2,229,423
Receivables from Medicare	662,092	493,505
Receivables from Medicaid	480,717	443,249
Total patient accounts receivable	3,402,633	3,166,177
Less allowance for uncollectible accounts	1,165,511	1,099,373
Patient accounts receivable, net	\$ 2,237,122	\$ 2,066,804

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

4. 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% 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.

Each 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 the taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2015 and 2014, the combined District's regular tax levy was \$0.55 per \$1,000 on a total assessed valuation of \$293,358,103 and \$295,127,402, respectively.

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.

5. Capital Assets:

The District's capital assets are stated at cost. The District's policy is to capitalize all capital asset expenditures exceeding \$5,000. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When capital assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating revenue or expense. Donated items are recorded at fair value at the date of contribution. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	4 to 23 years
Buildings and improvements	3 to 40 years
Fixed equipment	5 to 15 years
Major movable equipment	3 to 20 years

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined 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, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 147,805	\$ -	\$ -	\$ -	\$ 147,805
Construction in progress	8,000	551,965	-	(31,650)	528,315
Total capital assets not being depreciated	155,805	551,965	-	(31,650)	676,120
<i>Capital assets being depreciated</i>					
Land improvements	2,672,091	-	-	-	2,672,091
Buildings and improvements	21,888,668	13,290	-	-	21,901,958
Fixed equipment	689,147	9,703	-	16,008	714,858
Major movable equipment	8,047,585	321,171	(11,327)	15,642	8,373,071
Total capital assets being depreciated	33,297,491	344,164	(11,327)	31,650	33,661,978
<i>Less accumulated depreciation for</i>					
Land improvements	(1,090,300)	(168,152)	-	-	(1,258,452)
Buildings and improvements	(5,133,204)	(1,082,460)	-	-	(6,215,664)
Fixed equipment	(352,811)	(90,357)	-	-	(443,168)
Major movable equipment	(6,213,802)	(624,974)	11,327	-	(6,827,449)
Total accumulated depreciation	(12,790,117)	(1,965,943)	11,327	-	(14,744,733)
Total capital assets being depreciated, net	20,507,374	(1,621,779)	-	31,650	18,917,245
Capital assets, net	\$ 20,663,179	\$ (1,069,814)	\$ -	\$ -	\$ 19,593,365

At December 31, 2015, construction in progress consisted primarily of costs to enhance the current healthcare information software with an estimated cost to complete of approximately \$4,350,000. The software enhancement is expected to be completed in 2016.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

5. Capital Assets (continued):

	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
<i>Capital assets not being depreciated</i>					
Land	\$ 147,805	\$ -	\$ -	\$ -	\$ 147,805
Construction in progress	63,201	8,000	-	(63,201)	8,000
Total capital assets not being depreciated	211,006	8,000	-	(63,201)	155,805
<i>Capital assets being depreciated</i>					
Land improvements	2,672,091	-	-	-	2,672,091
Buildings and improvements	21,845,465	43,203	-	-	21,888,668
Fixed equipment	689,147	-	-	-	689,147
Major movable equipment	7,795,044	189,340	-	63,201	8,047,585
Total capital assets being depreciated	33,001,747	232,543	-	63,201	33,297,491
<i>Less accumulated depreciation for</i>					
Land improvements	(919,538)	(170,762)	-	-	(1,090,300)
Buildings and improvements	(4,055,281)	(1,077,923)	-	-	(5,133,204)
Fixed equipment	(264,231)	(88,580)	-	-	(352,811)
Major movable equipment	(5,596,215)	(617,587)	-	-	(6,213,802)
Total accumulated depreciation	(10,835,265)	(1,954,852)	-	-	(12,790,117)
<i>Total capital assets being depreciated, net</i>					
	22,166,482	(1,722,309)	-	63,201	20,507,374
Capital assets, net	\$ 22,377,488	\$ (1,714,309)	\$ -	\$ -	\$ 20,663,179

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

6. Long-term Debt:

A schedule of changes in the District's long-term debt is as follows:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amount Due Within One Year
Red Capital Mortgage	\$ 21,022,407	\$ -	\$ (459,696)	\$ 20,562,711	\$ 491,751
Grant County Strategic Infrastructure Loan	20,000	-	(20,000)	-	-
Total long-term debt	\$ 21,042,407	\$ -	\$ (479,696)	\$ 20,562,711	\$ 491,751

