



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

March 19, 2018

Board of Commissioners  
East Adams Rural Healthcare  
Ritzville, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

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

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

**Adams County  
Public Hospital District No. 2  
doing business as  
East Adams Rural Healthcare**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2016 and 2015



**DINGUS | ZARECOR & ASSOCIATES <sup>PLLC</sup>**  
Certified Public Accountants

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Table of Contents**

	<b>Page</b>
<i>INDEPENDENT AUDITORS' REPORT</i>	1-2
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	3
Statements of revenues, expenses, and changes in net position	4
Statements of cash flows	5-6
Notes to basic financial statements	7-19
<i>SUPPLEMENTAL INFORMATION:</i>	
Statements of revenues, expenses, and changes in net position (five year comparative)	20
Net patient service revenue detail	21
Divisional statement of revenues, expenses, and changes in net position	22
<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>	23-24
<i>SCHEDULE OF FINDINGS AND RESPONSES</i>	25-26
<i>SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS</i>	27



DINGUS | ZARECOR & ASSOCIATES <sup>PLLC</sup>  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Ritzville, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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 financial statements as a whole. The statements of revenues, expenses, and changes in net position (five year comparative); the net patient service revenue detail; and the divisional statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The statements of revenues, expenses, and changes in net position (five year comparative); the net patient service revenue detail; and the divisional statement of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statements or to the 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 statements of revenues, expenses, and changes in net position (five year comparative); the net patient service revenue detail; and the divisional statement of revenues, expenses, and changes in net position are fairly stated in all material respects in relation to the 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 June 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2016. We issued a similar report for the year ended December 31, 2015, dated June 20, 2016, which has not been included with the 2016 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
June 27, 2017

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,007,450	\$ 1,364,709
Receivables:		
Patient accounts, net of estimated uncollectibles		
of approximately \$272,000 and \$630,000, respectively	3,294,861	2,320,903
Electronic health records incentive payment	-	151,046
Taxes	39,914	33,131
Inventories	161,547	134,498
Prepaid expenses	-	977
Total current assets	4,503,772	4,005,264
<i>Noncurrent assets</i>		
Assets limited as to use:		
Cash and cash equivalents:		
Designated by Board for capital additions	2,216,053	4,549,774
Designated by Board for health insurance deductions	73,906	56,968
Cash and cash equivalents restricted by bond covenant		
for renovation	-	3,146,235
Capital assets, net of accumulated depreciation	13,264,045	9,921,558
Total noncurrent assets	15,554,004	17,674,535
<b>Total assets</b>	<b>\$ 20,057,776</b>	<b>\$ 21,679,799</b>
<b>LIABILITIES AND NET POSITION</b>		
<i>Current liabilities</i>		
Current portion of long-term debt	\$ 215,000	\$ 210,000
Accounts payable	145,864	259,113
Capital accounts payable	435,908	755,762
Refunds payable for overpayments on patient accounts	578,475	482,346
Accrued compensation and related liabilities	117,101	54,167
Estimated third-party payable	622,110	641,351
Accrued vacation	165,219	163,381
Total current liabilities	2,279,677	2,566,120
<i>Long-term debt, net of current maturities</i>	8,836,156	9,062,515
Total liabilities	11,115,833	11,628,635
<i>Net position</i>		
Net investment in capital assets	3,776,981	3,039,516
Unrestricted	5,164,962	7,011,648
Total net position	8,941,943	10,051,164
<b>Total liabilities and net position</b>	<b>\$ 20,057,776</b>	<b>\$ 21,679,799</b>

