



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

March 19, 2018

Board of Commissioners  
Three Rivers Hospital  
Brewster, 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 Three Rivers Hospital'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,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

**Okanogan-Douglas Counties  
Public Hospital District No. 1  
doing business as  
Three Rivers Hospital**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2016 and 2015



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Okanogan-Douglas Counties Public Hospital District No. 1  
doing business as Three Rivers Hospital  
Table of Contents**

	<b>Page</b>
<i>INDEPENDENT AUDITORS' REPORT</i>	1-2
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	3-4
Statements of revenues, expenses, and changes in net position	5
Statements of cash flows	6-7
Notes to basic financial statements	8-21
<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>	22-23
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	24



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Okanogan-Douglas Counties Public Hospital District No. 1  
doing business as Three Rivers Hospital  
Brewster, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Okanogan-Douglas Counties Public Hospital District No. 1 doing business as Three Rivers Hospital (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.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the District has shown consecutive operating losses in 2016 and 2015. The District relies on registered warrants to cover operating expenses. Those factors create an uncertainty about the District's ability to continue operations and continue as a going concern. Our opinion is not modified with respect to this matter.

## **Other Matters**

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 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 7, 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 May 9, 2016, which has not been included with the 2016 financial 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, 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 7, 2017

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**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	\$ 148,777	\$ 257,139
Receivables:		
Patient accounts, net of estimated uncollectibles of \$1,011,000 and \$1,288,000, respectively	1,645,643	1,854,383
Taxes	102,663	98,345
Electronic health records incentive receivable	151,561	265,583
Estimated third-party payor settlements	100,898	264,142
Other	1,782	104,635
Inventories	192,133	206,563
Prepaid expenses	96,884	88,852
Total current assets	<b>2,440,341</b>	3,139,642
<i>Noncurrent assets</i>		
Capital assets, net of accumulated depreciation	2,125,178	1,985,572
<b>Total assets</b>	<b>\$ 4,565,519</b>	<b>\$ 5,125,214</b>

*See accompanying notes to basic financial statements.*

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Statements of Net Position (Continued)**  
**December 31, 2016 and 2015**

<b>LIABILITIES AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<i>Current liabilities</i>		
Registered warrants outstanding in excess of cash	\$ 567,634	\$ 1,564,727
Accounts payable	634,622	662,290
Current maturities of long-term debt obligations	34,253	-
Current maturities of capital lease obligations	216,047	104,102
Accrued compensation and related liabilities	247,468	200,775
Accrued leave	436,325	490,193
Estimated third-party payor settlements	100,001	-
Total current liabilities	2,236,350	3,022,087
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	188,703	-
Capital lease obligations, less current maturities	459,119	382,010
Total noncurrent liabilities	647,822	382,010
Total liabilities	2,884,172	3,404,097
<i>Net position</i>		
Invested in capital assets, net of related debt	1,227,056	1,499,460
Unrestricted	454,291	221,657
Total net position	1,681,347	1,721,117
<b>Total liabilities and net position</b>	<b>\$ 4,565,519</b>	<b>\$ 5,125,214</b>

*See accompanying notes to basic financial statements.*

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$603,000 and \$830,000, respectively	\$ 11,171,989	\$ 11,516,455
Electronic health records incentive payment	151,561	265,583
Grants	44,685	48,306
Other	64,813	56,721
<b>Total operating revenues</b>	<b>11,433,048</b>	<b>11,887,065</b>
<i>Operating expenses</i>		
Salaries and wages	6,108,584	6,417,941
Employee benefits	1,084,041	1,243,353
Medical and other supplies	1,172,937	1,236,781
Purchased services	2,788,963	2,239,993
Utilities	169,474	162,863
Repairs and maintenance	364,295	310,913
Rentals and leases	197,941	197,434
Depreciation and amortization	444,721	411,738
Insurance	100,685	118,730
Other	306,059	279,051
<b>Total operating expenses</b>	<b>12,737,700</b>	<b>12,618,797</b>
<i>Operating loss</i>	<b>(1,304,652)</b>	<b>(731,732)</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	1,319,181	1,334,788
Contributions	30,953	41,647
Interest expense	(85,252)	(95,047)
<b>Total nonoperating revenues, net</b>	<b>1,264,882</b>	<b>1,281,388</b>
Change in net position	(39,770)	549,656
Net position, beginning of year	1,721,117	1,171,461
<b>Net position, end of year</b>	<b>\$ 1,681,347</b>	<b>\$ 1,721,117</b>

