Office of the Washington State Auditor

Pat McCarthy

Financial Statements Audit Report

Adams County Public Hospital District No. 3

(Othello Community Hospital)

For the period January 1, 2014 through December 31, 2015

Published June 26, 2017

Report No. 1019347

Office of the Washington State Auditor
Pat McCarthy

June 26, 2017

Board of Commissioners
Othello Community Hospital
Othello, Washington

Report on Financial Statements

Please find attached our report on Othello Community Hospital's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Othello Community Hospital
Adams County
January 1, 2014 through December 31, 2015

Board of Commissioners
Othello Community Hospital
Othello, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Othello Community Hospital, Adams County, Washington, 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, and have issued our report thereon dated June 16, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated June 16, 2017.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Othello Community Hospital
Adams County
January 1, 2014 through December 31, 2015

Board of Commissioners
Othello Community Hospital
Othello, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Othello Community Hospital, Adams County, Washington, 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 on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Othello Community Hospital, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

FINANCIAL SECTION

Othello Community Hospital
Adams County
January 1, 2014 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015 and 2014
Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014
Statement of Cash Flows – 2015 and 2014
Notes to Financial Statements – 2015 and 2014

Adams County Public Hospital District No. 3 d/b/a Othello Community Hospital

Management's Discussion and Analysis

Year Ended December 31, 2015 and 2014

Our discussion and analysis of the Adams County Public Hospital District No. 3's (District or Hospital) financial performance provides an overview of the District's financial activities for the fiscal years ended on December 31, 2015 and December 31, 2014. Please read it in conjunction with the District's financial statements that follow this analysis.

The District is a governmental entity and a political subdivision of the State of Washington. The District was created to provide hospital services and other health care services for the residents of Adams County. The Hospital facility opened its doors in January 1958. The District is licensed for 49 beds but operates a 16-bed acute care hospital and the facilities to support those operations. District services include the acute care hospital, an emergency room, and the related ancillary services (lab, x-ray, etc.) associated with these services.

A five member board of commissioners governs the District. The members of the board are elected commissioners for terms of six years. The District is not geographically subdivided, so all commissioner positions are "at large". Elections are staggered so no more than one third of the board is up for election at one time in a typical election year. No commissioner positions were up for election in 2014; one board position expired at the end of 2015 (position 1), and the sitting commissioner was returned to her seat in the November 5, 2015 elections.

The District board is required to elect a president and secretary. One of the primary duties of the board is to appoint a superintendent of the District. The board delegates the day to day operations of the District to the appointed superintendent.

The District is a municipal government entity. As such, the District levies, and the county collects, property taxes from property owners within the Hospital District. These tax revenues are used to support the purpose of the District Hospital, which is to provide health care to the members of the District. However, this tax support is minimal representing about three percent of gross revenue.

The Government Accounting Standards Board prescribes the financial reporting of government entities. This is the format followed by the District. The accounting records and financial statements are audited by the Office of the Auditor of the State of Washington.

Issues Facing the Hospital District

There are issues facing the District that could result in material changes in its financial position in the long term. Among those issues are:

- Risks related to Medicare and Medicaid reimbursement
- Risks related to possible budget cuts in other state-funded healthcare programs
- High liability and malpractice insurance premiums
- Rising health insurance deductibles and copays, complicating collection efforts
- Declining service volumes as patients defer care for economic reasons
- Competition in the local health care market
- The threat of specialty physicians leaving the area
- Nursing and other healthcare-related labor shortages
- Increasing employee benefit costs, especially health insurance
- High costs related to IT infrastructure in an increasingly electronic environment

The Hospital is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. Nearly three quarters of gross patient revenue for 2014 and 2015 was derived from the Medicare and Medicaid programs.

The Hospital became a Critical Access Hospital on July 1, 2002. As a Critical Access Hospital, the District is reimbursed at cost for the majority of services provided under the Medicare and Medicaid programs. While the Critical Access Hospital program provides a measure of relief to qualifying hospitals, the program is subject to the financial constraints faced by the federal and state governments, and may be curtailed or eliminated at some point in the future.

Under Medicaid, the federal government provides grants to states that have programs meeting certain federal guidelines. The Hospital has benefited from such grants. These funds are sometimes reduced as federal or state governments try to balance their budgets.

