



Office of the Washington State Auditor
Pat McCarthy

March 19, 2018

Board of Commissioners
Dayton General Hospital and Columbia County Health System
Dayton, 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 Dayton General Hospital and Columbia County Health System's financial statements for the fiscal year 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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

**Columbia County
Public Hospital District No. 1
doing business as
Columbia County Health System**

Financial Statements and
Independent Auditors' Reports

December 31, 2016 and 2015



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Dayton, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Columbia County Public Hospital District No. 1 doing business as Columbia County Health System (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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 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 April 13, 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
April 14, 2017

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Statements of Net Position
December 31, 2016 and 2015

| ASSETS | 2016 | 2015 |
|---|----------------------|----------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 1,046,971 | \$ 1,215,204 |
| Receivables: | | |
| Patient accounts, net of estimated uncollectibles of approximately \$359,000 and \$477,000, respectively | 2,852,559 | 1,488,435 |
| Estimated third-party payor settlements | 148,000 | 355,929 |
| Taxes | 10,816 | 12,182 |
| Taxes receivable restricted for bond principal and interest payments | 15,987 | 17,092 |
| Inventories | 211,037 | 199,263 |
| Prepaid expenses | 48,528 | 70,408 |
| Patient trust fund assets | 5,488 | 6,868 |
| Cash and cash equivalents restricted or limited as to use | 452,696 | 374,693 |
| Total current assets | 4,792,082 | 3,740,074 |
| <i>Noncurrent assets</i> | | |
| Capital assets, net of accumulated depreciation | 7,597,959 | 4,475,472 |
| Cash and cash equivalents restricted as to use | 2,369,616 | 5,350,395 |
| Total noncurrent assets | 9,967,575 | 9,825,867 |
| Total assets | \$ 14,759,657 | \$ 13,565,941 |

See accompanying notes to basic financial statements.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Statements of Net Position (Continued)
December 31, 2016 and 2015

| LIABILITIES AND NET POSITION | 2016 | 2015 |
|--|----------------------|----------------------|
| <i>Current liabilities</i> | | |
| Current maturities of long-term debt | \$ 639,577 | \$ 600,295 |
| Accounts payable | 889,954 | 574,936 |
| Patient refunds payable | 113,316 | 157,255 |
| Estimated third-party payor settlements | 320,739 | - |
| Accrued compensation and related liabilities | 609,952 | 372,468 |
| Accrued interest payable | 39,144 | 42,290 |
| Patient trust fund | 5,488 | 6,868 |
| Total current liabilities | 2,618,170 | 1,754,112 |
| <i>Noncurrent liabilities</i> | | |
| Construction accounts payable | 386,792 | 104,559 |
| Long-term debt, less current maturities | 10,490,718 | 11,030,111 |
| Total noncurrent liabilities | 10,877,510 | 11,134,670 |
| Total liabilities | 13,495,680 | 12,888,782 |
| <i>Net position</i> | | |
| Net investment in capital assets | (888,437) | (1,210,972) |
| Restricted for debt service | 464,488 | 295,046 |
| Unrestricted | 1,687,926 | 1,593,085 |
| Total net position | 1,263,977 | 677,159 |
| Total liabilities and net position | \$ 14,759,657 | \$ 13,565,941 |

See accompanying notes to basic financial statements.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
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 \$127,191 and \$312,155, respectively | \$ 12,990,002 | \$ 11,525,141 |
| Grants | 157,339 | 157,573 |
| Other | 184,590 | 142,618 |
| Total operating revenues | 13,331,931 | 11,825,332 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 6,386,200 | 5,630,670 |
| Employee benefits | 1,109,007 | 1,059,640 |
| Purchased services | 3,563,290 | 2,956,535 |
| Supplies | 1,469,704 | 1,439,268 |
| Depreciation | 695,358 | 771,374 |
| Utilities | 307,729 | 304,460 |
| Insurance | 124,838 | 135,260 |
| Leases and rentals | 69,402 | 27,272 |
| Dues and subscriptions | 34,765 | 48,844 |
| Travel and meetings | 68,191 | 89,767 |
| Licenses | 12,373 | 21,734 |
| Education | 17,631 | 9,806 |
| Advertising | 25,933 | 23,843 |
| Other | 189,116 | 336,883 |
| Total operating expenses | 14,073,537 | 12,855,356 |
| Operating loss | (741,606) | (1,030,024) |
| <i>Nonoperating revenues (expenses)</i> | | |
| Taxation for maintenance and operations | 582,889 | 477,209 |
| Taxation for bond principal and interest | 939,618 | 822,122 |
| Contributions | 74,266 | 77,000 |
| Investment income (loss) | 1,198 | (1,803) |
| Interest expense | (269,547) | (349,860) |
| Total nonoperating revenues (expenses), net | 1,328,424 | 1,024,668 |
| Change in net position | 586,818 | (5,356) |
| Net position, beginning of year | 677,159 | 682,515 |
| Net position, end of year | \$ 1,263,977 | \$ 677,159 |

