



Office of the Washington State Auditor
Pat McCarthy

March 19, 2018

Board of Commissioners
Coulee Medical Center
Grand Coulee, Washington

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

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Coulee Medical Center's financial statements and compliance with federal grant requirements 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 or the compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2016 and 2015



DINGUS | ZARECOR & ASSOCIATES ^{PLLC}
Certified Public Accountants

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 doing business as Coulee Medical Center (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the combined basic financial statements, which collectively comprise the District's combined basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our 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 combined financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 10 to the financial statements, the District has recurring significant net losses and has significant registered warrants outstanding that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 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 19, 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
May 15, 2017

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Net Position
December 31, 2016 and 2015**

ASSETS	2016	2015
<i>Current assets</i>		
Cash and cash equivalents	\$ 263,872	\$ 902,533
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$1,011,000 and \$1,166,000, respectively	2,585,457	2,237,122
Estimated third-party payor settlements	680,000	56,587
Taxes	17,001	-
Build America Bonds subsidy	71,690	146,516
Other	62,000	20,614
Inventories	471,603	451,200
Prepaid expenses	543,788	353,160
Total current assets	4,695,411	4,167,732
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by debt agreement	2,111,326	2,543,371
Cash and cash equivalents internally designated for capital acquisitions	160,852	160,852
Capital assets, net	17,567,711	19,593,365
Total noncurrent assets	19,839,889	22,297,588
Total assets	\$ 24,535,300	\$ 26,465,320

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Net Position (Continued)
December 31, 2016 and 2015**

LIABILITIES AND NET POSITION	2016	2015
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 526,043	\$ 491,751
Registered warrants outstanding	2,393,237	-
Accounts payable	1,435,299	866,704
Accrued compensation and related liabilities	649,145	639,387
Accrued vacation	522,084	506,863
Accrued professional liability insurance reserve	294,962	310,868
Estimated third-party payor settlements	309,935	29,612
Total current liabilities	6,130,705	2,845,185
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	19,544,916	20,070,960
Total liabilities	25,675,621	22,916,145
<i>Net position</i>		
Net investment in capital assets	(2,431,558)	(822,830)
Restricted for debt service	2,111,326	2,543,371
Unrestricted	(820,089)	1,828,634
Total net position	(1,140,321)	3,549,175
Total liabilities and net position	\$ 24,535,300	\$ 26,465,320

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$893,442 and \$851,243, respectively	\$ 23,841,954	\$ 21,641,162
Grants	66,584	29,361
Other	318,632	256,511
Total operating revenues	24,227,170	21,927,034
<i>Operating expenses</i>		
Salaries and wages	12,822,412	11,255,581
Employee benefits	2,698,531	2,366,251
Professional fees	870,865	791,929
Purchased services	3,282,313	2,241,216
Supplies	2,062,130	1,970,663
Utilities	357,874	355,983
Repairs and maintenance	553,639	505,106
Rentals and leases	348,423	186,431
Depreciation	1,636,160	1,965,943
Insurance	119,124	334,794
Other	711,246	699,654
Total operating expenses	25,462,717	22,673,551
<i>Operating loss</i>	(1,235,547)	(746,517)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	175,140	158,351
Contributions	33,567	45,217
Build America Bond subsidy	432,732	441,473
Investment income	12,584	49,627
Interest expense	(1,419,924)	(1,408,972)
Total nonoperating expenses, net	(765,901)	(714,304)
<i>Loss on abandonment of information system implementation</i>	(2,688,048)	-
Change in net position	(4,689,496)	(1,460,821)
Net position, beginning of year	3,549,175	5,009,996
Net position, end of year	\$ (1,140,321)	\$ 3,549,175

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 23,150,529	\$ 21,164,479
Cash received from other revenue	277,246	260,552
Cash received from grants	66,584	29,361
Cash paid to and on behalf of employees	(15,495,964)	(13,530,928)
Cash paid to suppliers and contractors	(7,963,956)	(7,173,728)
Net cash provided by operating activities	34,439	749,736
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	158,139	162,586
Contributions	33,567	20,217
Net change in registered warrants outstanding	2,393,237	-
Net cash provided by noncapital financing activities	2,584,943	182,803
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(491,752)	(479,696)
Interest paid on long-term debt	(1,419,924)	(1,408,972)
Cash received from Build America Bonds subsidy	507,558	821,300
Purchase of capital assets	(2,298,554)	(896,129)
Net cash used in capital and related financing activities	(3,702,672)	(1,963,497)
<i>Cash flows from investing activities</i>		
Investment income	12,584	49,627
Net decrease in cash and cash equivalents	(1,070,706)	(981,331)
Cash and cash equivalents, beginning of year	3,606,756	4,588,087
Cash and cash equivalents, end of year	\$ 2,536,050	\$ 3,606,756

