



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

September 17, 2018

Board of Commissioners
Columbia Basin Hospital
Ephrata, 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 Columbia Basin Hospital's financial statements for the fiscal years ended December 31, 2017 and 2016. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor 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 Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

**Grant County
Public Hospital District No. 3
doing business as
Columbia Basin Hospital**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016



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

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Table of Contents

	Page
<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	8-22
<i>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</i>	23-24
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	25

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Ephrata, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Grant County Public Hospital District No. 3 doing business as Columbia Basin Hospital (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as described 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 10, 2018, 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, grant agreements, and other matters for the year ended December 31, 2017. We issued a similar report for the year ended December 31, 2016, dated April 5, 2017, which has not been included with the 2017 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 10, 2018

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Statements of Net Position
December 31, 2017 and 2016

ASSETS	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,809,267	\$ 2,210,800
Patient trust fund	3,673	3,477
Receivables:		
Patient accounts, net of estimated uncollectibles of \$262,000 and \$78,000, respectively	1,636,661	1,816,642
Grants	350,000	-
Taxes	32,592	34,409
Estimated third-party payor settlements	235,945	-
Other	112,499	57,528
Inventories	79,538	74,346
Prepaid expenses	170,872	226,828
Cash and cash equivalents limited as to use	256,359	1,028,574
Taxes receivable limited as to use	60,695	83,679
Total current assets	5,748,101	5,536,283
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	2,764,102	2,716,762
Capital assets, net of accumulated depreciation	19,784,427	16,891,237
Total noncurrent assets	22,548,529	19,607,999
Total assets	\$ 28,296,630	\$ 25,144,282

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 477,824	\$ 430,824
Current maturities of capital lease obligation	21,299	20,135
Accounts payable	518,244	463,065
Estimated third-party payor settlements	564,759	403,977
Electronic health records incentive payable	128,985	-
Accrued compensation and related liabilities	589,731	567,516
Accrued vacation	325,456	331,988
Accrued interest payable	58,546	59,927
Patient trust fund	3,673	3,477
Total current liabilities	2,688,517	2,280,909
<i>Noncurrent liabilities</i>		
Accounts payable - capital	349,593	-
Long-term debt, less current maturities	16,263,005	13,916,863
Capital lease obligation, less current maturities	24,465	45,764
Total noncurrent liabilities	16,637,063	13,962,627
Total liabilities	19,325,580	16,243,536
<i>Net position</i>		
Net investment in capital assets	2,589,695	2,417,724
Restricted for debt service	323,093	512,299
Unrestricted	6,058,262	5,970,723
Total net position	8,971,050	8,900,746
Total liabilities and net position	\$ 28,296,630	\$ 25,144,282

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Operating revenues (expenses)</i>		
Net patient service revenue, net of provision for bad debts of \$620,441 and \$311,357, respectively	\$ 15,943,658	\$ 15,716,583
340B contract pharmacies	854,777	741,581
Electronic health records incentive payback	(128,985)	-
Grants	18,230	36,028
Other	167,005	172,493
Total operating revenues (expenses)	16,854,685	16,666,685
<i>Operating expenses</i>		
Salaries and wages	7,358,126	7,158,024
Employee benefits	1,792,411	1,814,246
Professional fees	3,831,905	3,105,489
Supplies	1,268,858	1,297,871
Purchased services, utilities	223,138	214,999
Purchased services, other	1,264,677	1,097,426
Insurance	174,575	149,794
Leases and rentals	201,336	165,811
Depreciation and amortization	1,337,461	1,309,674
Other	222,726	236,651
Total operating expenses	17,675,213	16,549,985
Operating income (loss)	(820,528)	116,700
<i>Nonoperating revenues (expenses)</i>		
Taxation for bond principal and interest	698,842	997,317
Taxation for maintenance and operations	479,315	487,789
Interest income	91,364	97,703
Interest expense	(740,770)	(729,032)
Loss on disposal of capital assets	(30,361)	-
Donations	42,442	48,271
Total nonoperating revenues (expenses), net	540,832	902,048
Excess of revenues over (under) expenses before capital grants and contributions	(279,696)	1,018,748
Capital grants and contributions	350,000	1,346
Change in net position	70,304	1,020,094
Net position, beginning of year	8,900,746	7,880,652
Net position, end of year	\$ 8,971,050	\$ 8,900,746