In recent years, both the state and federal governments have increased enforcement of laws designed to combat health care fraud, and additional anti-fraud legislation has been adopted at both the federal and state levels. The fees (including legal fees) and fines to a hospital caught in violation of these laws can be substantial. Furthermore, failure of the District to meet these laws can result in the exclusion of Medicare and Medicaid funds.

Risks Related to HIPAA

Under the Health Insurance Portability and Accountability Act (HIPAA), health plans, healthcare clearinghouses, and healthcare providers including hospitals and their business partners must maintain reasonable and appropriate administrative, technical, and physical safeguards to ensure the integrity and confidentiality of electronic healthcare information. The hospital must also protect against reasonable foreseeable threats to the security or integrity of the information and protect against unauthorized use or disclosure. Again, penalties are high with the loss of Medicare and Medicaid funds, fines and criminal sanctions for violations of HIPAA.

General Risks Affecting Healthcare Facilities

Technology and Services

Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety programs and outpatient healthcare delivery may reduce utilization and revenues for the Hospital in the future. Medical technological advances maintain a trend toward the use of expensive, sophisticated equipment on the one hand, while advances in digital communication (the widespread availability of "smart phones," for example) have resulted in potential alternative routes for accessing medical care. In addition, the progression toward electronic medical record keeping has added greatly to the cost of implementing and maintaining an adequate IT infrastructure.

Employment and Labor Issues

The Hospital is a major employer with a complex mix of professional, technical, clerical, maintenance, dietary, housekeeping, and other workers. Risks include discrimination claims, retirement plan compliance issues, personal tort actions, work-related injuries and exposure to hazardous materials. A nursing shortage, as well as shortages in other medical professional or technical positions, is an issue creating pressure toward higher salaries, and, at times, requiring the use of temporary staff at premium wage rates.

Competition

Competition from other hospitals and healthcare providers are a risk to the Hospital's revenue. New or existing organizations may try to carve out profitable segments of the Hospital's business leaving the Hospital with product lines that are losing money.

General Risks Affecting Healthcare Facilities (Continued)

Insurance

In Washington State, with no cap on malpractice damages, the exposure is high for healthcare providers resulting in relatively higher premiums for liability insurance compared with other parts of the nation. Although the hospital's malpractice costs have remained stable over the last several years, historically malpractice rates have seen a cyclical rise and fall: Malpractice insurance costs remain an area of concern.

Financial Highlights

The accompanying financial statements are an inter-related group of reports designed to enable the reader to have a general understanding of the District's financial position on December 31, 2014 and December 31, 2015, and the results of its financial operations during the 2014 and 2015 years. The Statement of Net Position presents the broad categories of assets owned by the District on December 31 of each year along with the related liabilities owed by the District on that date. The difference between the assets and the liabilities, designated as Net Assets, is effectively the District's unencumbered ownership share of the assets.

The Statements of Revenue, and Expenses, and Changes in Net Position describes the District's financial operations for the 2014 and 2015 years in broad terms. This statement identifies the general sources of its revenue for the year and the major categories of expenses incurred in generating the revenue. For 2014 the District had an increase in net position, while for the 2015 year the District had a decrease in net position. The excess in 2014 increased the net position of the District for that year and the deficit in 2015 decreased the District's net position; this statement reconciles the net position at the beginning of each year with the net position at the end of each year. The ending net position at year end on this statement is the same amount as the net position reported on the Statement of Net Position at year end.

The Statements of Cash Flows reconciles the cash and cash equivalents at the beginning of the year with the cash and equivalents at the end of the year by identifying the major categories of cash received and cash expended during the year. The ending cash and equivalents at the end of each year is the same amount as reported in the Statement of Net Position at each year end. This report also reconciles the income from operations, as reported on Statements of Revenue and Expenses and Changes in Net Position, to the net cash provided by operating activities as identified within the statement. The concept of this section of the Statements of Cash Flows is to identify the items in the Statements of Net Position and the Statements of Revenues and Expenses which reconcile those accrual basis statements to cash generated each year.

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Management's Discussion and Analysis

Year Ended December 31, 2015 and 2014

Financial highlights of 2015:

Gross patient revenues improved fairly substantially from 2014 to 2015. Gross revenue from inpatient services increased approximately $.68 million while outpatient revenue increased about $1.50 million, for a total increase of about $2.18 million in gross patient revenues. The increase in inpatient revenue came primarily in inpatient surgical services and inpatient acute care (including nursery boarding for newborn infants). The increase in outpatient revenue is largely attributable to substantial increases in outpatient surgical services and emergency care. There were also notable increases in outpatient radiology services and outpatient acute (observation) care. There were few areas of operation that saw a decrease in revenue, and those decreases were relatively insubstantial.