See accompanying notes to basic financial statements.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------|---------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Receipts from and on behalf of patients | \$ 12,110,607 | \$ 10,884,596 |
| Receipts from operating grants | 157,339 | 157,573 |
| Receipts from other revenue | 184,590 | 142,618 |
| Payments to and on behalf of employees | (7,257,723) | (6,803,863) |
| Payments to suppliers and contractors | (5,557,848) | (4,958,622) |
| Net cash used in operating activities | (363,035) | (577,698) |
| <i>Cash flows from noncapital financing activities</i> | | |
| Taxation for maintenance and operations | 584,255 | 479,585 |
| Noncapital contributions | 74,266 | 77,000 |
| Principal paid on long-term debt | (40,172) | (38,035) |
| Interest paid on long-term debt | (49,103) | (27,930) |
| Net cash provided by noncapital financing activities | 569,246 | 490,620 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Taxation for bond principal and interest | 940,723 | 815,233 |
| Purchase of capital assets | (3,435,384) | (1,031,787) |
| Principal paid on long-term debt | (560,167) | (4,645,331) |
| Interest paid on long-term debt | (223,590) | (308,032) |
| Proceeds from issuance of long-term debt | - | 10,030,000 |
| Net cash provided by (used in) capital and related financing activities | (3,278,418) | 4,860,083 |
| <i>Cash flows from investing activities</i> | | |
| Interest received | 1,198 | (1,803) |
| Net increase (decrease) in cash and cash equivalents | (3,071,009) | 4,771,202 |
| Cash and cash equivalents, beginning of year | 6,940,292 | 2,169,090 |
| Cash and cash equivalents, end of year | \$ 3,869,283 | \$ 6,940,292 |

Noncash Investing, Capital, and Financing Activities

During 2016, the District issued a note payable to General Electric Capital in the amount of \$100,228, for the purchase of an ultrasound machine, which is recorded in construction in process.

See accompanying notes to basic financial statements.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| <i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i> | | |
| Cash and cash equivalents in current assets | \$ 1,046,971 | \$ 1,215,204 |
| Cash and cash equivalents in current assets restricted or limited as to use | 452,696 | 374,693 |
| Cash and cash equivalents in noncurrent assets restricted as to use | 2,369,616 | 5,350,395 |
| Total cash and cash equivalents | \$ 3,869,283 | \$ 6,940,292 |
| <i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</i> | | |
| Operating loss | \$ (741,606) | \$ (1,030,024) |
| <i>Adjustments to reconcile operating loss to net cash used in operating activities</i> | | |
| Provision for bad debts | 127,191 | 312,155 |
| Depreciation | 695,358 | 771,374 |
| Change in: | | |
| Patient accounts receivable | (1,491,315) | (398,100) |
| Estimated third-party payor settlements receivable | 207,929 | (355,929) |
| Workers' compensation dividend receivable | - | 60,471 |
| Inventories | (11,774) | (37,228) |
| Prepaid expenses | 21,880 | 9,147 |
| Accounts payable | 315,018 | 402,660 |
| Patient refunds payable | (43,939) | 2,226 |
| Accrued compensation and related liabilities | 237,484 | (113,553) |
| Estimated third-party payor settlements payable | 320,739 | (200,897) |
| Net cash used in operating activities | \$ (363,035) | \$ (577,698) |

See accompanying notes to basic financial statements.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements
Years Ended December 31, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Columbia County Public Hospital District No. 1 doing business as Columbia County Health System (the District) owns and operates Dayton General Hospital, a 25-bed critical access hospital; Booker Rest Home Annex, a 34-bed nursing home facility; and Columbia Family Clinic; all in Dayton, Washington, and Waitsburg Clinic in Waitsburg, Washington. The District provides healthcare services to patients in the Columbia County and Waitsburg, Washington, areas. The services provided include an acute care hospital, long-term nursing care, emergency room, physicians' clinics, and the related ancillary procedures (laboratory, imaging, therapy, etc.).

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The Board of Commissioners consists of five District residents elected to six-year terms.

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. Estimates also affect the reported amounts of revenue 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 depository account at a bank. Periodically, such cash is transferred to the Columbia County Treasurer, and the warrants are paid by the County Treasurer from this cash fund. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates less than 90 days as cash and cash equivalents.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense. Prepaid expenses include prepaid insurance and other expenses.

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 operation.