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Amount Due Within One Year
Red Capital Mortgage	\$ 21,452,136	\$ -	\$ (429,729)	\$ 21,022,407	\$ 459,696
Grant County Strategic Infrastructure Loan	40,000	-	(20,000)	20,000	20,000
Total long-term debt and other noncurrent liabilities	\$ 21,492,136	\$ -	\$ (449,729)	\$ 21,042,407	\$ 479,696

The terms and due dates of the District's long-term debt are as follow:

Coulee Medical Center

Grant County Strategic Infrastructure loan dated April 15, 2010, payable annually in equal payments of \$20,000 per year for five years ending 2015.

Coulee Medical Foundation

Mortgage payable to Red Capital Mortgage, Inc. (Red Capital), dated October 29, 2009, in the amount of \$22,500,000. The mortgage bears interest at 6.76%. Monthly principal and interest payments of \$155,562 are due through April 2036. The mortgage is secured by a first lien on the property and the building and improvements erected thereon.

HUD endorsed mortgage insurance, under the provisions of Section 242 of the National Housing Act. Concurrent with the issuance of the Red Capital mortgage, the Foundation authorized issuance of Taxable Revenue Build America Bonds (Build America Bonds), series 2009A, in the Foundation's name, to be held in trust by U.S. Bank National Association ("U.S. Bank"). U.S. Bank utilized the funds from the sale of the Build America Bonds to purchase Ginnie Mae mortgage-backed securities ("Ginnie Mae securities") from Red Capital, which are the sole collateral for the guarantee to the bondholders. Under the terms of the Trust Indenture by and between the Foundation, the Issuer, and U.S. Bank National Association, the Trustee, the Build America Bonds, and the Ginnie Mae securities are the liability and asset of the Trust Estate assigned to the U.S. Bank. Per the Trust Indenture, the bonds are not a debt or general obligation of the Foundation or the District.

The District makes monthly mortgage payments to Red Capital. Red Capital makes monthly payments, essentially equivalent to the mortgage payment, to the Trustee to satisfy the Trust's debt service obligation for the Build America Bonds. Should the District default on the mortgage payments (sole source of Ginnie Mae acquisition funds), Red Capital is liable for funding the Ginnie Mae acquisition fund for a minimum of 90 days.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

6. Long-term Debt (continued):

Per the HUD 242 mortgage guarantee, the liability and responsibility for the mortgage payments upon the District's default convey to HUD. Mortgage payments made by HUD to Red Capital will flow through to U.S. Bank, Trustee of the Ginnie Mae securities and Build America Bonds, and fund the semiannual payments of principal and interest to the investors.

As of December 31, 2015, the outstanding principal amount of the Taxable Revenue Build America Bond debt service was \$20,562,711. The Build America Bonds, dated October 1, 2009, mature on April 20, 2036, and bear interest at the rate of 6.50% per annum. Bond debt service payments are payable on the 20th of each month by the trust estate assigned to the Trustee in varying principal amounts from \$492,000 in 2015 to \$1,760,000 in 2035, with a partial year payment of \$614,000 in 2036.

Under the terms of the mortgage and bond agreement, the District is required to hold certain amounts in reserve funds. These funds are required to be held as security for future debt service payments. Additional payments to the reserve fund are due in 2016 through 2020. The funds begin to be released from the reserve fund in 2026 through 2036.

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

Red Capital Mortgage				
	Principal	Interest	Total	
2016	\$ 491,751	\$ 1,374,989	\$ 1,866,740	
2017	526,044	1,340,697	1,866,741	
2018	562,728	1,304,013	1,866,741	
2019	601,969	1,264,772	1,866,741	
2020	643,947	1,222,794	1,866,741	
2021-2025	3,959,308	5,374,396	9,333,704	
2026-2030	5,546,244	3,787,460	9,333,704	
2031-2035	7,769,241	1,564,464	9,333,705	
2036	461,479	5,209	466,688	
	\$ 20,562,711	\$ 17,238,794	\$ 37,801,505	