There was also an increase in revenue deductions from 2014 to 2015, but overall it was not as significant. While Medicaid deductions increased 21.7%, Medicare deductions actually decreased 4.5% for a combined increase of $2.24 million, but this was partially balanced out by decreases in other contractual and charity deductions, leaving an overall increase in deductions of $.94 million. This was exacerbated by an increase of $.22 million in bad debt, making a combined increase of $1.16 million in revenue deductions and bad debt.

There was a steep decline of $.72 million in non-patient operating revenues from 2014 to 2015, owing largely to the end incentive payments received through Washington State Medicaid under the federal Meaningful Use program. The purpose of these payments was assist hospitals and other medical care providers in upgrading their computer processes to make more "meaningful use" of patient care information, with the aim of achieving long term reductions in the cost of medical care nationwide. In Washington State, the program provided 3 years of declining payments with increasingly stringent patient care benchmarks and reporting requirements.

The District's operating expenses increased overall by 5.84% from 2014 to 2015, in the amount of $.93 million. The largest portion of this increase was incurred in employee salaries (rising $.39 million, or about 5.2%) and for purchased services (which rose $.30 million or about 8.5%). Supply costs also increased significantly in 2015, rising $.12 million or about 11.3%.

The District incurred a deficit of revenues over expenses of $.92 million in 2015. That amount was a turnaround from the $1.36 million excess of revenue over expenses generated in 2014. While net patient revenues increased encouragingly in 2015, that increase was almost entirely offset by increased operating expenses. The turnaround from 2014 is most reflective of the decline of non-operating revenues, particularly the loss of Meaningful Use incentive payments.

Financial highlights of 2015 (Continued):

Gross patient accounts receivable increased from $5.21 million on December 31, 2014 to $6.48 million on December 31, 2015. The increase of $1.26 million in gross receivables was offset an increase of $.87 million in estimated revenue deductions, leaving an increase in net patient account collectibles of $.38 million.

Capital expenditures for 2015 totaled $.65 million, somewhat less than the 2014 total of $1.01 million. Most significant among the 2015 expenditures were $.11 million for completion of HVAC upgrades begun in 2014, $.19 million for replacement of an outdated central patient monitor system, $.14 million for a blood chemistry analyzer, and $.10 million for updates to the video security system.

Condensed financial information for the years ended December 31, 2015, 2014, and 2013 follows:

Table 1: Assets, Liabilities and Net Assets	2015	2014	2013
ASSETS			
Current assets	$ 19,075,714	$ 22,512,654	$ 12,056,454
Capital assets, net	8,590,324	8,494,274	8,129,620
Other noncurrent assets	9,916,473	7,350,320	16,791,953
Total assets	$ 37,582,511	$ 38,357,248	$ 36,978,028
LIABILITIES AND NET POSITION			
Current liabilities	$ 756,434	$ 628,743	$ 607,610
Total Liabilities	756,434	628,743	607,610
Net assets			
Unrestricted	28,235,753	29,234,231	28,240,798
Invested in capital assets			
Net of related debt	8,590,324	8,494,274	8,129,620
Total Net Position	36,826,077	37,728,505	36,370,418
Total liabilities and net position	$ 37,582,511	$ 38,357,248	$ 36,978,028

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Management's Discussion and Analysis

Year Ended December 31, 2015 and 2014

Table 2: Operating Results and Changes in Net Assets

	2015	2014	2013
Operating revenues			
Net patient service revenue	$ 14,227,012	$ 14,820,796	$ 14,280,698
Other	331,482	1,055,132	1,200,611
Total Operating Revenue	14,558,494	15,875,928	15,481,309
Operating Expenses			
Salaries, wages and benefits	9,857,881	9,441,960	9,314,432
Supplies	1,214,309	1,091,334	955,949
Other operating expenses	5,087,833	4,792,844	4,791,296
Depreciation and amortization	753,886	655,021	677,170
Total Operating Expenses	16,913,909	15,981,159	15,738,847
Operating loss	(2,355,415)	(105,231)	(257,538)
Nonoperating revenues (expenses)			
Total nonoperating Revenue net	1,452,987	1,463,318	952,252
Excess of Revenues over Expenses	(902,428)	1,358,087	694,714
Net position, beginning of year	37,728,505	36,370,418	35,675,704
Net position, end of year	$ 36,826,077	$ 37,728,505	$ 36,370,418

Contacting the District's Financial Management:

The financial report is designed to provide readers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Administration office at Othello Community Hospital, 315 N. 14th Avenue, Othello, WA 99344 or call 509.488.2636.