Assets limited as to use – Assets limited as to use include assets held under bond indenture agreements for debt repayment and assets set aside by the Board of Commissioners for specific purposes over which the Board retains control and could subsequently use for other purposes.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
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)

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful lives, 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. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Useful lives have been estimated as follows:

| | |
|-------------------------|-------------|
| Land improvements | 10-20 years |
| Buildings | 5-50 years |
| Fixed equipment | 2-15 years |
| Major movable equipment | 2-15 years |

Accrued vacation – The District’s policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum of 256 to 464 hours, depending on years of service. Upon termination, the unused paid time off accrual is cashed out at a rate of one-half earned days. The related liability is accrued during the period in which it is earned.

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

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.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Grants and contributions – From time to time, the District receives grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements 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.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
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)

Subsequent events – The District has evaluated subsequent events through April 14, 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 refunded to it. The District does not have a deposit policy for custodial credit risk.

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

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

The District had investments in the Washington State Local Government Investment Pool of \$0 and \$5,000,000 at December 31, 2016 and 2015, respectively.

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.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

3. Patient Accounts Receivable (continued):

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District were as follows:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Receivables from patients and their insurance carriers | \$ 1,794,046 | \$ 1,572,303 |
| Receivables from Medicare | 1,186,884 | 224,622 |
| Receivables from Medicaid | 230,815 | 168,891 |
| Total patient accounts receivable | 3,211,745 | 1,965,816 |
| Less allowance for uncollectible accounts | 359,186 | 477,381 |
| Patient accounts receivable, net | \$ 2,852,559 | \$ 1,488,435 |

4. Assets Limited as to Use:

Assets limited as to use consisted of the following:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| <i>Current assets</i> | | |
| Restricted under bond agreement for debt service | \$ 448,501 | \$ 277,954 |
| Internally designated by the Board for specific purposes | 4,195 | 96,739 |
| Total current assets | 452,696 | 374,693 |
| <i>Noncurrent assets</i> | | |
| Restricted under bond agreement for capital project | 2,369,616 | 5,350,395 |
| Total assets limited as to use | \$ 2,822,312 | \$ 5,725,088 |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

5. Capital Assets:

Capital assets 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 | \$ 204,226 | \$ - | \$ - | \$ - | \$ 204,226 |
| Construction in progress | 911,569 | 3,374,103 | - | (1,991,551) | 2,294,121 |
| Total capital assets not being depreciated | 1,115,795 | 3,374,103 | - | (1,991,551) | 2,498,347 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 314,052 | - | - | - | 314,052 |
| Buildings | 5,230,084 | - | - | 1,156,702 | 6,386,786 |
| Fixed equipment | 6,144,622 | - | - | 313,298 | 6,457,920 |
| Major movable equipment | 2,320,815 | 443,744 | - | 521,551 | 3,286,110 |
| Total capital assets being depreciated | 14,009,573 | 443,744 | - | 1,991,551 | 16,444,868 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | 263,295 | 8,260 | - | - | 271,555 |
| Buildings | 3,727,483 | 163,188 | - | - | 3,890,671 |
| Fixed equipment | 4,911,241 | 282,438 | - | - | 5,193,679 |
| Major movable equipment | 1,747,877 | 241,474 | - | - | 1,989,351 |
| Total accumulated depreciation | 10,649,896 | 695,360 | - | - | 11,345,256 |
| Total capital assets being depreciated, net | 3,359,677 | (251,616) | - | 1,991,551 | 5,099,612 |
| Capital assets, net of accumulated depreciation | \$ 4,475,472 | \$ 3,122,487 | \$ - | \$ - | \$ 7,597,959 |

Construction in progress at December 31, 2016, relates to the hospital remodel project and an ultrasound machine purchase. The majority of the cost of the remodel project will be financed by the 2015 Unlimited Tax General Obligation Bonds. The remodel project is expected to be completed in December 2017, with an expected cost to complete of approximately \$2,000,000. The ultrasound machine has no additional cost of completion, and is expected to be put into service in March 2017.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