*See accompanying notes to basic financial statements.*

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 11,733,574	\$ 11,510,140
Receipts from grants	44,685	48,306
Electronic health records incentive payment	265,583	-
Other receipts	78,066	143,366
Payments to and on behalf of employees	(7,199,800)	(7,602,614)
Payments to suppliers and contractors	(5,121,624)	(4,320,157)
Net cash used in operating activities	<b>(199,516)</b>	<b>(220,959)</b>
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	1,314,863	1,330,443
Interest paid on outstanding warrants	(47,846)	(63,877)
Principal paid on short-term debt	-	(269,874)
Interest paid on short-term debt	-	(6,071)
Medicare extended repayment plan	-	(196,266)
Contributions	30,953	41,647
Payment of registered warrants outstanding in excess of cash	(997,093)	(375,773)
Net cash provided by noncapital financing activities	<b>300,877</b>	<b>460,229</b>
<i>Cash flows from capital and related financing activities</i>		
Principal paid on long-term debt and capital lease obligations	(154,417)	(100,056)
Interest paid on long-term debt and capital lease obligations	(37,406)	(25,099)
Proceeds from issuance of long-term debt	225,202	-
Purchase of capital assets	(243,102)	(42,475)
Net cash used in capital and related financing activities	<b>(209,723)</b>	<b>(167,630)</b>
Net increase (decrease) in cash and cash equivalents	<b>(108,362)</b>	<b>71,640</b>
Cash and cash equivalents, beginning of year	<b>257,139</b>	<b>185,499</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 148,777</b>	<b>\$ 257,139</b>

*See accompanying notes to basic financial statements.*

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b><i>Reconciliation of Operating Loss to Net Cash</i></b>		
<b><i>Used in Operating Activities</i></b>		
Operating loss	\$ (1,304,652)	\$ (731,732)
<i>Adjustments to reconcile operating loss to net cash</i>		
<i>used in operating activities</i>		
Physician loan forgiveness	<b>89,600</b>	-
Depreciation and amortization	<b>444,721</b>	411,738
Provision for bad debts	<b>603,297</b>	829,904
Decrease (increase) in assets:		
Receivables:		
Patient accounts receivable, net	<b>(394,557)</b>	(1,131,033)
Electronic health records incentive receivable	<b>114,022</b>	(265,583)
Estimated third-party payor settlements	<b>163,244</b>	294,814
Other	<b>13,253</b>	86,645
Inventories	<b>14,430</b>	(2,081)
Prepaid expenses	<b>(8,032)</b>	(2,464)
Increase (decrease) in liabilities:		
Accounts payable	<b>(27,668)</b>	230,153
Accrued compensation and related liabilities	<b>46,693</b>	(6,404)
Accrued leave	<b>(53,868)</b>	65,084
Estimated third-party payor settlements	<b>100,001</b>	-
<b>Net cash used in operating activities</b>	<b>\$ (199,516)</b>	<b>\$ (220,959)</b>

***Noncash Capital and Related Financing Activities***

The District financed \$341,225 of equipment through a capital lease agreement with Stryker Flex Financial in 2016.

In 2015, the District financed \$340,277 of equipment through a capital lease agreement with Toshiba America Medical Credit.

*See accompanying notes to basic financial statements.*

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity, Declining Financial Position, and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Okanogan-Douglas Counties Public Hospital District No. 1 doing business as Three Rivers Hospital (the District) operates a 25-bed acute care hospital and a physician clinic. The District provides healthcare services to patients in the Brewster, Washington, area. The services provided include acute care hospital, emergency room, physician clinic, and the related ancillary procedures (laboratory, imaging, therapy, etc.) associated with those services.