See accompanying notes to combined basic financial statements

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Combined Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 263,872	\$ 902,533
Cash and cash equivalents restricted by debt agreement	2,111,326	2,543,371
Cash and cash equivalents internally designated for capital acquisitions	160,852	160,852
Total cash and cash equivalents	\$ 2,536,050	\$ 3,606,756
<i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i>		
Operating loss	\$ (1,235,547)	\$ (746,517)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation	1,636,160	1,965,943
Provision for bad debts	893,442	851,243
Decrease (increase) in current assets:		
Receivables:		
Patient accounts, net	(1,241,777)	(1,021,561)
Estimated third-party payor settlements	(623,413)	1,085,152
Other	(41,386)	4,041
Inventories	(20,403)	(17,224)
Prepaid expenses	(190,628)	(162,650)
Increase (decrease) in liabilities:		
Accounts payable	568,595	55,054
Accrued compensation and related liabilities	9,758	(5,319)
Accrued vacation	15,221	96,223
Accrued professional liability insurance reserve	(15,906)	36,868
Estimated third-party payor settlements	280,323	(1,391,517)
Net cash provided by operating activities	\$ 34,439	\$ 749,736

See accompanying notes to combined basic financial statements.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements
Years Ended December 31, 2016 and 2015**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

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

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

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

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

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

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

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

b. Summary of Significant Accounting Policies

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

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

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

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

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

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District.

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

Operating revenue and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

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

b. Summary of Significant Accounting Policies (continued)

Grants and contributions – From time to time, the District receives grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform to the classifications used in the 2016 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through May 15, 2017, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

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

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

At December 31, 2016 and 2015, all deposits and assets limited as to use of the District are categorized as Category 1 and consist of cash and cash equivalents deposited with banks and the County Treasurer.

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

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

2. Bank Deposits and Investments (continued):

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

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

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

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

Registered warrants – At December 31, 2016, the warrants outstanding of \$2,480,060 contained total registered warrants of \$2,393,237, which bore an interest rate at 3.5%

3. Patient Accounts Receivable:

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

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

3. Patient Accounts Receivable (continued):

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

	2016	2015
Receivables from patients and their insurance carriers	\$ 2,279,307	\$ 2,259,824
Receivables from Medicare	647,196	662,092
Receivables from Medicaid	670,129	480,717
Total patient accounts receivable	3,596,632	3,402,633
Less allowance for uncollectible accounts	1,011,175	1,165,511
Patient accounts receivable, net	\$ 2,585,457	\$ 2,237,122

4. Property Taxes:

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the county assessor at 100% of fair market value. A revaluation of all property is required every four years. Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

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

For 2016 and 2015, the combined District's regular tax levy was \$0.59 per \$1,000 and \$0.55 per \$1,000 on a total assessed valuation of \$298,192,186 and \$293,358,103, for total regular levy of \$176,263 and \$163,398 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.

5. Capital Assets:

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

5. Capital Assets (continued):

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

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

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

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 147,805	\$ -	\$ -	\$ -	\$ 147,805
Construction in progress	528,315	2,160,226	(2,688,048)	-	493
Total capital assets not being depreciated	676,120	2,160,226	(2,688,048)	-	148,298
<i>Capital assets being depreciated</i>					
Land improvements	2,672,091	28,378	-	-	2,700,469
Buildings and improvements	21,901,958	-	-	-	21,901,958
Fixed equipment	714,858	-	-	-	714,858
Major movable equipment	8,373,071	109,950	-	-	8,483,021
Total capital assets being depreciated	33,661,978	138,328	-	-	33,800,306
<i>Less accumulated depreciation for</i>					
Land improvements	(1,258,452)	(159,768)	-	-	(1,418,220)
Buildings and improvements	(6,215,664)	(1,039,472)	-	-	(7,255,136)
Fixed equipment	(443,168)	(51,421)	-	-	(494,589)
Major movable equipment	(6,827,449)	(385,499)	-	-	(7,212,948)
Total accumulated depreciation	(14,744,733)	(1,636,160)	-	-	(16,380,893)
<i>Total capital assets being depreciated, net</i>					
	18,917,245	(1,497,832)	-	-	17,419,413
Capital assets, net	\$ 19,593,365	\$ 662,394	\$ (2,688,048)	\$ -	\$ 17,567,711