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Statements of Net Position

December 31, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	$ 13,996,139	$ 13,067,164
Current investments	2,064,822	5,973,174
Receivables:		
Patient - Net	2,431,487	2,043,470
Taxes	54,485	59,937
Estimated third-party payor settlements	176,535	19,121
Interest receivable	96,448	122,772
Other	40,866	1,005,740
Inventories	151,596	151,087
Prepaid expenses	63,336	70,189
Total current assets	19,075,714	22,512,654
Noncurrent investments	9,916,473	7,350,320
Capital assets:		
Non-depreciable capital assets	217,817	714,998
Depreciable capital assets - Net of accumulated depreciation	8,372,507	7,779,276
Total capital assets - Net of accumulated depreciation	8,590,324	8,494,274
TOTAL ASSETS	$ 37,582,511	$ 38,357,248

See accompanying notes to financial statements.

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Statements of Net Position (Continued)

December 31, 2015 and 2014

Liabilities and Net Position	2015	2014
Current liabilities:		
Accounts payable	$ 40,940	$ 61,283
Employee compensation and related liabilities	162,968	53,691
Accrued compensated absences	26,524	14,858
Total current liabilities	230,432	129,832
Non-current accrued compensated absences	526,002	498,911
Total liabilities	756,434	628,743
Net position:		
Net investment in capital assets	8,590,324	8,494,274
Unrestricted	28,235,753	29,234,231
Total net position	36,826,077	37,728,505
TOTAL LIABILITIES AND NET POSITION	$ 37,582,511	$ 38,357,248

See accompanying notes to financial statements.

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenue:		
Net patient service revenue	$ 14,227,012	$ 14,820,796
Other operating revenue	331,482	1,055,132
Total operating revenue	14,558,494	15,875,928
Operating expenses:		
Salaries and wages	7,862,108	7,474,031
Employee benefits	1,995,773	1,967,929
Professional fees	273,711	214,483
Supplies	1,214,309	1,091,334
Purchased services - Other	3,788,325	3,478,079
Purchased services - Utilities	371,706	396,261
Insurance	184,418	207,880
Other	366,254	384,066
Rent	103,419	116,875
Depreciation	753,886	650,221
Total operating expenses	16,913,909	15,981,159
Loss from operations	(2,355,415)	(105,231)
Nonoperating revenues (expenses):		
Property taxes	1,081,533	1,036,805
Interest earnings	371,454	426,775
Interest expense	-	(262)
Total nonoperating revenues	1,452,987	1,463,318
Increase (decrease) in net position	(902,428)	1,358,087
Net position at beginning	37,728,505	36,370,418
Net position at end	$ 36,826,077	$ 37,728,505

See accompanying notes to financial statements.

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 13,681,581	$ 14,895,398
Receipts from other operating revenue	1,296,356	1,350,649
Payments to employees	(9,709,847)	(9,402,827)
Payments to suppliers, contractors, and others	(6,316,141)	(5,855,333)
Net cash (used in) provided by operating activities	(1,048,051)	987,887
Cash flows from noncapital financing activities:		
Property taxes for operations	1,086,985	1,025,472
Net cash provided by noncapital financing activities	1,086,985	1,025,472
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt		
Interest paid	-	(262)
Purchase of capital assets	(849,936)	(1,014,875)
Net cash used in capital and related financing activities	(849,936)	(1,015,137)
Cash flows from investing activities:		
Net sales (purchases) of investments	1,342,199	802,904
Interest received	397,778	421,980
Net cash (used in) provided by investing activities	1,739,977	1,224,884
Net increase in cash and cash equivalents	928,975	2,223,106
Cash and cash equivalents - Beginning of year	13,067,164	10,844,058
Cash and cash equivalents - End of year	$ 13,996,139	$ 13,067,164