The District's debt agreements contain covenants regarding certain financial statement amounts, ratios, and activities of the District. The District was not in compliance with certain required loan covenants as of December 31, 2015.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

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 debt and writeoffs have not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during 2015 or 2014. Patient service revenue, net of contractual adjustments 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	\$ 8,502,844	\$ 8,117,878
Medicaid	6,407,870	2,455,667
Other third-party payors	7,282,310	6,006,046
Patients	462,066	888,437
	22,655,090	17,468,028
Less:		
Charity care	162,685	264,250
Provision for bad debts	851,243	1,064,297
Net patient service revenue	\$ 21,641,162	\$ 16,139,481

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- *Medicaid* – 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 Health Care Authority. Rural health clinic services are paid on a prospectively set rate per visit.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

7. Net Patient Service Revenue (continued):

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$347,000 in 2015 and decreased by approximately \$2,100,000 in 2014, due to differences between original estimates and final settlements or revised estimates.

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 for the years ended December 31, 2015 and 2014, were approximately \$114,000 and \$186,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2015 and 2014.

8. Retirement Plan:

The District contributes to two 403(b) plans (Old-Non-Matching and New-Matching), Tax-Deferred Annuity Programs, for all eligible regular full-time and regular part-time employees who work more than 20 hours per week (1000 hours/calendar year). The plans are administered by the District Board of Commissioners. Benefit terms, including contribution requirements, for the plan(s) are established and may be amended by the Board.

The District's required contributions to the Old-Non-Matching program begin at zero in year 1 and increase 20% each year through year 6 and then are 125% of 3% of annual salary in years 7-11 and then 150% of annual salary in years 12 and after.

The District's required contributions to the New-Matching plan are zero in year 1, \$0.50 to employee contribution of \$1.00 up to 3% of salary in years 2-5, and then \$0.50 to employee contribution of \$1.00 up to 5% of salaries in years 6 and after.

Employee contributions are paid to individual employee accounts for each participating employee. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employer contributions were approximately \$169,000 and \$250,000 for 2015 and 2014, respectively. Employee contributions were approximately \$367,000 and \$447,000 for 2015 and 2014, respectively.

Forfeitures were not material in 2014 and 2015 and the District owed approximately \$75,000 to the plans at December 31, 2015 and 2014.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

9. Risk Management and Contingencies:

Medical malpractice claims – The District has professional liability insurance coverage with Coverys. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. The policy also provides \$1,000,000 annual excess coverage per claim with a \$1,000,000 annual aggregate. The District does not have a deductible.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Litigation – The District is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District’s future financial position or results from operations.

Self-insurance risk pools – The District self-insures for workers’ compensation benefits through the Public Hospital District Workers’ Compensation Trust, which is a risk transfer pool administered by the Washington State Hospital Association. Premiums are based upon prior claims history and are charged to operations as they are paid. Total workers’ compensation benefits expense was approximately \$34,000 and \$163,000 in 2015 and 2014, respectively.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and 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.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

10. Concentrations of Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents, and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Douglas, Grant, Lincoln, and Okanogan counties.

The mix of receivables from patients was as follows:

	2015	2014
Medicare	19 %	13 %
Medicaid	22	22
Other third-party payors	41	41
Patients	18	24
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on the District's operations.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