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

5. Capital Assets (continued):

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 147,805	\$ -	\$ -	\$ -	\$ 147,805
Construction in progress	8,000	551,965	-	(31,650)	528,315
Total capital assets not being depreciated	155,805	551,965	-	(31,650)	676,120
<i>Capital assets being depreciated</i>					
Land improvements	2,672,091	-	-	-	2,672,091
Buildings and improvements	21,888,668	13,290	-	-	21,901,958
Fixed equipment	689,147	9,703	-	16,008	714,858
Major movable equipment	8,047,585	321,171	(11,327)	15,642	8,373,071
Total capital assets being depreciated	33,297,491	344,164	(11,327)	31,650	33,661,978
<i>Less accumulated depreciation for</i>					
Land improvements	(1,090,300)	(168,152)	-	-	(1,258,452)
Buildings and improvements	(5,133,204)	(1,082,460)	-	-	(6,215,664)
Fixed equipment	(352,811)	(90,357)	-	-	(443,168)
Major movable equipment	(6,213,802)	(624,974)	11,327	-	(6,827,449)
Total accumulated depreciation	(12,790,117)	(1,965,943)	11,327	-	(14,744,733)
<i>Total capital assets being depreciated, net</i>					
	20,507,374	(1,621,779)	-	31,650	18,917,245
Capital assets, net	\$ 20,663,179	\$ (1,069,814)	\$ -	\$ -	\$ 19,593,365

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

6. Long-term Debt:

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

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amount Due Within One Year
Red Capital Mortgage	\$ 20,562,711	\$ -	\$ (491,752)	\$ 20,070,959	\$ 526,043

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

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

Coulee Medical Center

Grant County Strategic Infrastructure loan dated April 15, 2010, was paid in full during 2015.

Coulee Medical Foundation

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

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

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

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

6. Long-term Debt (continued):

As of December 31, 2016, the outstanding principal amount of the Taxable Revenue Build America Bond debt service was \$20,070,959. The Build America Bonds, dated October 1, 2009, mature on April 20, 2036, and bear interest at the rate of 6.50% per annum. Bond debt service payments are payable on the 20th of each month by the trust estate assigned to the Trustee in varying principal amounts from \$526,000 in 2016 to \$1,760,000 in 2035, with a partial year payment of \$614,000 in 2036.

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

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

	Red Capital Mortgage		
	Principal	Interest	Total
2017	\$ 526,043	\$ 1,340,697	\$ 1,866,740
2018	562,728	1,304,013	1,866,741
2019	601,969	1,264,772	1,866,741
2020	643,947	1,222,794	1,866,741
2021	688,852	1,177,889	1,866,741
2022-2026	4,235,408	5,098,296	9,333,704
2027-2031	5,933,007	3,400,697	9,333,704
2032-2036	6,879,005	1,054,647	7,933,652
	\$ 20,070,959	\$ 15,863,805	\$ 35,934,764

The District's debt agreements contain covenants regarding certain financial statement amounts, ratios, and activities of the District. The District was not in compliance with certain required loan covenants as of December 31, 2016.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 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 debt and writeoffs have not changed significantly from the prior year. 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	\$ 9,212,132	\$ 8,502,844
Medicaid	6,736,558	6,407,870
Other third-party payors	8,363,156	7,282,310
Patients	555,954	462,066
	24,867,800	22,655,090
Less:		
Charity care	132,404	162,685
Provision for bad debts	893,442	851,243
Net patient service revenue	\$ 23,841,954	\$ 21,641,162

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

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

7. Net Patient Service Revenue (continued):

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$60,000 in 2016 and increased by approximately \$347,000 in 2015, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2016 and 2015, were approximately \$96,000 and \$114,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2016 and 2015. Disproportionate share hospital payments from the state of Washington received to subsidize charity services provided for the years ended December 31, 2016, and 2015, were approximately \$386,000 and \$106,000, respectively.

8. Retirement Plan:

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

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

The District's required contributions to the New-Matching plan are \$0 in year 1, \$0.50 to employee contribution of \$1.00 up to 3% of salary in years 2-5, and then \$0.50 to employee contribution of \$1.00 up to 5% of salaries in years 6 and after.

Employee contributions are paid to individual employee accounts for each participating employee. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employer contributions were approximately \$225,000 and \$169,000 for 2016 and 2015, respectively. Employee contributions were approximately \$589,000 and \$367,000 for 2016 and 2015, respectively.