See accompanying notes to basic financial statements.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$179,000 and \$355,000, respectively	\$ 7,405,900	\$ 7,473,411
Electronic health records incentive payment	1,424	204,781
Other	80,725	56,940
Total operating revenues	7,488,049	7,735,132
<i>Operating expenses</i>		
Salaries and wages	4,574,356	4,013,369
Employee benefits	1,018,919	827,023
Supplies	507,950	602,485
Professional fees	1,609,546	1,371,709
Depreciation	724,023	377,758
Repairs and maintenance	147,430	174,960
Utilities	204,678	224,781
Insurance	71,280	75,625
Rent	162,840	37,659
Other	450,475	388,176
Total operating expenses	9,471,497	8,093,545
<i>Operating loss</i>	(1,983,448)	(358,413)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	414,000	410,136
Taxation for emergency medical services	239,767	235,830
Taxation for bond principal and interest	383,805	430,000
Grants and contributions	29,665	36,265
Interest expense	(193,010)	(27,812)
Bond issuance costs	-	(49,020)
Total nonoperating revenues (expenses), net	874,227	1,035,399
Excess of revenues over expenses (expenses over revenues) before capital contributions	(1,109,221)	676,986
<i>Capital contributions</i>	-	1,040,000
<i>Change in net position</i>	(1,109,221)	1,716,986
<i>Net position, beginning of year</i>	10,051,164	8,334,178
<b>Net position, end of year</b>	<b>\$ 8,941,943</b>	<b>\$ 10,051,164</b>

See accompanying notes to basic financial statements.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 6,508,830	\$ 7,727,465
Electronic health records incentive	152,470	638,476
Other receipts	80,725	56,940
Payments to and on behalf of employees	(5,528,503)	(4,879,686)
Payments to suppliers and contractors	(3,293,520)	(2,735,244)
Net cash provided by (used in) operating activities	(2,079,998)	807,951
<i>Cash flows from noncapital financing activities</i>		
Cash received for noncapital grants and contributions	29,665	36,265
Taxation for maintenance and operations	407,217	398,221
Taxation for emergency medical services	239,767	235,830
Net cash provided by noncapital financing activities	676,649	670,316
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	383,805	430,000
Principal paid on capital lease obligations	-	(787,506)
Principal paid on long-term debt	(221,359)	(256,556)
Purchase of capital assets	(4,386,364)	(6,575,531)
Cash paid for interest on long-term debt and capital lease obligations	(193,010)	(27,812)
Proceeds from issuance of long-term debt	-	3,051,728
Bond issuance costs	-	(49,020)
Net cash used in capital and related financing activities	(4,416,928)	(4,214,697)
Net decrease in cash and cash equivalents	(5,820,277)	(2,736,430)
Cash and cash equivalents, beginning of year	9,117,686	11,854,116
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,297,409</b>	<b>\$ 9,117,686</b>

*See accompanying notes to basic financial statements.*



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 1,007,450	\$ 1,364,709
Cash and cash equivalents designated by Board for capital additions	2,216,053	4,549,774
Cash and cash equivalents designated by Board for health insurance deductions	73,906	56,968
Cash and cash equivalents restricted by bond covenant for renovation	-	3,146,235
<b>Total cash and cash equivalents</b>	<b>\$ 3,297,409</b>	<b>\$ 9,117,686</b>
<b><i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i></b>		
Operating loss	\$ (1,983,448)	\$ (358,413)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	724,023	377,758
Provision for bad debts	179,148	355,149
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(1,153,106)	(355,989)
Electronic health records incentive payment	151,046	433,695
Inventories	(27,049)	(3,693)
Prepaid expenses	977	-
Increase (decrease) in liabilities:		
Accounts payable	(113,249)	143,844
Refunds payable for overpayments on patient accounts	96,129	291,557
Accrued compensation and related liabilities	62,934	(97,265)
Estimated third-party payor settlements	(19,241)	(36,663)
Accrued vacation	1,838	57,971
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (2,079,998)</b>	<b>\$ 807,951</b>

***Noncash Capital and Financing Activities***

The District received a noncash capital contribution of a nursing home building and related equipment in May 2015. Based on an appraisal of the assets contributed, the District recorded \$1,040,000 in contributed property in 2015 related to this transaction.

*See accompanying notes to basic financial statements.*

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) owns and operates two separate operating divisions: a hospital division (the Hospital), which includes an eight-bed acute care hospital and rural health clinics in Ritzville and Washtucna, Washington, and a nursing home division (the Nursing Home), a 50-bed skilled nursing facility in Ritzville, Washington. The District provides healthcare services to patients in the Adams County, Washington (the County) area. The services provided include acute care hospital, long-term nursing care, emergency room, clinic, and the related ancillary services (laboratory, x-ray, physical therapy, etc.). The District closed the Nursing Home effective February 14, 2017.

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. The Board of Commissioners consists of five elected community members. Commissioners representing positions 1, 2, and 3 are elected for six-year terms. One at-large position is elected for a two-year term, and the other at-large position is elected for a four-year term.