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

**b. Declining Financial Position**

The District has shown consecutive net operating losses since 2013. Due to these losses, the District relies on registered warrants to cover operating expenses. On December 31, 2016, the District's outstanding balance of registered warrants was \$567,634. Continued operating losses create an uncertainty about the District's ability to continue operations and continue as a going concern. The financial statements do not include any adjustments that might be necessary if the District is unable to continue.

The District's management has implemented a number of measures to reduce operating expenses and has plans to implement additional measures to further reduce expenses and increase revenues. The District has reduced operating expenses related to salaries, wages, and benefits through staff reductions and by aligning staffing with daily volumes. Full-time equivalents for fiscal year 2016 were approximately 86, down from 88 and 94 in 2015 and 2014, respectively. In 2015, the District brought in a new physician group to staff the emergency department to provide more consistent and higher quality care and increase volumes. In 2016 gross revenue remained constant despite the significant decrease in surgeries. Surgeries represent a significant revenue stream and source of referrals for the District. The District's surgeon group ceased operations in 2016. However the District has retained a surgeon to start in January 2017. The District has a strategic plan that includes expense monitoring, staffing goals, revenue generating opportunities, building and equipment needs, and patient and staff satisfaction goals. The strategic plan is monitored and adjusted regularly by management. The District's management expects the strategic plan to improve the District's financial position and to allow the District to continue to reduce its registered warrants over the next few years.

**c. 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.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity, Declining Financial Position, and Summary of Significant Accounting Policies (continued):**

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

*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 into a depository bank account. These funds are transferred to the Okanogan County Treasurer (County Treasurer) twice a week. The County Treasurer acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

*Capital assets* – Capital assets are defined by the District as assets with initial individual cost of more than \$5,000. Capital assets are recorded at historical cost. Donations are recorded at estimated fair value at the date of donation. Assets under capital lease obligations are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

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

Buildings and improvements	20 to 40 years
Land improvements	15 to 20 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years

*Compensated absences* – The District’s policy is to permit employees to accumulate earned but unused sick leave up to a maximum of 480 hours. The District had two options available to its employees. Under option A, employees are not paid for the first 16 hours of sick leave taken unless hospitalized. Under this option, accumulated but unused sick leave hours are paid out to employees upon termination of employment provided they have been continuously employed for five years. Under option B, employees are paid for all hours taken; however, accumulated but unused sick leave hours are not paid out to employees upon termination. Option A is no longer available to new employees.

Sick leave benefits under option A are accrued and expensed when earned. Sick leave benefits under option B are expensed when taken.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity, Declining Financial Position, and Summary of Significant Accounting Policies (continued):**

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

*Compensated absences (continued)* – The District permits employees to accumulate paid vacation benefits based on the average number of hours worked per week and the number of years of service. The maximum amount an employee may accrue during a one-year period is 160 hours. No paid vacation benefits are accrued during the first year of employment. Vacation accrued in one year must be used by the end of the following year. Paid vacation is paid out at the employee’s termination. All paid vacation benefits are accrued and expensed when earned.

*Investment in joint venture* – The District entered into an agreement with Okanogan County Public Hospital District No. 3 doing business as Mid Valley Hospital to form Caribou Trail Professional Medical Services Group, LLC, a limited liability company (the Company). The Company discontinued operations in fiscal year 2016. The Company provided orthopedic physician services. The District accounted for the joint venture based on the cost method. The District’s liability is limited to the amount of its investment and the District wrote off their initial investment in the Company in prior years. The District is unlikely to receive any funds as a result of the dissolution of the Company, as the Company had sustained significant losses in prior years.

*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.

*Net position* – Net position of the District is classified into three components. *Net position invested in capital assets net of related debt* 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 *invested in capital assets net of related debt* or *restricted*. The District did not have any *restricted net position* in 2016 or 2015.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity, Declining Financial Position, and Summary of Significant Accounting Policies (continued):**

**c. 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.

*Inventories* – Inventories of medical and other supplies are stated at cost (on the first-in, first-out method) which is considered lower than market price.

*Subsequent events* – Subsequent events have been reviewed through April 7, 2017, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Registered Warrants Outstanding:**

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 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.