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 16,048,476	\$ 15,505,507
Receipts from 340B contract pharmacies	818,828	756,259
Receipts from grants	18,230	36,028
Other receipts	147,983	211,869
Electronic health records incentive	-	147,049
Payments to and on behalf of employees	(9,134,854)	(8,804,424)
Payments to suppliers and contractors	(7,081,272)	(6,347,629)
Net cash provided by operating activities	817,391	1,504,659
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	481,132	484,142
Noncapital contributions	42,442	48,271
Net cash provided by noncapital financing activities	523,574	532,413
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	721,826	998,351
Grants received for capital assets	-	1,346
Proceeds from issuance of long-term debt	2,823,965	-
Principal paid on long-term debt and capital lease obligation	(450,958)	(1,380,127)
Interest paid on long-term debt and capital lease obligation	(742,151)	(733,158)
Purchase of capital assets	(3,911,419)	(202,818)
Net cash used in capital and related financing activities	(1,558,737)	(1,316,406)
<i>Cash flows from investing activities</i>		
Interest received	91,364	97,703
Net increase (decrease) in cash and cash equivalents	(126,408)	818,369
Cash and cash equivalents, beginning of year	5,956,136	5,137,767
Cash and cash equivalents, end of year	\$ 5,829,728	\$ 5,956,136

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Reconciliation of cash and cash equivalents to the statements of net position</i>		
Cash and cash equivalents in current assets	\$ 2,809,267	\$ 2,210,800
Cash and cash equivalents limited as to use in current assets	256,359	1,028,574
Cash and cash equivalents limited as to use in noncurrent assets	2,764,102	2,716,762
Total cash and cash equivalents	\$ 5,829,728	\$ 5,956,136
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i>		
Operating income (loss)	\$ (820,528)	\$ 116,700
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation and amortization	1,337,461	1,309,674
Provision for bad debts	620,441	311,357
Decrease (increase) in assets:		
Patient accounts receivable	(440,460)	(676,453)
Estimated third-party payor settlements	(235,945)	213,488
Electronic health records incentive receivable	-	147,049
Other receivables	(54,971)	69,167
Inventories	(5,192)	8,248
Prepaid expenses	55,956	(124,573)
Increase (decrease) in liabilities:		
Accounts payable	55,179	21,624
Estimated third-party payor settlements	160,782	(59,468)
Electronic health records incentive payable	128,985	-
Accrued compensation and related liabilities	22,215	164,183
Accrued vacation	(6,532)	3,663
Net cash provided by operating activities	\$ 817,391	\$ 1,504,659

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements
Years Ended December 31, 2017 and 2016

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Grant County Public Hospital District No. 3 (the District) owns and operates Columbia Basin Hospital, a 25-bed hospital and a 12-bed nursing home; Columbia Basin Family Medicine, a Medicare certified rural health clinic; and Garden Oasis Assisted Living, a 32-unit assisted living facility. The District provides healthcare services to patients in the Ephrata, Washington area. The services provided include acute care hospital, long-term nursing care, assisted living, emergency room, physicians' 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 payment of federal income tax. The Board of Commissioners consists of five community members elected to six-year terms.

Related organization – The Columbia Basin Hospital Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the District. The Foundation provided contributions to the District during 2017 and 2016 for patient care and for the purchase of equipment in the amounts of \$1,491 and \$7,000, respectively. The Foundation purchased the services of the Foundation Executive Director and clerical support from the District in the amounts of \$10,350 and \$13,800 for the years ended December 31, 2017 and 2016, respectively. The Foundation is not material to the District and is therefore not reported as a component unit of the District.