The District has no material component units.

**b. Summary of Significant Accounting Policies**

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

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

*Cash and cash equivalents* – All cash receipts are deposited directly to the District's bank account. Periodically, such cash is transferred to the Adams County Treasurer (County Treasurer), who acts as the District's 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 discretion 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 original maturity dates of three months or less as cash and cash equivalents.

*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 District's operations.

Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

**Assets limited as to use** – Assets limited as to use include assets limited under debt indentures and by the Board of Commissioners for future bond principal and interest payments and future capital improvements and health insurance deductions over which the Board retains control and may, at its discretion, subsequently use for other purposes.

**Compensated absences** – The District's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Depending on years of completion, vacation accrues from 80 to 160 hours per year. Each employee has one year to use all vacation time that has been accumulated during the preceding year. Employees terminated after one year will receive prorated accrued unused vacation pay in their final paycheck. Sick leave is a benefit granted to all regular employees and accumulates on a monthly basis. A maximum of 480 hours may be accumulated at the rate of one hour for every 21.66 regular hours paid. All vacation pay is accrued and expensed when incurred. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

**Net position** – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is assets that must be used for a particular purpose, as specified by creditors, donors, or contributors external to the District. The District did not have a restricted net position balance in 2016 or 2015. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

**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 are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

**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.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Operating revenues and expenses* – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services, the District’s principal activity. Nonexchange revenues, including taxes 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. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

*Reclassifications* – Certain reclassifications of the 2015 amounts have been made in the financial statements in order to conform to the 2016 presentation. These reclassifications had no effect on the previously reported change in net position.

*Subsequent events* – Subsequent events have been reviewed through June 27, 2017, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Investments:**

Custodial credit risk is the risk that, in the event of a depository institution failure, the District’s deposits may not be returned to it.

As of December 31, 2016 and 2015, the District had no deposit balances that were uninsured and uncollateralized. The District’s deposits are covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

*The Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool (LGIP); savings accounts in qualified public depositories; and certain other investments.

The amounts deposited in the LGIP at December 31, 2016 and 2015, were \$2,343,528 and \$4,677,605, respectively.

State statutes limit investments in bonds, debentures, or notes of any corporation to be rated “A” or higher by nationally recognized statistical rating organizations.

All of the District’s investments were in the LGIP at December 31, 2016 and 2015.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients decreased compared to the prior year due to a decrease in the self-pay patient receivable balance. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	<b>2016</b>	<b>2015</b>
Patients and their insurance carriers	\$ 1,309,248	\$ 1,748,080
Medicare	1,919,707	857,588
Medicaid	337,936	345,579
Total patient accounts receivable	3,566,891	2,951,247
Less allowance for uncollectible amounts	272,030	630,344
<b>Patient accounts receivable, net</b>	<b>\$ 3,294,861</b>	<b>\$ 2,320,903</b>

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Capital Assets:**

The District capitalizes assets whose costs exceed \$5,000 and whose estimated useful life is greater than three years. Major expenses for capital assets including repairs that increase the useful life are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues (expenses).

All capital assets, other than land and construction in progress, are depreciated by the straight-line method using these asset lives:

Land improvements	15 to 20 years
Buildings	15 to 40 years
Fixed equipment	10 to 20 years
Movable equipment	3 to 20 years

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

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 206,698	\$ -	\$ -	\$ -	\$ 206,698
Construction in progress	7,387,290	3,578,402	-	(9,819,226)	1,146,466
Total capital assets not being depreciated	7,593,988	3,578,402	-	(9,819,226)	1,353,164
<i>Capital assets being depreciated</i>					
Land improvements	18,765	2,794	-	137,255	158,814
Buildings	1,518,551	156,601	-	7,951,978	9,627,130
Fixed equipment	378,015	33,250	-	1,729,993	2,141,258
Movable equipment	3,906,509	295,463	-	-	4,201,972
Total capital assets being depreciated	5,821,840	488,108	-	9,819,226	16,129,174
<i>Less accumulated depreciation for</i>					
Land improvements	18,688	7,033	-	-	25,721
Buildings	583,600	266,224	-	-	849,824
Fixed equipment	320,092	58,471	-	-	378,563
Movable equipment	2,571,890	392,295	-	-	2,964,185
Total accumulated depreciation	3,494,270	724,023	-	-	4,218,293
Total capital assets being depreciated, net	2,327,570	(235,915)	-	9,819,226	11,910,881
Total capital assets, net	\$ 9,921,558	\$ 3,342,487	\$ -	\$ -	\$ 13,264,045