At December 31, 2016, the amount of warrants outstanding was \$567,634, of which all were registered warrants and bore interest of 3.50%. At December 31, 2015, the amount of warrants outstanding was \$1,564,727, of which all were registered warrants and bore interest of 3.25%.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**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 has not changed significantly from 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 consisted of the following amounts:

	<b>2016</b>	<b>2015</b>
Receivables from patients and their insurance carriers	\$ 1,771,169	\$ 2,308,316
Receivables from Medicare	367,839	480,250
Receivables from Medicaid	517,635	353,817
Total patient accounts receivable	<b>2,656,643</b>	3,142,383
Less allowance for uncollectible accounts	<b>1,011,000</b>	1,288,000
<b>Patient accounts receivable, net</b>	<b>\$ 1,645,643</b>	<b>\$ 1,854,383</b>

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Property Taxes:**

The Okanogan and Douglas County Treasurers act as agents to collect property taxes levied in the counties for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the Okanogan and Douglas County Assessors 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 Treasurers.

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.

For 2016, the District's regular tax levies for Okanogan County and Douglas County were \$0.62 per \$1,000 on a total assessed valuation of \$1,842,470,503, for a total regular levy of \$1,144,673, and \$0.62 per \$1,000 on a total assessed valuation of \$237,800,559, for a total regular levy of \$147,739, respectively.

For 2015, the District's regular tax levies for Okanogan County and Douglas County were \$0.63 per \$1,000 on a total assessed valuation of \$1,810,966,502, for a total regular levy of \$1,143,958, and \$0.63 per \$1,000 on a total assessed valuation of \$224,657,436, for a total regular levy of \$141,913, 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.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Capital Assets:**

Capital asset activity for the year ended December 31, 2016, follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 10,750	\$ -	\$ -	\$ -	\$ 10,750
Construction in progress	-	8,623	-	-	8,623
Total capital assets not being depreciated	10,750	8,623	-	-	19,373
<i>Capital assets being depreciated</i>					
Buildings and improvements	3,703,130	-	-	-	3,703,130
Land improvements	272,450	-	-	-	272,450
Fixed equipment	1,432,191	-	-	-	1,432,191
Movable equipment	4,880,577	575,704	(9,930)	-	5,446,351
Total capital assets being depreciated	10,288,348	575,704	(9,930)	-	10,854,122
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(2,965,944)	(100,646)	-	-	(3,066,590)
Land improvements	(272,078)	(211)	-	-	(272,289)
Fixed equipment	(1,329,384)	(18,510)	-	-	(1,347,894)
Movable equipment	(3,746,120)	(325,354)	9,930	-	(4,061,544)
Total accumulated depreciation	(8,313,526)	(444,721)	9,930	-	(8,748,317)
<i>Total capital assets being depreciated, net</i>	1,974,822	130,983	-	-	2,105,805
<b>Capital assets, net</b>	<b>\$ 1,985,572</b>	<b>\$ 139,606</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,125,178</b>

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

Capital assets activity for the year ended December 31, 2015, follows:

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 10,750	\$ -	\$ -	\$ -	\$ 10,750
Construction in progress	8,972	-	-	(8,972)	-
Total capital assets not being depreciated	19,722	-	-	(8,972)	10,750
<i>Capital assets being depreciated</i>					
Buildings and improvements	3,703,130	-	-	-	3,703,130
Land improvements	272,450	-	-	-	272,450
Fixed equipment	1,432,191	-	-	-	1,432,191
Movable equipment	5,074,334	382,752	(585,481)	8,972	4,880,577
Total capital assets being depreciated	10,482,105	382,752	(585,481)	8,972	10,288,348
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(2,864,764)	(101,180)	-	-	(2,965,944)
Land improvements	(271,866)	(212)	-	-	(272,078)
Fixed equipment	(1,310,587)	(18,797)	-	-	(1,329,384)
Movable equipment	(4,040,052)	(291,549)	585,481	-	(3,746,120)
Total accumulated depreciation	(8,487,269)	(411,738)	585,481	-	(8,313,526)
Total capital assets being depreciated, net	1,994,836	(28,986)	-	8,972	1,974,822
Capital assets, net	\$ 2,014,558	\$ (28,986)	\$ -	\$ -	\$ 1,985,572