11. Blended Component Unit:

The combining statement of net position for the year ended December 31, 2015, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 902,532	\$ 1	\$ -	\$ 902,533
Receivables:				
Patient accounts, less allowance for uncollectibles	2,237,122	-	-	2,237,122
Estimated third-party payor settlements	56,587	-	-	56,587
Build America Bonds subsidy	-	146,516	-	146,516
Other	20,614	-	-	20,614
Due from Coulee Medical Center	-	2,879,351	(2,879,351)	-
Inventories	451,200	-	-	451,200
Prepaid expenses	353,160	-	-	353,160
Total current assets	4,021,215	3,025,868	(2,879,351)	4,167,732
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	405,515	2,137,856	-	2,543,371
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Capital assets	4,194,158	15,399,207	-	19,593,365
Total noncurrent assets	4,760,525	17,537,063	-	22,297,588
Total assets	\$ 8,781,740	\$ 20,562,931	\$ (2,879,351)	\$ 26,465,320
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ -	\$ 491,751	\$ -	\$ 491,751
Accounts payable	988,354	-	-	988,354
Accrued compensation and related liabilities	517,737	-	-	517,737
Accrued vacation	506,863	-	-	506,863
Accrued professional liability insurance reserve	310,868	-	-	310,868
Estimated third-party payor settlements	29,612	-	-	29,612
Due to Coulee Medical Foundation	2,879,351	-	(2,879,351)	-
Total current liabilities	5,232,785	491,751	(2,879,351)	2,845,185
<i>Long-term debt, less current maturities</i>	-	20,070,960	-	20,070,960
Total liabilities	5,232,785	20,562,711	(2,879,351)	22,916,145
<i>Net position</i>				
Net investment in capital assets	4,214,772	(5,016,988)	-	(802,216)
Restricted for debt service	405,515	2,137,856	-	2,543,371
Unrestricted	(1,071,332)	2,879,352	-	1,808,020
Total net position	3,548,955	220	-	3,549,175
Total liabilities and net position	\$ 8,781,740	\$ 20,562,931	\$ (2,879,351)	\$ 26,465,320

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

11. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2015, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts	\$ 21,641,162	\$ -	\$ -	\$ 21,641,162
Grants	29,361	-	-	29,361
Other operating revenues	299,760	2,147,586	(2,147,586)	299,760
Total operating revenues	21,970,283	2,147,586	(2,147,586)	21,970,283
<i>Operating expenses</i>				
Salaries and wages	11,255,581	-	-	11,255,581
Employee benefits	2,365,906	-	-	2,365,906
Professional fees	791,929	-	-	791,929
Purchased services	2,241,216	-	-	2,241,216
Supplies	1,970,663	-	-	1,970,663
Utilities	355,983	-	-	355,983
Repairs and maintenance	505,106	-	-	505,106
Rentals and leases	2,334,017	-	(2,147,586)	186,431
Depreciation	910,577	1,055,366	-	1,965,943
Insurance	216,085	118,709	-	334,794
Other	691,622	8,377	-	699,999
Total operating expenses	23,638,685	1,182,452	(2,147,586)	22,673,551
<i>Operating income (loss)</i>	(1,668,402)	965,134	-	(703,268)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	158,351	-	-	158,351
Contributions	45,217	-	-	45,217
Build America Bond subsidy	-	441,473	-	441,473
Investment income	5,720	658	-	6,378
Interest expense	(1,927)	(1,407,045)	-	(1,408,972)
Total nonoperating revenues (expenses), net	207,361	(964,914)	-	(757,553)
Change in net position	(1,461,041)	220	-	(1,460,821)
Net position, beginning of year	5,009,996	-	-	5,009,996
Net position, end of year	\$ 3,548,955	\$ 220	\$ -	\$ 3,549,175