5. Capital Assets (continued):

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

| | Balance December 31, 2014 | Additions | Retirements | Transfers | Balance December 31, 2015 |
|--|---------------------------------|-------------------|--------------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 204,226 | \$ - | \$ - | \$ - | \$ 204,226 |
| Construction in progress | 75,224 | 895,267 | (11,296) | (47,626) | 911,569 |
| Total capital assets not being depreciated | 279,450 | 895,267 | (11,296) | (47,626) | 1,115,795 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 314,052 | - | - | - | 314,052 |
| Buildings | 5,230,084 | - | - | - | 5,230,084 |
| Fixed equipment | 6,182,473 | 31,781 | (69,632) | - | 6,144,622 |
| Major movable equipment | 2,089,850 | 199,485 | (16,146) | 47,626 | 2,320,815 |
| Total capital assets being depreciated | 13,816,459 | 231,266 | (85,778) | 47,626 | 14,009,573 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | 253,033 | 10,262 | - | - | 263,295 |
| Buildings | 3,563,214 | 164,269 | - | - | 3,727,483 |
| Fixed equipment | 4,664,179 | 316,694 | (69,632) | - | 4,911,241 |
| Major movable equipment | 1,467,728 | 280,149 | - | - | 1,747,877 |
| Total accumulated depreciation | 9,948,154 | 771,374 | (69,632) | - | 10,649,896 |
| Total capital assets being depreciated, net | 3,868,305 | (540,108) | (16,146) | 47,626 | 3,359,677 |
| Capital assets, net of accumulated depreciation | \$ 4,147,755 | \$ 355,159 | \$ (27,442) | \$ - | \$ 4,475,472 |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Long-term Debt:

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

| | Balance December 31, 2015 | | | Balance December 31, 2016 | | |
|--|---------------------------------|-------------------|---------------------|---------------------------------|-----------------------------------|--|
| | | Additions | Reductions | | Amounts Due Within One Year | |
| <i>Long-term debt</i> | | | | | | |
| 2007 limited tax general obligation bonds | \$ 626,198 | \$ - | \$ (34,982) | \$ 591,216 | \$ 36,790 | |
| 2014 limited tax general obligation bonds | 1,391,834 | - | (74,507) | 1,317,327 | 78,854 | |
| 2015 limited tax general obligation bonds | 350,000 | - | (65,000) | 285,000 | 69,000 | |
| 2015 unlimited tax general obligation refunding bonds | 3,895,000 | - | (240,000) | 3,655,000 | 250,000 | |
| 2015 unlimited tax general obligation bonds | 5,330,000 | - | (155,000) | 5,175,000 | 165,000 | |
| REA loan | 37,374 | - | (30,850) | 6,524 | 6,524 | |
| General Electric loan | - | 100,228 | - | 100,228 | 33,409 | |
| Total long-term debt | \$ 11,630,406 | \$ 100,228 | \$ (600,339) | \$ 11,130,295 | \$ 639,577 | |

| | Balance December 31, 2014 | | | Balance December 31, 2015 | | |
|--|---------------------------------|----------------------|-----------------------|---------------------------------|-----------------------------------|--|
| | | Additions | Reductions | | Amounts Due Within One Year | |
| <i>Long-term debt</i> | | | | | | |
| 2007 limited tax general obligation bonds | \$ 659,462 | \$ - | \$ (33,264) | \$ 626,198 | \$ 34,938 | |
| 2014 limited tax general obligation bonds | 1,462,236 | - | (70,402) | 1,391,834 | 74,508 | |
| 2015 limited tax general obligation bonds | - | 350,000 | - | 350,000 | 65,000 | |
| 2003 unlimited tax general obligation bonds | 4,091,329 | - | (4,091,329) | - | - | |
| 2015 unlimited tax general obligation refunding bonds | - | 4,180,000 | (285,000) | 3,895,000 | 240,000 | |
| 2015 unlimited tax general obligation bonds | - | 5,500,000 | (170,000) | 5,330,000 | 155,000 | |
| REA loan | 70,745 | - | (33,371) | 37,374 | 30,849 | |
| Total long-term debt | \$ 6,283,772 | \$ 10,030,000 | \$ (4,683,366) | \$ 11,630,406 | \$ 600,295 | |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Long-term Debt (continued):

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

- Limited Tax General Obligation (LTGO) Bonds dated October 17, 2007, in the original amounts of \$875,446, Series 2007A Bond (2007A). The 2007A is due in semiannual installments of \$33,239; including interest at 5.10% through December 2028. The District issued the 2007A for the purposes of paying for the construction of new healthcare facilities.
- Limited Tax General Obligation (LTGO) Bonds dated July 31, 2014, in the original amount of \$1,509,798 are due in semiannual installments of \$76,741, including interest at 5.75% through December 2028. The District issued the 2014 LTGO Bonds for the purposes of paying, redeeming, and refunding the 2007B Bond.
- Public Hospital District No. 1, Columbia and Walla Walla Counties Limited Tax General Obligation Bond, 2015 (2015 LTGO Bond), dated September 15, 2015, in the original amount of \$350,000. The 2015 LTGO Bond is due in semiannual installments from \$69,000 to \$74,000; including interest at 2.5% through December 2020. The District issued the 2015 LTGO Bond to pay for new electronic health records and computer systems.