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Capital Assets (continued):**

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 16,698	\$ 190,000	\$ -	\$ -	\$ 206,698
Construction in progress	1,166,240	6,221,050	-	-	7,387,290
Total capital assets not being depreciated	1,182,938	6,411,050	-	-	7,593,988
<i>Capital assets being depreciated</i>					
Land improvements	18,765	-	-	-	18,765
Buildings	848,551	670,000	-	-	1,518,551
Fixed equipment	378,015	-	-	-	378,015
Movable equipment	3,423,541	482,968	-	-	3,906,509
Total capital assets being depreciated	4,668,872	1,152,968	-	-	5,821,840
<i>Less accumulated depreciation for</i>					
Land improvements	18,443	245	-	-	18,688
Buildings	539,441	44,159	-	-	583,600
Fixed equipment	316,307	3,785	-	-	320,092
Movable equipment	2,242,321	329,569	-	-	2,571,890
Total accumulated depreciation	3,116,512	377,758	-	-	3,494,270
Total capital assets being depreciated, net	1,552,360	775,210	-	-	2,327,570
<b>Total capital assets, net</b>	<b>\$ 2,735,298</b>	<b>\$ 7,186,260</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,921,558</b>

Construction in progress at December 31, 2016, consists of costs associated with hospital renovation and redesign. The remaining cost to complete the project is approximately \$1,500,000. The project was completed in March 2017.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Long-term Debt:**

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

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 6,250,000	\$ -	\$ (100,000)	\$ 6,150,000	\$ 105,000
Bond premium on 2014 unlimited tax general obligation bonds	102,569	-	(3,721)	98,848	-
2015 limited tax general obligation bonds	2,780,000	-	(110,000)	2,670,000	110,000
Bond premium on 2015 unlimited tax general obligation bonds	139,946	-	(7,638)	132,308	-
<b>Total long-term debt</b>	<b>\$ 9,272,515</b>	<b>\$ -</b>	<b>\$ (221,359)</b>	<b>\$ 9,051,156</b>	<b>\$ 215,000</b>
	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
Long-term debt:					
2014 unlimited tax general obligation bonds	\$ 6,370,000	\$ -	\$ (120,000)	\$ 6,250,000	\$ 100,000
Bond premium on 2014 unlimited tax general obligation bonds	107,343	-	(4,774)	102,569	-
2015 limited tax general obligation bonds	-	2,905,000	(125,000)	2,780,000	110,000
Bond premium on 2015 unlimited tax general obligation bonds	-	146,728	(6,782)	139,946	-
<b>Total long-term debt</b>	<b>\$ 6,477,343</b>	<b>\$ 3,051,728</b>	<b>\$ (256,556)</b>	<b>\$ 9,272,515</b>	<b>\$ 210,000</b>



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Long-term Debt (continued):**

The terms and due dates of the District's long-term debt follows:

Unlimited Tax General Obligation (UTGO) Bonds dated December 30, 2014, in the original amount of \$6,370,000. The bonds are due in varying principal installments from \$105,000 to \$420,000, plus semiannual interest at varying interest rates from 1.6% to 5.125% through December 2044. The District issued the bonds to pay costs of capital improvements to the District's facilities to comply with state building code regulations. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. The UTGO Bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a tax upon the taxable property within the District. The voters of the District approved the 2014 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

Limited Tax General Obligation (LTGO) Bonds dated February 5, 2015, in the original amount of \$2,905,000. The bonds are due in varying principal installments from \$110,000 to \$210,000, plus semiannual interest at varying interest rates from 1.625% to 5% through December 2034. The District issued the bonds to pay costs of capital improvements to the District's facilities to comply with state building code regulations. All limited tax general obligation bonds are general obligations of the District and secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