Forfeitures were not material in 2016 and 2015 and the District owed approximately \$11,000 and \$75,000, to the plans at December 31, 2016 and 2015, respectively.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

9. Risk Management and Contingencies:

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

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

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

Self-insurance risk pools – The District self-insures for workers’ compensation benefits through the Public Hospital District Workers’ Compensation Trust, which is a risk transfer pool administered by the Washington State Hospital Association. Premiums are based upon prior claims history and are charged to operations as they are paid. Total workers’ compensation benefits expense was approximately \$90,000 and \$34,000 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, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

10. Going Concern:

As indicated in the accompanying financial statements, the District has had significant net losses of \$4,689,566, \$1,460,821; and \$6,160,217 for the years ended December 31, 2016, 2015, and 2014. The District also has registered warrants outstanding of \$2,923,237 at December 31, 2016. These factors create an uncertainty about the District's ability to continue as a going concern.

Management has implemented plans including but not limited to the following to eliminate the annual net loss by 2018 and repay the registered warrants during 2017:

- Reduction in employee full time equivalents through attrition, contractual releases, and layoffs
- Reduction in use of agency nursing
- Change in patient information, health information, and financial accounting computer systems
- Improved revenue collection practices
- Increased patient services including orthopedic surgeries, physical therapy, swing-bed, and 340(b) contract pharmacy.

The financial statements do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

11. Concentrations of Risk:

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

The mix of receivables from patients was as follows:

	2016	2015
Medicare	17 %	19 %
Medicaid	21	22
Other third-party payors	49	41
Patients	13	18
	100 %	100 %

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

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

12. Blended Component Unit:

The combining statement of net position for the year ended December 31, 2016, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 263,872	\$ -	\$ -	\$ 263,872
Receivables:				
Patient accounts, less allowance for uncollectibles	2,585,457	-	-	2,585,457
Estimated third-party payor settlements	680,000	-	-	680,000
Taxes	17,001	-	-	17,001
Build America Bonds subsidy	-	71,690	-	71,690
Other	62,000	-	-	62,000
Due from Coulee Medical Center	-	3,494,147	(3,494,147)	-
Inventories	471,603	-	-	471,603
Prepaid expenses	505,180	38,608	-	543,788
Total current assets	4,585,113	3,604,445	(3,494,147)	4,695,411
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	34,081	2,077,245	-	2,111,326
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Capital assets, net	3,178,222	14,389,489	-	17,567,711
Total noncurrent assets	3,373,155	16,466,734	-	19,839,889
Total assets	\$ 7,958,268	\$ 20,071,179	\$ (3,494,147)	\$ 24,535,300
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ -	\$ 526,043	\$ -	\$ 526,043
Registered warrants outstanding	2,393,237	-	-	2,393,237
Accounts payable	1,435,299	-	-	1,435,299
Accrued compensation and related liabilities	649,145	-	-	649,145
Accrued vacation	522,084	-	-	522,084
Accrued professional liability insurance reserve	294,962	-	-	294,962
Estimated third-party payor settlements	309,935	-	-	309,935
Due to Coulee Medical Foundation	3,494,147	-	(3,494,147)	-
Total current liabilities	9,098,809	526,043	(3,494,147)	6,130,705
<i>Long-term debt, less current maturities</i>	-	19,544,916	-	19,544,916
Total liabilities	9,098,809	20,070,959	(3,494,147)	25,675,621
<i>Net position</i>				
Net investment in capital assets	3,178,222	(5,609,780)	-	(2,431,558)
Restricted for debt service	34,081	2,077,245	-	2,111,326
Unrestricted	(4,352,844)	3,532,755	-	(820,089)
Total net position	(1,140,541)	220	-	(1,140,321)
Total liabilities and net position	\$ 7,958,268	\$ 20,071,179	\$ (3,494,147)	\$ 24,535,300

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

12. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2016, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts	\$ 23,841,954	\$ -	\$ -	\$ 23,841,954
Grants	66,584	-	-	66,584
Other	318,632	2,037,097	(2,037,097)	318,632
Total operating revenues	24,227,170	2,037,097	(2,037,097)	24,227,170
<i>Operating expenses</i>				
Salaries and wages	12,822,412	-	-	12,822,412
Employee benefits	2,698,531	-	-	2,698,531
Professional fees	870,865	-	-	870,865
Purchased services	3,282,313	-	-	3,282,313
Supplies	2,062,130	-	-	2,062,130
Utilities	357,874	-	-	357,874
Repairs and maintenance	553,639	-	-	553,639
Rentals and leases	2,385,520	-	(2,037,097)	348,423
Depreciation	626,442	1,009,718	-	1,636,160
Insurance	41,907	77,217	-	119,124
Other	702,674	8,572	-	711,246
Total operating expenses	26,404,307	1,095,507	(2,037,097)	25,462,717
<i>Operating income (loss)</i>	<i>(2,177,137)</i>	<i>941,590</i>	<i>-</i>	<i>(1,235,547)</i>
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	175,140	-	-	175,140
Contributions	33,567	-	-	33,567
Build America Bond subsidy	-	432,732	-	432,732
Investment income	11,917	667	-	12,584
Interest expense	(44,935)	(1,374,989)	-	(1,419,924)
Total nonoperating revenues (expenses), net	175,689	(941,590)	-	(765,901)
<i>Loss on abandonment of information system implementation</i>	<i>(2,688,048)</i>	<i>-</i>	<i>-</i>	<i>(2,688,048)</i>
Change in net position	(4,689,496)	-	-	(4,689,496)
Net position, beginning of year	3,548,955	220	-	3,549,175
Net position, end of year	\$ (1,140,541)	\$ 220	\$ -	\$ (1,140,321)