See accompanying notes to financial statements

Adams County Public Hospital District No. 3
d/b/a Othello Community Hospital

Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of loss from operations to net cash (used in) provided by operating activities:		
Loss from operations	$ (2,355,415)	$ (105,231)
Adjustments to reconcile income from operations to net cash (used in) provided by operating activities:		
Depreciation	753,886	650,221
Provision for bad debts	1,404,571	557,568
Change in operating assets and liabilities:		
Receivables:		
Patient accounts	(1,792,588)	(396,949)
Other	964,874	295,517
Inventories	(509)	(5,979)
Prepaid expenses	6,853	(9,272)
Accounts payable	(20,343)	48,896
Employee compensation and related liabilites	109,277	18,909
Accrued compensated absences	38,757	20,224
Estimated third-party payor settlements	(157,414)	(86,017)
Total adjustments	1,307,364	1,093,118
Net cash (used in) provided by operating activities	$ (1,048,051)	$ 987,887

.
See accompanying notes to financial statements.

Adams County Public Hospital District No. 3 d/b/a Othello Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity

Adams County Public Hospital District No. 3 (the "District") owns and operates Othello Community Hospital, a 16-bed acute care hospital in Othello, Washington. The District considers the southwestern portion of Adams County, Washington to be its primary service market and provides acute care services to patients in that area. The services provided include an acute care hospital, inpatient and outpatient surgery, emergency room, obstetrics, and the related ancillary procedures (lab, anesthesia, x-ray, therapy, etc.) associated with those services.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

Tax Status

The District 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. All District assets, liabilities, and financial transactions are included in these financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All cash receipts are deposited directly to the District's depository bank account. Periodically, such cash is transferred to the Adams County Treasurer who acts as the Hospital District Treasurer. Warrants are issued by the District against the cash deposited with the County Treasurer and the warrants are paid by the County Treasurer from these funds. At the direction of the District, the County Treasurer invests cash in certificates of deposit, money market funds, the State of Washington local government pool, and other short-term investments. For purposes of the statements of cash flows, the District considers all cash and cash investments with maturity dates of less than ninety days as cash and cash equivalents.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect form outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowance for uncollectable accounts which reflect management's best estimate of the amounts that will not be collected. The carrying amounts of patient accounts receivables are reduced by allowances that reflect management's best estimate of the amounts that will not be collected.

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily from uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowance for uncollectable accounts.

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectable accounts and provision for bad debts. Management regularly reviews data from the major payor sources revenue in evaluating the sufficiency of the allowance for uncollectable accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectable accounts and a provisions for bad debts 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 includes 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 discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable accounts.

Property Taxes

The District has the authority to impose taxes on property within the boundaries of the District. Taxes are received from Adams County (the "County"). Ad Valorem taxes and per parcel assessments are levied by the County on the District's behalf on February 15 and are intended to finance the District's activities of the same year. Taxes are payable in two equal installments on April 30 and October 31.

Note 1 Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at cost on the first-in, first-out method, which approximates market value. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Noncurrent Assets Limited as to Use

Certain cash and other assets are limited under debt indentures, trust agreements, and by the Board of Commissioners for future bond principal and interest payments, for future acquisition or replacement of capital assets.

Capital Assets

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 these assets are disposed of, the related cost and accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is classified in nonoperating gains and losses.

Donated items are recorded at fair market value at the date of contribution and are subsequently considered as being on the basis of cost. Depreciation and amortization have been computed on the straight-line method over the estimated useful service lives of the assets.

Land improvements	3-25 years
Buildings and building improvements	2-40 years
Major movable equipment	3-15 years
Software	3-5 years

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined.

Note 1 Summary of Significant Accounting Policies (Continued)

Asset Impairment

Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred
Impairment losses, if any, are recorded in the statements of revenues and expenses and changes in net position. No impairment losses were recorded in 2015 and 2014.

Compensated Absences

The District maintains a paid time off (PTO) program to provide eligible personnel with compensation during holidays, for vacations, and for other absences from work. The District accrues PTO for compensated absences as an expense and liability when earned based on the employee's status. The employee may not accumulate more than four hundred hours on their anniversary date before they are paid for their excess accumulation. Employees terminating after six months of employment are paid for accrued unused PTO in their final pay check. Employees terminating with less than six months of employment lose any accrued unused PTO. The District maintains an extended illness benefit (EIB) program to provide eligible personnel with compensation during extended illnesses of themselves or eligible family members. The maximum allowable balance of EIB hours is 720 and employees are not paid for accumulated EIB hours upon separation of employment. The District does not accrue a liability for EIB hours.