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

Years Ending December 31,	Long-Term Debt		
	Principal	Interest	Total
2017	\$ 215,000	\$ 393,618	\$ 608,618
2018	215,000	390,150	605,150
2019	225,000	384,808	609,808
2020	230,000	379,216	609,216
2021	240,000	373,495	613,495
2022-2026	1,370,000	1,725,815	3,095,815
2027-2031	1,750,000	1,399,400	3,149,400
2032-2036	1,795,000	961,094	2,756,094
2037-2041	1,590,000	558,369	2,148,369
2042-2044	1,190,000	124,281	1,314,281
	<b>\$ 8,820,000</b>	<b>\$ 6,690,246</b>	<b>\$ 15,510,246</b>

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**6. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs decreased from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual allowances and discounts):		
Medicare	\$ 2,853,148	\$ 3,357,853
Medicaid	953,553	708,143
Other third-party payors	2,869,571	2,950,336
Patients	988,423	838,236
	<b>7,664,695</b>	<b>7,854,568</b>
Less:		
Charity care	79,647	26,008
Provision for bad debts	179,148	355,149
<b>Net patient revenue</b>	<b>\$ 7,405,900</b>	<b>\$ 7,473,411</b>

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

- *Medicare* – The hospital has been designated a critical access hospital, and the physician clinics have been designated rural health clinics by Medicare and are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. 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. The District is reimbursed for skilled nursing facility services under a prospective payment system.
- *Medicaid* – Reimbursement for inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. The District's physician clinics are certified as rural health clinics and are reimbursed by Medicaid for these services based on a prospectively established rate per visit, which is based on historical cost. Nursing home services are reimbursed based on costs as defined and limited by the Medicaid program.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**6. 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 the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$238,000 in the year ended December 31, 2016, due to differences between original estimates and final settlements. Net patient service revenue decreased by approximately \$250,000 in the year ended December 31, 2015, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2016 and 2015, were approximately \$81,000 and \$20,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2016 and 2015.

**7. Electronic Health Records Incentive Payment:**

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

The District recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period.

The Medicare incentive payment recognized is an estimate and subject to audit by Centers for Medicare and Medicaid Services (CMS). The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on days reported in the Medicare cost report for the period that the District met meaningful use and submitted EHR equipment. A Medicare incentive payment of \$142,893 was recognized as revenue in 2015 for EHR equipment placed into service during the year.

The District recognizes the first of its four Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent three payments are issued when meaningful use is demonstrated under Medicare. The first-year Medicaid payment was recognized as revenue in 2013 when the District entered into an agreement to purchase EHR equipment. Medicaid payments of \$0- and \$61,888 were recognized as revenue in 2016 and 2015, respectively.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**8. Property Taxes:**

The Adams County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on February 15 on property values listed as of the prior January 1. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every year with a physical inspection every six years.

Taxes are due in two equal installments on April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

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

For 2016, the District's regular tax levy was approximately \$0.59 per \$1,000 on a total assessed valuation of \$702,878,005, for a total regular levy of \$416,983. The District's EMS tax levy was approximately \$0.34 per \$1,000 on a total assessed valuation of \$702,878,005, for a total EMS levy of \$239,767. The District's general obligation bond tax levy was approximately \$0.55 per \$1,000 on a total assessed valuation of \$701,400,305, for a total general obligation bond levy of \$383,805.

For 2015, the District's regular tax levy was approximately \$0.60 per \$1,000 on a total assessed valuation of \$682,409,462, for a total regular levy of \$410,136. The District's EMS tax levy was approximately \$0.35 per \$1,000 on a total assessed valuation of \$682,409,462, for a total EMS levy of \$235,830. The District's general obligation bond tax levy was approximately \$0.63 per \$1,000 on a total assessed valuation of \$679,617,962, for a total general obligation bond levy of \$430,000.

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.

**9. Deferred Compensation Plans:**

The District sponsors and administers a defined contribution retirement plan. The Adams County Public Hospital District No. 2 403(b) TDA Plan (the Plan) is available to all employees who have completed one year of service. Employees may contribute up to 100% of their pretax annual compensation, subject to certain Internal Revenue Code limitations. The District matches contributions up to 3% of each covered employee's compensation. Employees are always 100% vested in all employee and employer contributions. Benefit terms, including contribution requirements, are established and may be amended by the District. Total employer contributions to the Plan were \$64,412 and \$53,801 for the years ended December 31, 2016 and 2015, respectively. Employee contributions to the Plan were \$150,921 and \$142,612 for the years ended December 31, 2016 and 2015, respectively.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**10. Contingencies:**

***Risk management*** – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; 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 three preceding years.