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**6. Long-term Debt and Capital Lease Obligations:**

Schedules of changes in the District's long-term debt and capital lease obligations follow:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amount Due Within One Year
<i>Long-term debt</i>					
GE Government Finance, Inc.	\$ -	\$ 225,202	\$ (2,246)	\$ 222,956	\$ 34,253
<i>Capital lease obligations</i>					
	486,112	341,225	(152,171)	675,166	216,047
<b>Total noncurrent liabilities</b>	<b>\$ 486,112</b>	<b>\$ 566,427</b>	<b>\$ (154,417)</b>	<b>\$ 898,122</b>	<b>\$ 250,300</b>

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amount Due Within One Year
<i>Capital lease obligations</i>					
	\$ 245,891	\$ 340,277	\$ (100,056)	\$ 486,112	\$ 104,102

**GE Equipment Loan** – The District entered into a \$225,202 loan agreement with GE Government Finance, Inc., for patient monitoring equipment due in monthly installments of \$3,496. The loan carries a 3.72% interest rate through November 2022.

**Capital lease obligations** – The District has multiple capital lease obligations with varying rates of imputed interest from 4.33% to 20.97%, collateralized by capital. At December 31, 2016, the capitalized cost and accumulated amortization of the capital lease obligations were \$1,420,481 and \$365,850, respectively. At December 31, 2015, the capitalized cost and accumulated amortization of the capital lease obligations were \$1,079,256 and \$183,490, respectively.

Scheduled principal and interest repayments are as follows:

Years Ending December 31,	Long-term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 34,253	\$ 7,696	\$ 41,949	\$ 216,047	\$ 37,163	\$ 253,210
2018	35,549	6,400	41,949	202,400	26,936	229,336
2019	36,894	5,055	41,949	200,676	11,668	212,344
2020	38,291	3,658	41,949	56,043	1,105	57,148
2021	39,739	2,210	41,949	-	-	-
2022	38,230	705	38,935	-	-	-
	<b>\$ 222,956</b>	<b>\$ 25,724</b>	<b>\$ 248,680</b>	<b>\$ 675,166</b>	<b>\$ 76,872</b>	<b>\$ 752,038</b>

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**7. Operating Lease:**

The District is committed under a noncancellable operating lease for pharmaceutical equipment. Future minimum operating lease commitments are as follows:

<b>Years Ending December 31,</b>	<b>Total</b>
2017	\$ 49,578
2018	49,578
2019	49,578
2020	49,578
2021	12,395
<b>Total future minimum lease payments</b>	<b>\$ 210,707</b>

**8. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated, or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly from prior years. 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	\$ 4,187,140	\$ 4,270,361
Medicaid	3,756,602	3,345,756
Other third-party payors	2,945,849	3,518,531
Supplemental payment programs	247,426	144,795
Patients	1,334,656	1,430,792
	<b>12,471,673</b>	<b>12,710,235</b>
Less:		
Charity care	696,387	363,876
Provision for bad debts	603,297	829,904
<b>Net patient service revenue</b>	<b>\$ 11,171,989</b>	<b>\$ 11,516,455</b>

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

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

- *Medicare* – The hospital has been designated a critical access hospital and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The Medicare program’s administrative procedures preclude final determination of amounts due to the District for such services until three years after the District’s cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.
- *Medicaid* – Reimbursement for most inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. Physician services are reimbursed on a fee schedule.
- *Other* – The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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 \$56,000 and \$3,000 for the years ended December 31, 2016 and 2015, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts as 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 \$442,000 and \$235,000, respectively. The District received disproportionate share hospital payments from the state of Washington to subsidize charity services provided for the years ended December 31, 2016 and 2015, totaling approximately \$247,000 and \$145,000, respectively.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

The District recognized Medicaid electronic health records (EHR) incentive payments during the year ended December 31, 2016. EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period. The District attested to phase one of meaningful use with Centers for Medicare and Medicaid Services (CMS) on September 30, 2012. The Medicare EHR reporting period is through December 31 of each year.