All LTGO Bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

- Public Hospital District No. 1, Columbia and Walla Walla Counties, Washington Unlimited Tax General Obligation Refunding Bonds 2015 (2015 Refunding Bonds), dated March 12, 2015, in the original amount of \$4,180,000. The bonds are due in varying principal installments from \$250,000 to \$370,000, plus semiannual interest at 3.6% through November 2028. The District issued the bonds to refund the Unlimited Tax General Obligation Bonds dated November 11, 2003.
- Public Hospital District No. 1, Columbia and Walla Walla Counties, Washington Unlimited Tax General Obligation Refunding Bonds 2015 (2015 UTGO Bonds), dated January 13, 2015, in the original amount of \$5,500,000. The bonds are due in varying principal installments from \$165,000 to \$445,000, plus semiannual interest at 4.35% through December 2034. The District issued the bonds to finance the renovation of the hospital and nursing home buildings.

For the 2015 Refunding Bonds and the 2015 UTGO bonds, the District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. The 2015 Refunding Bonds and 2015 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 2015 Refunding Bonds, and the 2015 UTGO Bonds, and a special levy to pay the principal and interest for each. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year on the 2015 Refunding Bonds and the 2015 UTGO Bonds.

- Note payable to the Columbia Rural Electric Association (REA) dated October 24, 2011, in the original amount of \$150,000, payable in monthly installments of \$2,729, including interest at 3.5% through March 10, 2017; secured by property.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Long-term Debt (continued):

- Note payable to General Electric Capital dated December 13, 2016, in the original amount of \$100,228, payable in monthly installments of \$2,784 through December 1, 2019; secured by ultrasound equipment.

UTGO Bond debt is due as follows:

| | UTGO Bonds | | |
|-----------|---------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2017 | \$ 415,000 | \$ 356,693 | \$ 771,693 |
| 2018 | 435,000 | 340,515 | 775,515 |
| 2019 | 455,000 | 323,543 | 778,543 |
| 2020 | 475,000 | 305,738 | 780,738 |
| 2021 | 500,000 | 287,138 | 787,138 |
| 2022-2026 | 2,870,000 | 1,122,345 | 3,992,345 |
| 2027-2031 | 2,415,000 | 542,449 | 2,957,449 |
| 2032-2034 | 1,265,000 | 112,009 | 1,377,009 |
| | \$ 8,830,000 | \$ 3,390,430 | \$ 12,220,430 |

LTGO Bond debt is due as follows:

| | LTGO Bonds | | |
|-----------|---------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 184,644 | \$ 111,443 | \$ 296,087 |
| 2018 | 192,143 | 103,218 | 295,361 |
| 2019 | 201,009 | 94,602 | 295,611 |
| 2020 | 210,262 | 85,550 | 295,812 |
| 2021 | 143,924 | 76,038 | 219,962 |
| 2022-2026 | 850,559 | 249,244 | 1,099,803 |
| 2027-2028 | 411,002 | 28,918 | 439,920 |
| | \$ 2,193,543 | \$ 749,013 | \$ 2,942,556 |

Other scheduled debt service is as follows:

| | Other Long-term Debt | | |
|------|----------------------|--------------|-------------------|
| | Principal | Interest | Total |
| 2017 | \$ 39,933 | \$ 48 | \$ 39,981 |
| 2018 | 33,409 | - | 33,409 |
| 2019 | 33,410 | - | 33,410 |
| | \$ 106,752 | \$ 48 | \$ 106,800 |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

7. Net Patient Service Revenue:

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

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 6,037,711 | \$ 5,170,622 |
| Medicaid | 1,171,075 | 1,223,506 |
| Other third-party payors | 4,188,935 | 3,912,804 |
| Patients | 951,297 | 898,254 |
| ProShare | 427,002 | 223,372 |
| 340b contract pharmacy | 373,860 | 453,127 |
| | 13,149,880 | 11,881,685 |
| Less: | | |
| Charity care | 32,687 | 44,389 |
| Provision for bad debts | 127,191 | 312,155 |
| Net patient service revenue | \$ 12,990,002 | \$ 11,525,141 |

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

- *Medicare* – The District has been designated as a critical access hospital and the clinics as rural health clinics by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Medicaid swing-bed and nursing home services are reimbursed on a prospectively set rate per day. Medicaid rural health clinic services are paid on a prospectively set rate per visit.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

7. Net Patient Service Revenue (continued):

- *Other* – 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, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$236,000 and \$39,000 in the years ended December 31, 2016 and 2015, respectively, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients were approximately \$28,000 and \$40,000 for the years ended December 31, 2016 and 2015, respectively. The District did not receive any gifts or grants to subsidize charity services during 2016 and 2015.