***Medical malpractice claims*** – The District purchases malpractice liability insurance through Washington Casualty Company (WCC). The WCC policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy.

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 carrier 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 current malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000 plus an additional \$1,000,000 of annual excess coverage.

No liability has been accrued for future coverage for acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year. The District’s malpractice insurance policy has no deductible. Therefore, all qualifying expenses would be covered by the policy.

***Unemployment and workers’ compensation risk transfer pools*** – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Fund (the Fund) and for workers’ compensation benefits through the Public Hospital District Workers’ Compensation Trust (the 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 approximately \$31,000 and \$30,000 in 2016 and 2015, respectively. Workers’ compensation expense was approximately \$55,000 and \$45,000 in 2016 and 2015, respectively.

In 2015, the Trust assessed its financial condition and decided it had excess financial reserves that it would return to the member districts. The Trust will pay the dividends to the districts over five years. Each year, the Trust will evaluate the financial and actuarial data, and may, at its discretion, choose to suspend the payment or adjust the time period over which the remaining dividend is paid. Payments of \$24,519 and \$24,318 were made by the Trust to the District in 2016 and 2015, respectively. These receipts were recognized in 2016 and 2015 as reductions in the expense.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**10. Contingencies (continued):**

**Industry regulations** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**Rural health clinic Medicaid reimbursement** – Effective January 1, 2009, the state of Washington (the State) changed its methodology for calculating the Medicaid reimbursement rates paid on eligible rural health clinic fee-for-service and managed care encounters. Included in the estimate prepared by management are assumptions regarding allowable encounters and the fee-for-service equivalents for those encounters. These estimates are subject to change based on the State's final reconciliation and settlement of years 2011 through 2016. The difference between the final settlements and the amounts estimated by management could be material; any difference will be recorded when the final settlement becomes known.

**11. Concentrations of Risk:**

**Receivables** – 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.

The mix of gross receivables from patients was as follows:

	<b>2016</b>	<b>2015</b>
Medicare	<b>37 %</b>	29 %
Medicaid	<b>10</b>	14
Other third-party payors	<b>42</b>	36
Patients	<b>11</b>	21
	<b>100 %</b>	100 %

**Physicians** – The District is dependent on local physicians 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.

## **SUPPLEMENTAL INFORMATION**

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Statements of Revenues, Expenses, and Changes in Net Position (Five Year Comparative)**  
**Years Ended December 31, 2016, 2015, 2014, 2013, and 2012**

	2016	2015	2014	2013	2012
<i>Operating revenues</i>					
Net patient service revenue	\$ 7,405,900	\$ 7,473,411	\$ 4,742,709	\$ 3,681,071	\$ 4,032,439
Electronic health records incentive payment	1,424	204,781	662,101	123,776	-
Grants	-	-	19,718	35,884	25,286
Other	80,725	56,940	83,900	74,537	62,351
Total operating revenues	7,488,049	7,735,132	5,508,428	3,915,268	4,120,076
<i>Operating expenses</i>					
Salaries and wages	4,574,356	4,013,369	2,782,563	2,479,823	2,203,624
Employee benefits	1,018,919	827,023	571,653	474,686	497,008
Supplies	507,950	602,485	424,649	321,777	297,968
Professional fees	1,609,546	1,371,709	916,348	858,190	1,704,243
Depreciation and amortization	724,023	377,758	239,677	175,640	159,532
Repairs and maintenance	147,430	174,960	195,445	159,440	162,148
Utilities	204,678	224,781	157,958	132,290	137,615
Insurance	71,280	75,625	56,174	84,098	60,325
Rent	162,840	37,659	16,717	8,335	21,572
Other	450,475	388,176	393,826	165,406	189,790
Total operating expenses	9,471,497	8,093,545	5,755,010	4,859,685	5,433,825
<i>Operating loss</i>	(1,983,448)	(358,413)	(246,582)	(944,417)	(1,313,749)
<i>Nonoperating revenues (expenses)</i>					
Taxation for maintenance and operations	414,000	410,136	393,015	383,058	370,176
Taxation for emergency medical services	239,767	235,830	225,566	219,942	210,850
Taxation for bond principal and interest	383,805	430,000	-	-	-
Grants and contributions	29,665	36,265	-	-	-
Interest expense	(193,010)	(27,812)	(85,132)	(15,887)	(180)
Contributions	-	-	-	-	14,826
Bond issuance costs	-	(49,020)	(74,855)	-	-
Loss on disposal of assets	-	-	-	-	(57,595)
Total nonoperating revenues (expenses), net	874,227	1,035,399	458,594	587,113	538,077
Excess of revenues over expenses (expenses over revenues) before capital contributions	(1,109,221)	676,986	212,012	(357,304)	(775,672)
<i>Capital contributions</i>	-	1,040,000	-	-	-
<i>Change in net position</i>	(1,109,221)	1,716,986	212,012	(357,304)	(775,672)
<i>Net position, beginning of year</i>	10,051,164	8,334,178	8,122,166	8,479,470	9,255,142
<b>Net position, end of year</b>	<b>\$ 8,941,943</b>	<b>\$ 10,051,164</b>	<b>\$ 8,334,178</b>	<b>\$ 8,122,166</b>	<b>\$ 8,479,470</b>