Net Position

Net position of the District is classified in two components. *Invested in capital assets*- consist 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. *Unrestricted* net position is remaining net position that does not meet the definition of *invested in capital assets*.

Note 1 Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenue results from exchange transactions associated with providing health care services, the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. All other revenue and expenses not meeting these definitions including property tax revenue, interest income, and interest expense, are reported as nonoperating revenue and expenses.

Net Patient Service Revenue

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

For uninsured patients who do not qualify for charity care, the District recognizes revenue 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.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Note 1 Summary of Significant Accounting Policies (Continued)

Contributions and Grants

Contributions and grants that are not restricted by the donor are included in nonoperating gains in the statements of revenues and expenses. Contributions and grants restricted by donors for specific purposes are recorded in the restricted fund and transferred to the general fund when restricted amounts are expended for their restricted purpose. When restricted funds are used for operations, these amounts are reflected in the statements of revenue and expenses as other operating revenue. When restricted funds are used for capital acquisitions, replacements, and renewals, these funds are reflected as an increase in net position and a reduction in the restricted assets.

Disproportionate Share Funds

The District received funds from the Washington State Department of Social and Health Services to maintain and or expand access to services for low-income and Medicaid-eligible patients. The District reported revenues of $366,939 and $626,531 in 2015 and 2014, respectively.

Electronic Health Record Incentive Funding

The American Recovery and Reinvestment Act of 2009 ("ARRA") provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

The District recognizes revenue for EHR incentive payments when there is reasonable assurance that the District will meet the conditions of the program. For Medicaid purposes, the District may request and received the first incentive payments as they adopt, implement, upgrade, and demonstrate meaningful use of certified EHR technology.

Note 1 Summary of Significant Accounting Policies (Continued)

Electronic Health Record Incentive Funding (Continued)

In order to claim the first Medicare payment, the District must actually demonstrate meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based on management's best estimates which are based in part on cost report data that is subject to audit by fiscal intermediaries, accordingly, amounts recognized are subject to change. In addition, the District's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The District incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments.

Advertising Cost

Advertising cost are expenses as incurred, and were $7,961 and $15,327 for the years ended December 31, in 2015 and 2014, respectively.

Tax Status

The District 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 on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

Note 2 Bank Deposits and Investments

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 (PDPC); savings accounts in qualified public depositories; and certain other investments.

Custodial credit risk – Tthe risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

Credit risk – 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. The District does not have a policy specifically requiring or limiting investments of type.

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 a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – The possibility than 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.

Note 2 Bank Deposits and Investments (Continued)

The District's investments generally are reported at fair value. The carrying amounts of deposits and investments are included in the District's statements of net position as follows at December 31:

	2015	2014
Cash and cash equivalents	$ 13,996,139	$ 13,067,164
Investments:		
Current investment	2,064,822	5,973,174
Long term investments - Federal bonds	9,916,473	7,350,320
Total investments	11,981,295	13,323,494
Total cash and cash equivalents and investments	$ 25,977,434	$ 26,390,658

The District's certificates of deposit are through the Adams County Treasurer and do not have credit ratings. The District's deposits and investments are entirely covered by FDIC or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Note 3 Patient Accounts Receivable -Net

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 Adams County. No single patient comprises more than five percent of the total receivable at year-end. The mix of patient receivables is as follows at December 31:

	2015	2014
Receivable from patients and their insurance carriers	$ 4,131,050	$ 2,585,363
Receivable from Medicare	833,395	533,202
Receivable from Medicaid	1,513,041	2,095,905
Patient accounts receivable	6,477,486	5,214,470
Less:		
Contractual adjustments	2,744,999	2,108,000
Allowance for uncollectible accounts	1,301,000	1,063,000
Patient accounts receivable - Net	$ 2,431,487	$ 2,043,470

The District's allowance for uncollectable accounts for self-pay patients decreased from 64% of self-pay accounts receivable at December 31, 2014, to 62% at December 31, 2015. In addition, the District's self-pay write-offs increased $847,002 from $557,568 for year 2014 to $1,404,570 for year 2015. The District has not changed its charity care or uninsured discount policies during years 2014 or 2015. The District does not maintain a material allowance for uncollectable accounts from third-party payors, nor did the District have significant write-offs from third-party payors.