The Medicare incentive payment recognized is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on days reported in the current Medicare cost report. A Medicare incentive receivable of \$63,501 was recognized in 2015. The Medicare EHR incentive program ended in 2015.

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 final Medicaid incentive payment of \$151,561 was recognized as revenue in 2016.

**10. Retirement Plans:**

The District provides pension benefits through the Okanogan-Douglas County Hospital Retirement Plan (the Plan), a defined contribution plan for all employees upon completion of three months of employment under Section 401(k) of the Internal Revenue Code. This plan is administered by Randall & Hurley, Inc. In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the District to the plan plus investment earnings. Employees are eligible to participate after sixty days of service if they agree to contribute 5% of their compensation to the Plan. The District contributes a 3% match to the Plan on behalf of employees who contribute 5% of their compensation to the Plan. The contributions are vested at 20% after two years of service with graduated increases until vesting reaches 100% after six years of service. Benefit terms, including contribution requirements for the Plan, are established and may be amended by the District.

District contributions and interest that are not yet vested under the graduated schedule are forfeited by employees who leave employment before six years of service and are used to reduce the District's current period contribution requirement. Forfeitures were approximately \$33,000 and \$0 for 2016 and 2015, respectively. The District made the required contributions of approximately \$149,000 and \$109,000 for 2016 and 2015, respectively. The District's employees contributed approximately \$245,000 and \$244,000 for 2016 and 2015, respectively.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**10. Retirement Plans (continued):**

The District also provides the Deferred Compensation Plan of Okanogan-Douglas County Hospital, a deferred compensation plan, to all employees, under Section 457(b) of the Internal Revenue Code. This plan is administered by Randall & Hurley, Inc. The deferred compensation plan is funded solely from employee contributions, which are deposited into a trust fund. The District's employees contributed approximately \$74,000 and \$62,000 for 2016 and 2015, respectively. Benefit terms, including contribution requirements for the Plan, are established and may be amended by the District.

**11. Risk Management and Contingencies:**

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

**Medical malpractice claims** – The District purchases malpractice liability insurance through Physicians Insurance. The Physicians Insurance 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 policies. 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. There is no deductible associated with the current malpractice policy.

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.

**Risk transfer pools** – The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both trusts are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation and unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Total unemployment insurance expense was approximately \$35,000 and \$50,000 in 2016 and 2015, respectively. During 2016 and 2015, the District recognized \$97,000 and \$77,000 of dividends, respectively, from the Public Hospital District Workers' Compensation Trust, which were used to reduce payments charged to workers' compensation expense. Total workers' compensation benefits expense, net of dividends, was approximately \$4,000 and \$26,000 in 2016 and 2015, respectively.

**Okanogan-Douglas Counties Public Hospital District No. 1**  
**doing business as Three Rivers Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**11. Risk Management and 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 known or unasserted at this time.

**12. Concentration of Risk:**

*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 Okanogan and Douglas Counties.

The mix of receivables from patients was as follows:

	<b>2016</b>	<b>2015</b>
Medicare	<b>17 %</b>	19 %
Medicaid	<b>28</b>	14
Other third-party payors	<b>16</b>	20
Patients	<b>39</b>	47
	<b>100 %</b>	100 %

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

*Collective bargaining unit* – Effective November 2015, the District renewed a collective bargaining agreement (the agreement) with United Food and Commercial Workers Union Local No. 21. The agreement shall remain in effect until October 31, 2018, and annually thereafter unless either party serves notice on the other to amend or terminate the agreement by giving written notice to the other party not less than ninety days in advance of the expiration date. The union covered 29% and 26% of the District’s employees as of December 31, 2016 and 2015, respectively.



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  
Okanogan-Douglas Counties Public Hospital District No. 1  
doing business as Three Rivers Hospital  
Brewster, 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 Okanogan-Douglas Counties Public Hospital District No. 1 doing business as Three Rivers Hospital (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 7, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 7, 2017

**Okanogan-Douglas Counties Public Hospital District No. 1  
doing business as Three Rivers Hospital  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2016**

**2015-001 Accounting of Inventory – Resolved in 2016**