*See accompanying independent auditors' report.*



**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Net Patient Service Revenue Detail**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Gross patient service revenue</i>		
Inpatient acute care	\$ 120,649	\$ 218,704
Swing bed	164,438	34,816
Nursing home	1,656,824	1,874,437
Radiology	2,069,677	2,480,671
Laboratory	1,351,149	1,913,809
Blood	49,260	50,655
Physical therapy	662,355	622,795
Electrocardiology	78,985	79,386
Billable medical supplies	3,897	-
Drugs charged to patients	416,193	436,802
Emergency	1,929,003	1,787,740
Ambulance	382,734	413,397
Ritzville Medical Center	622,436	673,163
Washtucna Medical Center	8,735	14,042
	<b>9,516,335</b>	<b>10,600,417</b>
<i>Contractual adjustments</i>		
Medicare	198,652	629,938
Medicaid	248,457	879,699
Other third-party payors	1,404,531	1,236,212
<i>Provision for bad debts</i>	179,148	355,149
<i>Charity care</i>	79,647	26,008
	<b>2,110,435</b>	<b>3,127,006</b>
<b>Net patient service revenue</b>	<b>\$ 7,405,900</b>	<b>\$ 7,473,411</b>

*See accompanying independent auditors' report.*

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Divisional Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2016**

	<b>Hospital Division</b>	<b>Nursing Home Division</b>	<b>Reclasses/ Eliminations</b>	<b>Totals</b>
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts	\$ 5,949,947	\$ 1,455,953	\$ -	\$ 7,405,900
Electronic health records incentive payment	1,424	-	-	1,424
Other	80,021	704	-	80,725
Total operating revenues	6,031,392	1,456,657	-	7,488,049
<i>Operating expenses</i>				
Salaries and wages	3,362,856	1,211,500	-	4,574,356
Employee benefits	764,396	254,523	-	1,018,919
Supplies	375,883	132,067	-	507,950
Professional fees	1,257,201	352,345	-	1,609,546
Depreciation	623,111	100,912	-	724,023
Repairs and maintenance	125,632	21,798	-	147,430
Utilities	148,479	56,199	-	204,678
Insurance	71,280	-	-	71,280
Rent	162,840	-	-	162,840
Other	270,204	180,271	-	450,475
Total operating expenses	7,161,882	2,309,615	-	9,471,497
<i>Operating loss</i>	(1,130,490)	(852,958)	-	(1,983,448)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	414,000	-	-	414,000
Taxation for emergency medical services	239,767	-	-	239,767
Taxation for bond principal and interest	383,805	-	-	383,805
Grants and contributions	22,846	6,819	-	29,665
Interest expense	(193,010)	-	-	(193,010)
Total nonoperating revenues (expenses), net	867,408	6,819	-	874,227
<i>Change in net position</i>	(263,082)	(846,139)	-	(1,109,221)
<i>Net position, beginning of year</i>	9,541,710	509,454	-	10,051,164
<b>Net position, end of year</b>	<b>\$ 9,278,628</b>	<b>\$ (336,685)</b>	<b>\$ -</b>	<b>\$ 8,941,943</b>

*See accompanying independent auditors' report.*



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  
Adams County Public Hospital District No. 2  
doing business as East Adams Rural Healthcare  
Ritzville, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adams County Public Hospital District No. 2 doing business as East Adams Rural Healthcare (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 27, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses: 2016-001 and 2016-002.