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

11. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2015, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 21,164,479	\$ -	\$ -	\$ 21,164,479
Cash received from other revenue	303,801	2,147,586	(2,147,586)	303,801
Cash received from grants	29,361	-	-	29,361
Cash paid to and on behalf of employees	(13,594,564)	-	-	(13,594,564)
Cash paid to suppliers and contractors	(8,169,763)	(1,087,915)	2,147,586	(7,110,092)
Net cash provided by (used in) operating activities	(266,686)	1,059,671	-	792,985
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	162,586	-	-	162,586
Contributions	20,217	-	-	20,217
Net cash provided by noncapital financing activities	182,803	-	-	182,803
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(20,000)	(459,696)	-	(479,696)
Interest paid on long-term debt	(1,927)	(1,407,045)	-	(1,408,972)
Cash received from Build America Bonds subsidy	-	821,300	-	821,300
Purchase of capital assets	(896,129)	-	-	(896,129)
Net cash used in capital and related financing activities	(918,056)	(1,045,441)	-	(1,963,497)
<i>Cash flows from investing activities</i>				
Investment income	5,720	658	-	6,378
Net cash provided by investing activities	5,720	658	-	6,378
Net increase (decrease) in cash and cash equivalents	(996,219)	14,888	-	(981,331)
Cash and cash equivalents, beginning of year	2,465,118	2,122,969	-	4,588,087
Cash and cash equivalents, end of year	\$ 1,468,899	\$ 2,137,857	\$ -	\$ 3,606,756
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>				
Cash and cash equivalents	\$ 902,532	\$ 1	\$ -	\$ 902,533
Cash and cash equivalents restricted by debt agreement	405,515	2,137,856	-	2,543,371
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Total cash and cash equivalents	\$ 1,468,899	\$ 2,137,857	\$ -	\$ 3,606,756
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</i>				
Operating income (loss)	\$ (1,668,402)	\$ 965,134	\$ -	\$ (703,268)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation	910,577	1,055,366	-	1,965,943
Provision for bad debts	851,243	-	-	851,243
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net	(1,021,561)	-	-	(1,021,561)
Estimated third-party payor settlements	1,085,152	-	-	1,085,152
Other	4,041	-	-	4,041
Inventories	(17,224)	-	-	(17,224)
Prepaid expenses	(162,650)	-	-	(162,650)
Due from Coulee Medical Center	-	(762,600)	762,600	-
Increase (decrease) in liabilities:				
Accounts payable	317,264	(198,229)	-	119,035
Accrued vacation	96,223	-	-	96,223
Accrued compensation and related liabilities	(69,300)	-	-	(69,300)
Accrued professional liability insurance reserve	36,868	-	-	36,868
Estimated third-party payor settlements payable	(1,391,517)	-	-	(1,391,517)
Due to Coulee Medical Foundation	762,600	-	(762,600)	-
Net cash provided by (used in) operating activities	\$ (266,686)	\$ 1,059,671	\$ -	\$ 792,985

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

11. Blended Component Unit (continued):

The combining statement of net position for the year ended December 31, 2014, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 1,797,387	\$ -	\$ -	\$ 1,797,387
Receivables:				
Patient accounts, less allowance for uncollectibles	2,066,804	-	-	2,066,804
Estimated third-party payor settlements	1,141,739	-	-	1,141,739
Taxes	4,235	-	-	4,235
Build America Bonds subsidy	(345)	526,343	-	525,998
Due from Coulee Medical Center	-	2,116,751	(2,116,751)	-
Other	-	-	-	-
Inventories	433,976	-	-	433,976
Prepaid expenses	190,510	-	-	190,510
Total current assets	5,634,306	2,643,094	(2,116,751)	6,160,649
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	506,879	2,122,969	-	2,629,848
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Capital assets	4,208,606	16,454,573	-	20,663,179
Total noncurrent assets	4,876,337	18,577,542	-	23,453,879
Total assets	\$ 10,510,643	\$ 21,220,636	\$ (2,116,751)	\$ 29,614,528
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ 20,000	\$ 459,696	\$ -	\$ 479,696
Accounts payable	671,090	198,229	-	869,319
Accrued compensation and related liabilities	587,037	-	-	587,037
Accrued vacation	410,640	-	-	410,640
Accrued professional liability insurance reserve	274,000	-	-	274,000
Estimated third-party payor settlements	1,421,129	-	-	1,421,129
Due to Coulee Medical Foundation	2,116,751	-	(2,116,751)	-
Total current liabilities	5,500,647	657,925	(2,116,751)	4,041,821
<i>Long-term debt, less current maturities</i>	-	20,562,711	-	20,562,711
Total liabilities	5,500,647	21,220,636	(2,116,751)	24,604,532
<i>Net position</i>				
Net investment in capital assets	4,188,261	(4,041,491)	-	146,770
Restricted for debt service	506,879	2,122,969	-	2,629,848
Unrestricted	314,856	1,918,522	-	2,233,378
Total net position	5,009,996	-	-	5,009,996
Total liabilities and net position	\$ 10,510,643	\$ 21,220,636	\$ (2,116,751)	\$ 29,614,528