8. Property Taxes:

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

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

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

The District's regular tax levy was \$0.57327 and \$0.57105 per \$1,000 on a total assessed valuation of \$1,016,771,951 and \$828,474,497, for a total regular levy of \$582,889 and \$477,209 in 2016 and 2015, respectively. The District's 2003 UTGO bond levy was \$0.48517 and \$0.51293 per \$1,000 on a total assessed valuation of \$1,010,092,945 and \$828,474,497, for a total bond levy of \$490,067 and \$424,946 in 2016 and 2015, respectively. The District's 2015 UTGO bond levy was \$0.44506 and \$0.47941 per \$1,000 on a total assessed value of \$1,010,092,945 and \$828,474,497, for a total bond levy of \$449,551 and \$397,176 in 2016 and 2015, respectively.

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

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

9. Retirement Plans:

The District has a 401(k) retirement plan and a 457(b) deferred compensation plan covering substantially all of its employees meeting certain eligibility requirements. The plans are defined-contribution plans whereby the District's contribution is based on the salaries of active participants in accordance with the formulas specified in the plans.

A defined-contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined-contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the Columbia County Public Hospital District No. 1 401(k) Profit Sharing Plan (the 401(k) Plan), any full-time employee who has attained age 21 and completed 12 months of service is eligible to participate in the plan. Contributions made by an employee vest immediately and contributions made by the District vest after five years of full-time employment. An employee who leaves the District's employment is entitled to his or her contributions and the District's contributions if vesting requirements are satisfied. As established by the plan, each participant must contribute at least 1% but may contribute up to 100% of his or her gross earnings to the pension plan; subject to an \$18,000 limitation set by law. Employees projected to attain age 50 before the end of a calendar year may defer an additional \$6,000 per year. Employees contributed approximately \$223,000 and \$187,000 for the years ended December 31, 2016 and 2015, respectively. The District may contribute matching contributions, employer discretionary contributions, and/or qualified nonelective contributions. The District contributed approximately \$89,000 and \$68,000 for the years ended December 31, 2016 and 2015, respectively.

As established by the Columbia County Public Hospital District No. 1 457(b) Plan (the 457(b) Plan), any employee may become a participant by executing a participation agreement. Contributions made by an employee vest immediately. Employees contributed approximately \$21,000 and \$20,000 to the 457(b) Plan for the years ended December 31, 2016 and 2015, respectively. The District decides annually whether or not to contribute to this plan. There were no contributions made by the District in either 2016 or 2015.

The plans are administered by the District. The District established the plan provisions and has the authority to amend the plan provisions.

10. Day Trust:

A trust exists from which the District derives actual or potential benefits but is not under the control of the Board of Commissioners and, therefore, is not recorded as an asset of the District. The trustee is Bank of America. Annual revenue of the trust is divided equally between the District and Dayton School District No. 2. The revenue can be spent at the discretion of each entity for its operations. The District's share of the revenue was approximately \$70,000 and \$77,000 for the years ended December 31, 2016 and 2015, respectively.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

11. Risk Management and 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 has its professional liability insurance coverage with Physicians Insurance. The policy provides protection on a “claims made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover “prior acts.” Current coverage is for \$1,000,000 per claim; subject to a \$5,000,000 annual limit, plus an additional \$4,000,000 of annual excess coverage. There is no deductible on this policy.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Risk transfer pools – The District has a self-insured workers’ compensation plan for its employees. The District is a part of the Public Hospital District Workers’ Compensation Trust which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual workers’ compensation claims, maintenance of reserves, and administrative expenses. During 2016 the District recognized a \$112,544 dividend from the Public Hospital District Workers’ Compensation Fund, which was offset against workers’ compensation expense. Workers’ compensation expense, net of dividends, was approximately \$110,000 and \$101,000 in 2016 and 2015, respectively.

The District has a self-insured unemployment plan for its employees. The District is part of the Public Hospital District Unemployment Compensation Fund which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. During 2016, the District received a \$53,233 dividend from the Public Hospital District Unemployment Compensation Fund, which was offset against unemployment expense. Unemployment expense was approximately (\$10,000) and \$53,000 in 2016 and 2015, respectively.

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

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

12. Concentrations of Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Columbia County and Waitsburg, Washington.

The mix of receivables from patients was as follows:

| | 2016 | 2015 |
|--------------------------|--------------|-------------|
| Medicare | 44 % | 14 % |
| Medicaid | 7 | 16 |
| Other third-party payors | 36 | 40 |
| Patients | 13 | 30 |
| | 100 % | 100 % |

Physicians – The District is dependent on local physicians, nurse practitioners, and physician assistants in its services area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of providers providing these services or changes in their utilization patterns may have an adverse effect on hospital services.

13. Subsequent Events:

On February 7, 2017, the District entered into an agreement with GE Capital, for the lease of a Computerized Tomography (CT) scanner. The lease commences on June 1, 2017, and has a term of 60 months. The District will pay \$6,000 per month for the first 12 months of the lease term, and \$4,602 per month for the remaining 48 months.