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

12. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2016, is as follows:

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 23,150,529	\$ -	\$ -	\$ 23,150,529
Cash received from other revenue	277,246	2,037,097	(2,037,097)	277,246
Cash received from grants	66,584	-	-	66,584
Cash paid to and on behalf of employees	(15,495,964)	-	-	(15,495,964)
Cash paid to suppliers and contractors	(9,261,860)	(739,193)	2,037,097	(7,963,956)
Net cash provided by (used in) operating activities	(1,263,465)	1,297,904	-	34,439
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	158,139	-	-	158,139
Contributions	33,567	-	-	33,567
Net change in registered warrants outstanding	2,393,237	-	-	2,393,237
Net cash provided by noncapital financing activities	2,584,943	-	-	2,584,943
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	-	(491,752)	-	(491,752)
Interest paid on long-term debt	(44,935)	(1,374,989)	-	(1,419,924)
Cash received from Build America Bonds subsidy	-	507,558	-	507,558
Purchase of capital assets	(2,298,554)	-	-	(2,298,554)
Net cash used in capital and related financing activities	(2,343,489)	(1,359,183)	-	(3,702,672)
<i>Cash flows from investing activities</i>				
Investment income	11,917	667	-	12,584
Net cash provided by investing activities	11,917	667	-	12,584
Net increase (decrease) in cash and cash equivalents	(1,010,094)	(60,612)	-	(1,070,706)
Cash and cash equivalents, beginning of year	1,468,899	2,137,857	-	3,606,756
Cash and cash equivalents, end of year	\$ 458,805	\$ 2,077,245	\$ -	\$ 2,536,050
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>				
Cash and cash equivalents	\$ 263,872	\$ -	\$ -	\$ 263,872
Cash and cash equivalents restricted by debt agreement	34,081	2,077,245	-	2,111,326
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Total cash and cash equivalents	\$ 458,805	\$ 2,077,245	\$ -	\$ 2,536,050
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</i>				
Operating income (loss)	\$ (2,177,137)	\$ 941,590	\$ -	\$ (1,235,547)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation	626,442	1,009,718	-	1,636,160
Provision for bad debts	893,442	-	-	893,442
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net	(1,241,777)	-	-	(1,241,777)
Estimated third-party payor settlements	(623,413)	-	-	(623,413)
Other	(41,386)	-	-	(41,386)
Inventories	(20,403)	-	-	(20,403)
Prepaid expenses	(152,020)	(38,608)	-	(190,628)
Due from Coulee Medical Center	-	(614,796)	614,796	-
Increase (decrease) in liabilities:				
Accounts payable	568,595	-	-	568,595
Accrued vacation	15,221	-	-	15,221
Accrued compensation and related liabilities	9,758	-	-	9,758
Accrued professional liability insurance reserve	(15,906)	-	-	(15,906)
Estimated third-party payor settlements payable	280,323	-	-	280,323
Due to Coulee Medical Foundation	614,796	-	(614,796)	-
Net cash provided by (used in) operating activities	\$ (1,263,465)	\$ 1,297,904	\$ -	\$ 34,439