Note 4 Property Taxes

The District received approximately 2.92% and 2.91% of its financial support from property taxes for the years ended December 31, 2015 and 2014, respectively.

Note 4 Property Taxes (Continued)

The funds were used as follows:

	2015	2014
Levied to support operations	$ 1,081,533	$ 1,036,805

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 general tax levy was $.507390 per $1,000 on a total assessed valuation of $1,196,079,989 for a total general levy of $606,879. Additionally, the District's EMS tax levy was $.398957 per $1,000 on a total assessed valuation of $1,196,079,989 for a total EMS levy of $477,185.

For 2014, the District's general tax levy was $.5000 per $1,000 on a total assessed valuation of $1,141,823,009 for a total general levy of $570,912. Additionally, the District's EMS tax levy was $.399881 per $1,000 on a total assessed valuation of $1,141,823,009 for a total EMS levy of $456,593.

Property taxes are recorded as receivables when levied. Since State law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 5 Reimbursement Arrangements With Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenue charged and reimbursement under each of the various programs are included in contractual adjustments. A summary of the basis of reimbursement with major third-party payors is as follows: Gross revenue billed under the programs totaled approximately $26,891,000 and $25,060,000 for the years ended December 31, 2015 and 2014, respectively.

Medicare and *Medicaid* – The District's hospital is designated as a Critical Access Hospital. As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost reimbursement method, with the exception of certain types of laboratory and therapy services, which are reimbursed on a prospectively determined fee schedule.

Note 5 Reimbursement Arrangements With Third-Party Payors (Continued)

Professional services provided by physicians and other clinicians continue to be reimbursed on prospectively determined fee schedules.

Other – The District has also 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.

Accounting for *Medicare* and *Medicaid Contractual Arrangements* – The District is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlement after review by the intermediaries are included in the accompanying financial statements. The District's Medicare and Medicaid cost reports have been audited and tentatively settled through 2014 and 2013, respectively.

Electronic Health Record Incentive Funding

As of December 31, 2015 and 2014, the District recognized Medicaid EHR incentive payments totaling $1,518 and $650,903, respectively. The Medicaid EHR incentive payment is recognized as other operating revenue.

Note 5 Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and Regulations

The health care 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, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion form government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in substantial compliance with applicable current laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Certain states have also hired Medicaid Integrity Contractors (MICs) to perform audits similar to RACs. The District will have the ability to appeal adjustments before final settlement of the claim is made. As of December 31, 2015, the District has not been notified by the RAC or MIC of any potential significant reimbursement adjustments.

Note 6 Capital Assets

Capital asset additions, retirements, and balances for the following for the year ended December 31, 2015:

	Balance January 1	Transfers/ Additions	Retirements	Balance December 31
Capital assets not being depreciated:				
Land	$ 20,000	$ -	$ -	$ 20,000
Construction in Progress	694,998	(497,181)	-	197,817
Capital assets being depreciated:				
Land and improvements	114,928	23,699	-	138,627
Buildings and fixed equipment	15,039,829	952,042	94,024	15,897,847
Equipment	7,253,271	371,376	243,750	7,380,897
Software	77,120	-	-	77,120
Total depreciable assets	22,485,148	1,347,117	337,774	23,494,491
Total assets before depreciation	23,200,146	849,936	337,774	23,712,308
Less accumulated depreciation for:				
Land and improvements	114,927	1,334	-	116,261
Buildings and fixed equipment	7,779,715	552,113	94,024	8,237,804
Equipment	6,776,408	200,439	243,750	6,733,097
Software	34,822	-	-	34,822
Total accumulated depreciation	14,705,872	753,886	337,774	15,121,984
Capital assets - Net	$ 8,494,274	$ 96,050	$ -	$ 8,590,324

Note 6 Capital Assets (Continued)

Capital asset additions, retirements, and balances for the following for the year ended December 31, 2014:

Capital assets not being depreciated:				
Land	$ 20,000	$ -	$ -	$ 20,000
Construction in Progress	-	694,998	-	694,998
Capital assets being depreciated:				
Land and improvements	114,928	-	-	114,928
Buildings and fixed equipment	15,033,813	112,073	106,057	15,039,829
Equipment	7,045,467	207,804	-	7,253,271
Software	77,120	-	-	77,120
Total depreciable assets	22,271,328	319,877	106,057	22,485,148
Total assets before depreciation	22,291,328	1,014,875	106,057	23,200,146
Less accumulated depreciation for:				
Land and improvements	114,927	-	-	114,927
Buildings and fixed equipment	7,407,761	478,011	106,057	7,779,715
Equipment	6,604,198	172,210	-	6,776,408
Software	34,822	-	-	34,822
Total accumulated depreciation	14,161,708	650,221	106,057	14,705,872
Capital assets - Net	$ 8,129,620	$ 364,654	$ -	$ 8,494,274

Note 7 Risk Management

The District is one of a number of Washington hospitals who are members of the Washington Casualty Company (WCC). WCC is a wholly owned subsidiary of Coverys, a nonprofit mutual insurance corporation used for payment of liability claims.