Complete financial statements for the Foundation can be obtained from the Columbia Basin Hospital Foundation, 200 Nat Washington Way, Ephrata, Washington 98823.

b. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – Electronic funds transfer (EFT) cash receipts are deposited to the District's depository account at a bank. Periodically, such cash is transferred to the Grant County Treasurer (Treasurer) who acts as the District Treasurer. Non-EFT cash receipts are deposited directly to the Treasurer. Warrants are issued by the District against the cash placed with the Treasurer. The Treasurer invests cash in interest-bearing investments at the discretion of the District. 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.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

b. Summary of Significant Accounting Policies (continued)

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

Assets limited as to use – Assets limited as to use primarily include certain cash and other assets limited under debt indentures and by the Board of Commissioners for future bond principal and interest payments; for future acquisition and replacement of property, buildings, and equipment; and to maintain care for eligible patients.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Useful lives have been estimated as follows:

Land improvements	8 to 20 years
Buildings and improvements	2 to 40 years
Equipment	2 to 25 years

Compensated absences – The District’s policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum of one and a half times their annual accrual. All paid time off and holiday benefits are accrued and expensed when earned. The District permits employees to accumulate extended illness benefits up to a maximum of 720 hours. Access to extended illness benefits is allowed after a consecutive 16-hour time loss, unless hospitalization or a major medical procedure occurs, in which case access is allowed immediately. All extended illness benefits are expensed when taken.

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

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

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

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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 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.

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. The District recognized a \$38,773 and \$42,587 dividend from the Public Hospital District Unemployment Compensation Trust in 2017 and 2016, respectively, which was offset against unemployment expense. The District also recognized a \$127,335 and \$113,701 dividend from the Public Hospital District Workers' Compensation Trust in 2017 and 2016, respectively, which was offset against workers' compensation expense. Premiums are charged to operations as they are incurred. Total unemployment insurance expense prior to the dividend was \$39,537 and \$50,714 in 2017 and 2016, respectively, and total workers' compensation benefits expense prior to the dividend was \$135,515 and \$164,337 in 2017 and 2016, respectively.

Subsequent events – Subsequent events have been reviewed through April 10, 2018, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be refunded to it. The District does not have a deposit policy for custodial credit risk.

The District's deposits 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. Amounts invested in the Grant County Investment Pool at December 31, 2017 and 2016, were \$5,744,008 and \$5,897,477, respectively. The Grant County Investment Pool consists of investments in federal, state, and local government certificates, savings accounts in qualified public depositories, and the Washington State Local Government Investment Pool.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

2. Bank Deposits and Investments (continued):

Investments in the Grant County Local Government Investment Pool are reported at fair value based on the net asset value per share. The Grant County Local Government Investment Pool's investment strategy is to invest in treasury securities with staggering maturity dates. Investments generally may be redeemed with no waiting period with proper notice to the Grant County Treasurer.

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 increased from the prior year due to a decrease in collections from these patients. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	2017	2016
Receivables from patients and their insurance carriers	\$ 787,037	\$ 551,341
Receivables from Medicare	625,708	915,866
Receivables from Medicaid	485,916	427,435
Total patient accounts receivable	1,898,661	1,894,642
Less allowance for uncollectible accounts	262,000	78,000
Patient accounts receivable, net	\$ 1,636,661	\$ 1,816,642

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

4. Assets Limited as to Use:

The composition of assets limited as to use is set forth in the following table:

	2017	2016
<i>Current assets</i>		
Under bond agreement for bond principal and interest payment:		
Cash and cash equivalents	\$ 255,664	\$ 428,620
Taxes receivable	60,695	83,679
Internally designated by Board for nursing home operating deficits (ProShare funds), cash and cash equivalents	695	599,954
Total current assets	317,054	1,112,253
<i>Noncurrent assets</i>		
Internally designated by Board for capital additions and replacements, cash and cash equivalents	2,757,368	2,716,762
Restricted by bond agreement for future construction and renovation, cash and cash equivalents	6,734	-
Total noncurrent assets	2,764,102	2,716,762
Total assets limited as to use	\$ 3,081,156	\$ 3,829,015