**Douglas, Grant, Lincoln, and Okanogan
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

12. Blended Component Unit (continued):

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

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 902,532	\$ 1	\$ -	\$ 902,533
Receivables:				
Patient accounts, less allowance for uncollectibles	2,237,122	-	-	2,237,122
Estimated third-party payor settlements	56,587	-	-	56,587
Taxes	-	-	-	-
Build America Bonds subsidy	-	146,516	-	146,516
Due from Coulee Medical Center	-	2,879,351	(2,879,351)	-
Other	20,614	-	-	20,614
Inventories	451,200	-	-	451,200
Prepaid expenses	353,160	-	-	353,160
Total current assets	4,021,215	3,025,868	(2,879,351)	4,167,732
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	405,515	2,137,856	-	2,543,371
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Capital assets, net	4,194,158	15,399,207	-	19,593,365
Total noncurrent assets	4,760,525	17,537,063	-	22,297,588
Total assets	\$ 8,781,740	\$ 20,562,931	\$ (2,879,351)	\$ 26,465,320
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ -	\$ 491,751	\$ -	\$ 491,751
Accounts payable	866,704	-	-	866,704
Accrued compensation and related liabilities	639,387	-	-	639,387
Accrued vacation	506,863	-	-	506,863
Accrued professional liability insurance reserve	310,868	-	-	310,868
Estimated third-party payor settlements	29,612	-	-	29,612
Due to Coulee Medical Foundation	2,879,351	-	(2,879,351)	-
Total current liabilities	5,232,785	491,751	(2,879,351)	2,845,185
<i>Long-term debt, less current maturities</i>	-	20,070,960	-	20,070,960
Total liabilities	5,232,785	20,562,711	(2,879,351)	22,916,145
<i>Net position</i>				
Net investment in capital assets	4,194,158	(5,016,988)	-	(822,830)
Restricted for debt service	405,515	2,137,856	-	2,543,371
Unrestricted	(1,050,718)	2,879,352	-	1,828,634
Total net position	3,548,955	220	-	3,549,175
Total liabilities and net position	\$ 8,781,740	\$ 20,562,931	\$ (2,879,351)	\$ 26,465,320

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

12. Blended Component Unit (continued):

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

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts	\$ 21,641,162	\$ -	\$ -	\$ 21,641,162
Grants	29,361	-	-	29,361
Other	256,511	2,147,586	(2,147,586)	256,511
Total operating revenues	21,927,034	2,147,586	(2,147,586)	21,927,034
<i>Operating expenses</i>				
Salaries and wages	11,255,581	-	-	11,255,581
Employee benefits	2,366,251	-	-	2,366,251
Professional fees	791,929	-	-	791,929
Purchased services	2,241,216	-	-	2,241,216
Supplies	1,970,663	-	-	1,970,663
Utilities	355,983	-	-	355,983
Repairs and maintenance	505,106	-	-	505,106
Rentals and leases	2,334,017	-	(2,147,586)	186,431
Depreciation	910,577	1,055,366	-	1,965,943
Insurance	216,085	118,709	-	334,794
Other	691,277	8,377	-	699,654
Total operating expenses	23,638,685	1,182,452	(2,147,586)	22,673,551
<i>Operating income (loss)</i>	(1,711,651)	965,134	-	(746,517)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	158,351	-	-	158,351
Contributions	45,217	-	-	45,217
Build America Bond subsidy	-	441,473	-	441,473
Investment income	48,969	658	-	49,627
Interest expense	(1,927)	(1,407,045)	-	(1,408,972)
Total nonoperating revenues (expenses), net	250,610	(964,914)	-	(714,304)
Change in net position	(1,461,041)	220	-	(1,460,821)
Net position, beginning of year	5,009,996	-	-	5,009,996
Net position, end of year	\$ 3,548,955	\$ 220	\$ -	\$ 3,549,175