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

11. Blended Component Unit (continued):

The combining statement of revenues, expenses and changes in net position for the year ended December 31, 2014, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts	\$ 16,139,481	\$ -	\$ -	\$ 16,139,481
Grants	20,496	-	-	20,496
Other operating revenues	290,406	2,180,979	(2,180,979)	290,406
Total operating revenues	16,450,383	2,180,979	(2,180,979)	16,450,383
<i>Operating expenses</i>				
Salaries and wages	9,983,293	-	-	9,983,293
Employee benefits	2,139,129	-	-	2,139,129
Professional fees	1,271,557	-	-	1,271,557
Purchased services	2,601,620	-	-	2,601,620
Supplies	1,712,837	-	-	1,712,837
Utilities	345,747	-	-	345,747
Repairs and maintenance	406,616	-	-	406,616
Rentals and leases	2,398,062	-	(2,180,979)	217,083
Depreciation	904,024	1,050,828	-	1,954,852
Insurance	540,951	136,298	-	677,249
Other	526,828	8,941	-	535,769
Total operating expenses	22,830,664	1,196,067	(2,180,979)	21,845,752
<i>Operating income (loss)</i>	(6,380,281)	984,912	-	(5,395,369)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	125,000	-	-	125,000
Contributions	88,680	-	-	88,680
Build America Bond subsidy	-	450,410	-	450,410
Investment income	6,502	1,690	-	8,192
Interest expense	(118)	(1,437,012)	-	(1,437,130)
Total nonoperating revenues (expenses), net	220,064	(984,912)	-	(764,848)
Change in net position	(6,160,217)	-	-	(6,160,217)
Net position, beginning of year	11,170,213	-	-	11,170,213
Net position, end of year	\$ 5,009,996	\$ -	\$ -	\$ 5,009,996

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

11. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2014, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 17,461,525	\$ -	\$ -	\$ 17,461,525
Cash received from other revenue	290,406	2,180,979	(2,180,979)	290,406
Cash received from grants	20,496	-	-	20,496
Cash paid to and on behalf of employees	(12,095,244)	-	-	(12,095,244)
Cash paid to suppliers and contractors	(8,960,651)	(390,225)	2,180,979	(7,169,897)
Net cash provided by (used in) operating activities	(3,283,468)	1,790,754	-	(1,492,714)
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	155,226	-	-	155,226
Contributions	88,680	-	-	88,680
Net cash provided by noncapital financing activities	243,906	-	-	243,906
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(20,000)	(429,729)	-	(449,729)
Interest paid on long-term debt	(118)	(1,437,012)	-	(1,437,130)
Cash received from Build America Bonds subsidy	290,163	267,651	-	557,814
Purchase of capital assets	(240,543)	-	-	(240,543)
Net cash provided by (used in) capital and related financing activities	29,502	(1,599,090)	-	(1,569,588)
<i>Cash flows from investing activities</i>				
Investment income	6,502	1,690	-	8,192
Net cash provided by investing activities	6,502	1,690	-	8,192
Net increase (decrease) in cash and cash equivalents	(3,003,558)	193,354	-	(2,810,204)
Cash and cash equivalents, beginning of year	5,468,676	1,929,615	-	7,398,291
Cash and cash equivalents, end of year	\$ 2,465,118	\$ 2,122,969	\$ -	\$ 4,588,087
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>				
Cash and cash equivalents	\$ 1,797,387	\$ -	\$ -	\$ 1,797,387
Cash and cash equivalents restricted by debt agreement	506,879	2,122,969	-	2,629,848
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Total cash and cash equivalents	\$ 2,465,118	\$ 2,122,969	\$ -	\$ 4,588,087
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i>				
Operating income (loss)	\$ (6,380,281)	\$ 984,912	\$ -	\$ (5,395,369)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation	904,024	1,050,828	-	1,954,852
Provision for bad debts	1,064,297	-	-	1,064,297
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net	653,379	-	-	653,379
Estimated third-party payor settlements	(622,740)	-	-	(622,740)
Other	-	-	-	-
Inventories	(37,508)	-	-	(37,508)
Prepaid expenses	(23,587)	164,693	-	141,106
Due from Coulee Medical Center	-	(457,126)	457,126	-
Increase (decrease) in liabilities:				
Accounts payable	173,536	47,447	-	220,983
Accrued vacation	(15,690)	-	-	(15,690)
Accrued compensation and related liabilities	42,868	-	-	42,868
Accrued professional liability insurance reserve	274,000	-	-	274,000
Estimated third-party payor settlements payable	227,108	-	-	227,108
Due to Coulee Medical Foundation	457,126	-	(457,126)	-
Net cash provided by (used in) operating activities	\$ (3,283,468)	\$ 1,790,754	\$ -	\$ (1,492,714)