## **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*.

## **The District's Responses to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
June 27, 2017

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2016**

**2016-001 Account Reconciliations**

<i>Condition</i>	There should not be any significant or material adjusting journal entries made during the audit process. Accounts payable, accrued interest, cash, accrued payroll, capital assets, miscellaneous revenue, and the allowance for doubtful accounts were not adequately reconciled during the year.
<i>Criteria</i>	<input type="checkbox"/> Compliance Finding <input type="checkbox"/> Significant Deficiency <input checked="" type="checkbox"/> Material Weakness  During the audit process, numerous adjusting journal entries were both prepared by management and proposed by the audit team to achieve accurate account balances. Significant adjustments were made to correct balances related to: accounts payable, accrued interest, cash, accrued payroll, capital assets, miscellaneous revenue, and the allowance for doubtful accounts. Management was unable to completely reconcile many of the discrepancies and to determine the appropriate adjustments needed to correct the balances. Management was unable to provide supporting schedules showing what invoices or system reports made up many of the balances.
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	Although performed regularly by management, reconciliations and review are not being executed with the precision necessary to identify needed adjustments in a timely manner.
<i>Effect</i>	Financial reports depended on by management, the Board of Commissioners, and external financial statement users may not present an accurate image of the District's financial position.
<i>Recommendation</i>	All statement of net position accounts should be reconciled and adjusted as necessary each month. Accurate and consistent schedules should be used from year to year when making adjustments to account balances. Journal entries for miscellaneous cash receipts should be reviewed more thoroughly to verify that income is properly recorded and accruals are properly reduced if the income was accrued in a prior period.
<i>Management's Response</i>	The District's management will reconcile accounts monthly and will adjust as necessary each month.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended December 31, 2016**

**2016-002 Manual Journal Entries**

<i>Condition</i>	All manual journal entries are posted by the chief executive officer/chief financial officer (CEO/CFO). Manual journal entries are prepared by the CEO/CFO or the chief operating officer (COO). Entries prepared by the CEO/CFO are reviewed by the COO and vice versa. The administrative assistant reviews the posted entries to verify that they were posted correctly. However, there were significant errors in manual journal entries that were undetected by these review processes.
<i>Criteria</i>	<p>[ ] Compliance Finding    [ ] Significant Deficiency    [X] Material Weakness</p> <p>Local governmental entities are required to maintain internal controls over financial accounting and reporting systems to help ensure public funds are properly safeguarded. Review of manual journal entries reduces the risk that a single employee could conduct inappropriate or illegal activities, conceal such activities, and not be discovered.</p>
<i>Context</i>	This finding is a <i>systemic</i> problem.
<i>Cause</i>	The journal entry reviewers are not sufficiently understanding the transactions and thoroughly reviewing the supporting documents to verify that the journal entries are accurate, appropriate, and posted to the correct accounts.
<i>Effect</i>	There is an increased risk of fraudulent or erroneous journal entries being posted to the general ledger and not being detected by the District's internal controls.
<i>Recommendation</i>	All manual journal entries posted to the general ledger should be regularly and thoroughly reviewed by an individual independent of the individual posting the journal entries and that has adequate training and knowledge to detect mistakes. We recommend the CEO/CFO, COO, and administrative assistant print and review a report monthly showing all manual journal entries posted during the month and verify that all were properly reviewed in accordance with the District's policies. Additionally, we recommend providing additional training and explanation to each of the individuals involved with the manual journal entry process so that there is a better understanding of what is being reviewed.
<i>Management's Response</i>	The CEO/CFO, COO, and administrative assistant will track the reviewed journal entries and will initial the printout of the monthly manual journal entries posted and will put the printout in with the monthly backup documentation kept by the COO.

**Adams County Public Hospital District No. 2**  
**doing business as East Adams Rural Healthcare**  
**Summary Schedule of Prior Year Audit Findings**  
**Year Ended December 31, 2016**

**2015-01**    Account Reconciliations – Repeated – 2016-001

**2015-02**    Manual Journal Entries – Repeated – 2016-002