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

12. Blended Component Unit (continued):

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

	Coulee Medical Center	Coulee Medical Foundation	Eliminations	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 21,164,479	\$ -	\$ -	\$ 21,164,479
Cash received from other revenue	260,552	2,147,586	(2,147,586)	260,552
Cash received from grants	29,361	-	-	29,361
Cash paid to and on behalf of employees	(13,530,928)	-	-	(13,530,928)
Cash paid to suppliers and contractors	(8,233,399)	(1,087,915)	2,147,586	(7,173,728)
Net cash provided by (used in) operating activities	(309,935)	1,059,671	-	749,736
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	162,586	-	-	162,586
Contributions	20,217	-	-	20,217
Net cash provided by noncapital financing activities	182,803	-	-	182,803
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(20,000)	(459,696)	-	(479,696)
Interest paid on long-term debt	(1,927)	(1,407,045)	-	(1,408,972)
Cash received from Build America Bonds subsidy	-	821,300	-	821,300
Purchase of capital assets	(896,129)	-	-	(896,129)
Net cash used in capital and related financing activities	(918,056)	(1,045,441)	-	(1,963,497)
<i>Cash flows from investing activities</i>				
Investment income	48,969	658	-	49,627
Net cash provided by investing activities	48,969	658	-	49,627
Net increase (decrease) in cash and cash equivalents	(996,219)	14,888	-	(981,331)
Cash and cash equivalents, beginning of year	2,465,118	2,122,969	-	4,588,087
Cash and cash equivalents, end of year	\$ 1,468,899	\$ 2,137,857	\$ -	\$ 3,606,756
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>				
Cash and cash equivalents	\$ 902,532	\$ 1	\$ -	\$ 902,533
Cash and cash equivalents restricted by debt agreement	405,515	2,137,856	-	2,543,371
Cash and cash equivalents internally designated for capital acquisitions	160,852	-	-	160,852
Total cash and cash equivalents	\$ 1,468,899	\$ 2,137,857	\$ -	\$ 3,606,756
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i>				
Operating income (loss)	\$ (1,711,651)	\$ 965,134	\$ -	\$ (746,517)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation	910,577	1,055,366	-	1,965,943
Provision for bad debts	851,243	-	-	851,243
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net	(1,021,561)	-	-	(1,021,561)
Estimated third-party payor settlements	1,085,152	-	-	1,085,152
Other	4,041	-	-	4,041
Inventories	(17,224)	-	-	(17,224)
Prepaid expenses	(162,650)	-	-	(162,650)
Due from Coulee Medical Center	-	(762,600)	762,600	-
Increase (decrease) in liabilities:				
Accounts payable	253,283	(198,229)	-	55,054
Accrued vacation	96,223	-	-	96,223
Accrued compensation and related liabilities	(5,319)	-	-	(5,319)
Accrued professional liability insurance reserve	36,868	-	-	36,868
Estimated third-party payor settlements payable	(1,391,517)	-	-	(1,391,517)
Due to Coulee Medical Foundation	762,600	-	(762,600)	-
Net cash provided by (used in) operating activities	\$ (309,935)	\$ 1,059,671	\$ -	\$ 749,736

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

13. Subsequent Events:

In March 2017, the District entered into a five-year noncancellable operating lease agreement for a mobile x-ray machine with payments over the five-year period totaling \$107,000.

The District also entered into an agreement to purchase a new information system to be financed through percentage of patient account collections.

SINGLE AUDIT

AUDITORS' SECTION



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined basic financial statements of Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 doing business as Coulee Medical Center (the District), as of and for the year ended December 31, 2016, and the related notes to the combined basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 15, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings and questioned costs that we consider to be significant deficiencies (2016-001 and 2016-002).

Compliance and Other Matters

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

The District's Response to Findings

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

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 15, 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

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

Report on Compliance for the Major Federal Program

We have audited Douglas, Grant, Lincoln, and Okanogan Counties Public Hospital District No. 6 doing business as Coulee Medical Center's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2016. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-003. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-003, which we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington

May 15, 2017

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2016**

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

<u> </u>	yes	<u> X </u>	no
<u> X </u>	yes	<u> </u>	none reported

Noncompliance material to financial statements noted?

<u> </u>	yes	<u> X </u>	no
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Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

<u> </u>	yes	<u> X </u>	no
<u> X </u>	yes	<u> </u>	none reported

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

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516(a)?

<u> X </u>	yes	<u> </u>	no
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CFDA Number(s)

Name of Federal Program or Cluster

14.128	U.S. Department of Housing and Urban Development Mortgage Insurance – Hospitals
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

<u> X </u>	yes	<u> </u>	no
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**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2016**

Section II – Financial Statements Findings

2016–001 Bank Reconciliations

[] Compliance Finding [X] Significant Deficiency [] Material Weakness

<i>Criteria</i>	There should not be any significant unresolved reconciling items in balance sheet accounts at year end.
<i>Condition</i>	The general fund cash account was not reconciled prior to, or during, our on-site visit.
<i>Context</i>	This finding appears to be an isolated problem.
<i>Cause</i>	The District had limited accounting staff and chief financial officer and chief executive officer turnover near year end which did not allow ample time to perform the necessary reconciliations for fiscal year 2016.
<i>Effect</i>	There is an increased risk that fraudulent activity would not be detected and inaccurate financial information would be used by management and the Board of Commissioners.
<i>Recommendation</i>	We recommend that the general fund cash account be reconciled to the general ledger monthly.
<i>Views of responsible officials and planned corrective actions</i>	Over the past several years cash posting had been done upon receipt of the remittance advice rather than receipt of the funds. This method caused discrepancies in the amounts posted vs the cash received that the cash poster was unable to reconcile. Effective January 2017 the cash posting procedure was changed to post the payment after the funds are received. The discrepancies on the bank reconciliation will be cleaned up and adjusted so that we start with a clean reconciliation in the new information system in 2017. Going forward the bank reconciliation will be balanced monthly.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2016**