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
Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Dayton, 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 Columbia County Public Hospital District No. 1 doing business as Columbia County Health System (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 April 14, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control that we consider to be material weaknesses. These deficiencies are described in the accompanying schedule of findings and responses as findings 2016-001, 2016-002, 2016-003 and 2016-004.

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 the 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 result 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
April 14, 2017

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Schedule of Findings and Responses
Year Ended December 31, 2016

2016-001 Cash Reconciliation

| | |
|------------------------------|---|
| Criteria | <p>[] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> <p>Cash accounts should be properly reconciled to bank and County Treasurer statements.</p> |
| Condition | The reconciliations of bank and County Treasurer statements to the general ledger were not being performed. |
| Context | This finding appears to be a systemic problem. |
| Effect | The District is at risk of cash transactions being incorrectly recorded, resulting in inaccurate financial reporting. Inaccurate financial reporting makes decision making by the Board of Commissioners and management difficult. The District is also at an increased risk of fraud occurring and not being detected. |
| Cause | The District did not reconcile the bank and County Treasurer accounts. |
| Recommendation | The District needs to reconcile bank and County Treasurer accounts on a monthly basis and resolve all variances. |
| Management's Response | <p>The District has relied upon the monthly documentation from the County Treasurer to represent our cash picture at month-end. The District currently receives only summary records from the County Treasurer, such as a depiction of the outstanding warrants unpaid at any given month-end. Prior to year-end preparation, we began flagging warrants as cleared within our financial computer system. This provides us with an internally created outstanding warrant listing, based upon Banner Bank activity during the month. The outstanding, issued warrants listing is the key to reconciling our cash.</p> <p>The District will need to have additional banking information supplied by the County Treasurer at the end of each month, in order to complete a traditional reconciliation of the Banner Bank depository account and the Treasurer's cash reports currently being provided. We will work with the Treasurer to obtain all the information we need monthly to complete reconciliations.</p> <p>We will set up a process to complete the reconciliation and track down all variances monthly. Variances may be due to deposits in transit, voided warrants, service fees, transfers in/out, or other reasons.</p> <p>The District is targeting July 1, 2017, to have this reconciliation process refined and in use monthly.</p> |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2016

2016-002 Financial Close and Reporting Process

| | |
|------------------------------|--|
| Criteria | [] Compliance Finding [] Significant Deficiency [X] Material Weakness Monthly financial statements should be completed timely and accurately. |
| Condition | The District does not have processes in place to ensure that monthly financial reports are accurate. |
| Context | This finding appears to be a systemic problem. |
| Effect | The District is at risk of transactions being incorrectly recorded, resulting in inaccurate financial reporting. Inaccurate financial reporting makes decision making by the Board of Commissioners and management difficult. The District is also at an increased risk of fraud occurring and not being detected. |
| Cause | The District does not have a process in place to ensure that statement of net position accounts are reconciled to their appropriate supporting records or external reports on a monthly basis. |
| Recommendation | We recommend that the District develop policies and procedures for the monthly financial statement closing process to ensure the accuracy of the information presented. |
| Management's Response | <p>The District has not been able to maintain an established team in the accounting department for several years. At times, the transitions have been made without in-depth transfers of knowledge and processes. Therefore, the learning curves for incoming staff have been very steep. In addition, just ten months before year-end, a computer conversion was implemented on a very short timetable. Balancing issues caused by the conversion added to the difficulty of producing accurate records. The monthly closing process has been a moving target, with outside reviews, new understanding of the source documents, diminished reliance on the old computer data, and information obtained during the audit period by the District. With so many changes, organization wide, the District's limited resources have been stretched thin on projects not directly related to financial report production.</p> <p>The District does recognize the value of source documents and using the known valuations from period-end statements, amortization and debt schedules, Treasurer's reports, and the like, to help prepare monthly journal adjustments, which will lead to proven balances and accurate monthly activity being reflected in the financials. The District's goal is to create a preparation guide, which can be used by any staff members, to pull the original-source data as it becomes available, and to make the adjusting entries required to match the activity in the source data to the general ledger.</p> |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2016

2016-002 Financial Close and Reporting Process (continued)

***Management's
Response
(continued)***

In addition, the automated journal postings, such as the statistical counts and gross charges, will also require some review and monthly checks and balances. These reviews will also need documentation and processes, so the District can be assured the automated entries are accurate and truly reflect the activities in the revenue cycle, patient billing, and patient and non-patient cash.

This preparation guide should be a perpetual document, incorporating checkpoints and balancing processes as they are now and as they are discovered over time. District staff continue to work with several outside parties, who have come along side us to assist with report writing, billing and collection, and coding. Any of these associates can also discover improvements to processes and give us actionable information to improve our reviews and processes.