The WCC policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policy. Although there exists the possibility of claims arising from services provided to patients through December 31, 2015, which have not yet been asserted, the District is unable to determine the ultimate cost if any, of such possible claims and, accordingly, no provision has been made. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The policy's limits provide $1,000,000 per claim of primary coverage with a $5,000,000 annual aggregate limit. WCC also provides excess coverage of $4,000,000 per claim with $4,000,000 annual aggregate. There are no significant deductible or coinsurance clauses for this policy.

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

Self-Insurance

The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Fund and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both are risk transfer pools administered by the Washington State Hospital Association. Premiums are based upon prior claims history and are charged to operations as they are paid. Total unemployment insurance expense was $14,936 and $9,943 in 2015 and 2014, respectively, and the workers' compensation benefits expense was $35,506 and $82,895 in 2015 and 2014, respectively.

Note 8 Charity Care

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated $676,813 and $759,012 for the years ended December 31, 2015, and 2014, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated $338,862 and $379,294 in 2015 and 2014, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing the charity care.

Note 9 Retirement Plan

The District sponsors and administers the Section 403(b) Retirement Plan for Othello Community Hospital, a retirement plan under Section 403(b) of the Internal Revenue Code. The plan is a defined contribution plan for all employees who have completed one year of service including 1,000 hours of service. Participants are subject to a five-year graded vesting schedule at the rate of 20% annually. Forfeitures are applied to fixed matching contribution of the next plan year. The amount of forfeitures were $3,447 and $37, for the years ended December 31, 2015 and 2014, respectively. The District contributes 7% of each covered employee's compensation. The employees must contribute at least 3% of their wages to the plan for matching contribution. Total employer contributions to the plan were $364,770 and $354,420 for the years ended December 31, 2015 and 2014, respectively.

Note 10 Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended December 31:

	2015	2014
Gross patient service revenue	$ 35,275,361	$ 33,092,721
Less - Adjustment to gross patient service revenue:		
Contractual adjustments	19,643,778	17,714,357
Provision for bad debts	1,404,571	557,568
Total adjustments	21,048,349	18,271,925
Net patient service revenue	$ 14,227,012	$ 14,820,796

The District's percentage of gross patient service revenue by payor is as follows for the years ended December 31:

	2015	2014
Medicare	14%	13%
Medicaid	61%	61%
Other	25%	26%
Total adjustments	100%	100%

Note 11 Functional Expenses

The District provides general health care services to residents within its geographic location. Expenses related to providing these services consisted of the following for the years ended December 31:

	2015	2014
Health care services	$ 14,272,156	$ 13,297,551
Management and administration	2,641,753	2,683,870
Total expenses	$ 16,913,909	$ 15,981,421

Note 12 Commitments

The District entered into an annual computer software agreement with Engage to provide maintenance and support services on the District's information system for monthly payments in the amount of $34,552.

Note 13 Reclassifications

In order to conform to the 2015 presentation, the following reclassification were made to the 2014 balances:

	As Originally Classified	Reclassification	Reclassified
Statements of net position:			
Cash and cash equivalents	$ 8,853,543	$ 4,213,621	$ 13,067,164
Noncurrent cash and cash equivalents:			
Internally designated for capital acquisitions	4,213,621	(4,213,621)	-
Investments - Federal bonds	13,323,494	(13,323,494)	-
Investments:			
Current investments	-	5,973,174	5,973,174
Long term investments - Federal bonds	-	7,350,320	7,350,320

Note 13 Reclassifications (Continued)

	As Originally Classified	Reclassification	Reclassified
Statements of net position:			
Accrued compensated absences	$ 513,769	$ (498,911)	$ 14,858
Non - Current accrued compensated absences	-	498,911	498,911

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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