2016-002 Auditor Detected Adjusted Journal Entries

☐ Compliance Finding ☒ Significant Deficiency ☐ Material Weakness

<i>Criteria</i>	There should not be any significant or material adjusting journal entries made during the audit process.
<i>Condition</i>	Significant adjustments were necessary to correct balances to prepaid expenses and other receivables to properly present the financial statements in accordance with generally accepted accounting principles (GAAP).
<i>Context</i>	This finding appears to be an isolated problem.
<i>Cause</i>	Accounting records are not appropriately being reported on the accrual basis of accounting.
<i>Effect</i>	Financial reports depended on by management, the Board of Commissioners, and external financial statement users may not present an accurate image of the District's financial position.
<i>Recommendation</i>	All balance-sheet accounts should be reported on the accrual basis of accounting and reconciled and adjusted as necessary each month.
<i>Views of responsible officials and planned corrective actions</i>	The balance-sheet account reconciliations were not done for several months after the previous CFO left. When the controller became aware of this deficiency she reconciled the accounts and made DZA aware of the adjusting entries. Going forward the balance-sheet accounts will be reconciled monthly.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2016**

Section III – Federal Award Findings and Questioned Costs

2016-003 Mortgage Reserve Fund (MRF)

Program Information

Federal Organization U.S Department of Housing and Urban Development

CFDA 14.128 Mortgage Insurance - Hospitals

Award Number 171-13006

Criteria [X] Compliance Finding [X] Significant Deficiency [] Material Weakness

Pursuant to the District's Mortgage Reserve Fund Agreement with Red Capital in 2016 the District is required to maintain a minimum MRF balance of \$2,097,680.

Condition During our testing of the District's MRF, we noted that the MRF was underfunded by \$165,053.

Context This finding appears to be a systemic problem.

Cause The District does not have written policies and procedures to ensure the MRF is adequately funded each year.

Effect The District's MRF was underfunded by \$165,053.

Questioned Costs None noted.

Recommendation We recommend the District develop written policies and policies to ensure the MRF is adequately funded each year.

Views of responsible officials and planned corrective actions According to the First Amendment to the Mortgage Reserve Fund Agreement it was required that the reserve balance be increased to \$2,097,680 in 2016. After the previous CFO left this requirement was missed. This situation was rectified in May 2017 and the fund balance is now compliant.

AUDITEE'S SECTION

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Direct Program from:			
U.S. Department of Housing and Urban Development: Mortgage Insurance - Hospitals	14.128	Not applicable	\$ 20,562,711
Pass-through Program from:			
State of Washington Department of Health and Human Services/ U.S. Department of Health and Human Services/ Small Rural Improvement Grant Program	93.301	N21646	8,556
Total expenditures of federal awards			\$ 20,571,267

See accompanying independent auditors' report and the accompanying notes are an integral part of this schedule.

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies:

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

3. Loan:

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedule.

Nonmonetary assistance in the form of a loan guarantee is included in the accompanying schedule of expenditures of federal awards. The related loan balance was \$20,070,959, at December 31, 2016.

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Corrective Action Plan
Year Ended December 31, 2016**

The current year Schedule of Audit Findings and Questioned Costs reported two matters in Section II – *Financial Statement Findings* and one matter in Section III – *Federal Award Findings and Questioned Costs*.

Current year audit findings:

2016-001 Bank Reconciliations

Corrective Action Planned: Going forward the bank reconciliation will be balanced monthly.

Anticipated completion date: January 2017

*Contact person responsible for
corrective action plan:* Jonathan Owens, CEO

2016-002 Auditor Detected Journal Entries

Corrective Action Planned: Going forward the balance-sheet accounts will be reconciled monthly

Anticipated completion date: May 2017

*Contact person responsible for
corrective action plan:* Jonathan Owens, CEO

2016-003 MRF Funding

Corrective Action Planned: According to the First Amendment to the Mortgage Reserve Fund Agreement, it was required that the reserve balance be increased to \$2,097,680 in 2016. After the previous CFO left this requirement was missed. This situation was rectified in May 2017 and the fund balance is now compliant.

Anticipated completion date: May 2017

*Contact person responsible for
corrective action plan:* Jonathan Owens, CEO

**Douglas, Grant, Lincoln, and Okanogan
Counties Public Hospital District No. 6
doing business as Coulee Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2016**

The single audit for the year ended December 31, 2015, reported no audit findings, nor were there any unresolved findings from periods ended December 31, 2014, or prior. Therefore, there are no matters to report in this section for the year ended December 31, 2016.