The District's goal is to have the established and known processes documented, and in use, by the end of July 2017. Ongoing, from now forward, we will be reviewing those items which are not well documented, and incorporate them into the processes. This is especially for the balances and activity related to account changes created within our computer system, in ongoing process improvement.

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2016

2016-003 Patient Accounts Receivable Unapplied Payments

| | |
|------------------------------|--|
| Criteria | [] Compliance Finding [] Significant Deficiency [X] Material Weakness Payments received should be posted to their correct accounts. |
| Condition | There were significant credit balances in accounts receivable related to unapplied payments and misapplied payments from non-patient payors. |
| Context | This finding appears to be a systemic problem. |
| Effect | The District is at risk of patient accounts receivable, third-party payor settlements, and related revenue accounts being incorrectly recorded. |
| Cause | The District has outsourced portions of the revenue cycle to Imaging Business Associates, LLC (CBO). Cash receipts are posted by CBO to the accounts receivable system within Meditech. Several payments that were not associated with patient accounts, such as settlement payments with Medicaid, were recorded as credit balances to accounts receivable. There were also several issues noted during the conversion of the District's accounting software to Meditech, which have caused an increase in unapplied payments to patient accounts receivable. |
| Recommendation | We recommend that the District develop policies and procedures related to payment postings that are not associated with patient accounts, to ensure accurate financial reporting. |
| Management's Response | <p>The District changed computer systems on March 1, 2016, which paralleled bringing in CBO to do our billing and patient account posting. Jointly, we established a policy for non-patient posting. For routine activities, that policy seemed to suffice. Over the few months between December 2016, and March 2017, it became clear that the policy was not all-encompassing enough. Recently, we have been working with our computer company and CBO, to delve further into the posting of non-patient specific receipts (and take backs).</p> <p>The District, and the billing partners at CBO, are recognizing the shortcomings in the process in place and will have a more effective process, policy and plan in place soon. It has been determined that the unapplied payments, within the billing system, post to accounts receivable, even though they are not patient related. The solution for this problem is still being resolved. We will create a more effective policy, with notification time limits from the District to the CBO and back, over the next few weeks, as we define the improved methodology.</p> |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2016

2016-004 Auditor Detected Journal Entries

| | |
|------------------------------|--|
| Criteria | <p>[] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> <p>The general ledger should be materially accurate prior to the start of audit procedures.</p> |
| Condition | <p>During the audit process, numerous adjusting journal entries were proposed by the audit team to achieve accurate account balances. Material adjustments were made to correct cash, long-term debt, accrued interest and related expense, patient accounts receivable, third party settlements, and accounts payable.</p> |
| Context | <p>This finding appears to be a systemic problem.</p> |
| Effect | <p>The District is at risk of transactions being incorrectly recorded, resulting in inaccurate financial reporting. Inaccurate financial reporting makes decision making by the Board of Commissioners and management difficult. The District is also at an increased risk of fraud occurring and not being detected.</p> |
| Cause | <p>The District should develop processes to ensure that general ledger accounts agree to supporting documents on a monthly basis.</p> |
| Recommendation | <p>The District should develop policies and procedures to ensure that all transactions are properly recorded.</p> |
| Management's Response | <p>The completeness and accuracy of the monthly, and year-end, financial statements, are directly related to the issues involved in finding 2016-002. Improvements in the knowledge and methodology create efficiency in processes. Those efficiencies and accuracy will speed up the closing processes and improve the correctness of the financial statements. As District staff utilize the processes and steps involved in the financial statement preparation guide, (noted in management's response to finding 2016-002), the resultant financial statement will be more accurate at any given month and staff will not need to do as much year-end work to pick up errors and omissions in the financial inputs throughout the year.</p> <p>The District will be developing policies and processes to improve the accuracy and speed of the preparation of the many journal entries required to prepare monthly financial statements. In addition, we will create a worksheet and process to track non-patient payments, both receivable and received. This would be for third-party settlements, receivable and payable, with the effect of having appropriate accruals for the related revenue, expense and statement of net position items for matching the activity to the proper accounting period.</p> <p>This is ongoing and will improve monthly.</p> |

Columbia County Public Hospital District No. 1
doing business as Columbia County Health System
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2016

2013-001 Auditor Detected Journal Entries – Repeated as 2014-001, 2015-003 and 2016-004

2013-002 Revenue Cycle – Repeated as 2014-002 and 2015-001, Resolved in 2016

2013-003 Internal Controls – Repeated as 2014-003 and 2015-002, Resolved in 2016

2014-004 Bank Reconciliations – Repeated as 2015-003 and 2016-001