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014**

12. Continuing Operations:

2015 was a year of rebuilding for the District. While the hospital did not earn a profit during the year, many problems were addressed and corrected. Normally the hospital has an influx of patients throughout the summer, however, with the worst fires in state history occurring just to the north of the hospital, the usual boost from tourism did not occur. The District was able to successfully settle our 2008 and 2009 final settlements with Medicaid/HCA in their favor, reducing the hospital's payable by approximately \$500,000. The District also began the process of building their new electronic health record (EHR) system, Meditech 6.1, which will be continuing throughout 2016. Additionally the District began numerous internal initiatives to improve patient flow through the hospital and interactions between departments.

On the provider front, the District recruited back an emergency room physician who had been popular with the community in April 2015. While the general surgeon we recruited started at the end of August, it has taken some time to build his practice to a highly productive level. The endocrinologist the District recruited was not able to start until November due to visa/paperwork issues. The District also added a physician assistant at the end of October. While all of these were positive for the District, it meant that the District added expense faster than they added revenue leading to a substantial portion of the loss sustained in 2015.

2016 has been off to an exciting start for the District. The District has had increased volumes for three months running and March has been exceptional in terms of volumes in all areas. The District's clinics have been seeing their highest levels of volumes ever and their surgeries are reaching new levels they have not achieved before. The investments made in building capacity with providers and support staff has begun to generate the revenues needed for a sustainable future. The District has continued to develop their relationship with the Colville Confederated Tribes to the north, and to reach out to other specialists to help better serve their patients.

Internally 2016 promises to be another year filled with substantial change. The District is deep into the work of building their new EHR system, Meditech 6.1, which will go live in November. This system is putting a significant drain on cash this year, however, it will be the basis for long term success and stability. The shift in healthcare from volume to value requires data analytics and management tools that are only possible with a new EHR platform.

The District has also entered into an accountable care organization (ACO) with Caravan Health (formerly NRACO) for their Medicare population. This program, which is partially funded by a federal grant, will help teach the District how to make the shift from volume to value through population health management and a proactive approach to disease management and control. In short, this is a shift away from just treating the sick to helping keep people healthy. The District is also working on a whole house policy and procedure review to establish consistency and best practices.

Lastly, the chief executive officer (CEO) of the District, Debbie Bigelow, has decided to retire at the end of 2016. The District has a recruitment committee that is diligently working on hiring the next CEO for the facility, which they anticipate will be on board sometime in the 3rd quarter of 2016.

13. Subsequent Event:

Subsequent to year end the District has used registered warrants through the Grant County Treasurer.



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
Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Grand Coulee, 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 combined basic financial statements of Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 doing business as Coulee Medical Center (the District), as of and for the year ended December 31, 2015, and the related notes to the combined basic financial statements, which comprise the District's basic financial statements and have issued our report thereon dated May 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined basic 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 19, 2016



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY *THE UNIFORM GUIDANCE*

Board of Commissioners
Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Grand Coulee, Washington

Report on Compliance for the Major Federal Program

We have audited Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 doing business as Coulee Medical Center's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2015. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 19, 2016

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2015**

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ yes X no
_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ yes X no
_____ yes X none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.128 U.S. Department of Housing and Urban Development
Mortgage Insurance - Hospitals

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2015**

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
Direct Program from:			
U.S. Department of Housing and Urban Development: Mortgage Insurance - Hospitals	14.128	Not applicable	\$ 20,562,711
Pass-through Program from:			
State of Washington Department of Health and Human Services/ U.S. Department of Health and Human Services/ Small Rural Improvement Grant Program	93.301	N20863	8,804
Total expenditures of federal awards			\$ 20,571,515

See accompanying independent auditors' report.

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. Loan:

Nonmonetary assistance in the form of a loan guarantee is included in the accompanying schedule of expenditures of federal awards. The related loan balance was \$20,562,711 at December 31, 2015.