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Capital Assets:

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

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 99,457	\$ -	\$ -	\$ -	\$ 99,457
Construction in progress	12,558	4,115,796	-	(12,558)	4,115,796
Total capital assets not being depreciated	112,015	4,115,796	-	(12,558)	4,215,253
<i>Capital assets being depreciated</i>					
Land improvements	186,843	-	-	-	186,843
Building and improvements	22,435,862	6,708	-	-	22,442,570
Equipment	4,598,687	138,508	(53,791)	12,558	4,695,962
Total capital assets being depreciated	27,221,392	145,216	(53,791)	12,558	27,325,375
<i>Less accumulated depreciation for</i>					
Land improvements	90,368	11,273	-	-	101,641
Building and improvements	7,149,614	924,108	-	-	8,073,722
Equipment	3,202,188	402,080	(23,430)	-	3,580,838
Total accumulated depreciation	10,442,170	1,337,461	(23,430)	-	11,756,201
<i>Total capital assets being depreciated, net</i>	16,779,222	(1,192,245)	(30,361)	12,558	15,569,174
Capital assets, net	\$ 16,891,237	\$ 2,923,551	\$ (30,361)	\$ -	\$ 19,784,427

Construction in progress at December 31, 2017, consisted of construction related to renovations for energy savings and increased efficiency. The estimated cost to complete this project is approximately \$1,600,000. This project is estimated to be completed in the second quarter of 2018. This project is being financed by the 2017 limited tax general obligation bonds.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Capital Assets (continued):

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 99,457	\$ -	\$ -	\$ -	\$ 99,457
Construction in progress	-	12,558	-	-	12,558
Total capital assets not being depreciated	99,457	12,558	-	-	112,015
<i>Capital assets being depreciated</i>					
Land improvements	155,222	31,621	-	-	186,843
Building and improvements	22,381,995	53,867	-	-	22,435,862
Equipment	4,493,915	104,772	-	-	4,598,687
Total capital assets being depreciated	27,031,132	190,260	-	-	27,221,392
<i>Less accumulated depreciation for</i>					
Land improvements	80,511	9,857	-	-	90,368
Building and improvements	6,227,441	922,173	-	-	7,149,614
Equipment	2,824,544	377,644	-	-	3,202,188
Total accumulated depreciation	9,132,496	1,309,674	-	-	10,442,170
Total capital assets being depreciated, net	17,898,636	(1,119,414)	-	-	16,779,222
Capital assets, net	\$ 17,998,093	\$ (1,106,856)	\$ -	\$ -	\$ 16,891,237

6. Line of Credit:

The District has an open line of credit in the amount of \$250,000 with American Express. This line of credit had an outstanding balance of approximately \$52,000 and \$1,000 at December 31, 2017 and 2016, respectively. The line of credit is included within accounts payable in the statements of net position.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. Long-term Debt and Capital Lease Obligation:

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>Long-term debt</i>					
2008 LTGO Bonds	\$ 1,076,000	\$ -	\$ (183,000)	\$ 893,000	\$ 200,000
2012 UTGO Bonds	12,800,000	-	(225,000)	12,575,000	255,000
2012 UTGO Bonds Premium	471,687	-	(22,823)	448,864	22,824
2017 LTGO Bonds	-	2,823,965	-	2,823,965	-
Total long-term debt	14,347,687	2,823,965	(430,823)	16,740,829	477,824
<i>Capital lease obligation</i>					
Pharmacy Pyxis Machine	65,899	-	(20,135)	45,764	21,299
Total capital lease obligation	65,899	-	(20,135)	45,764	21,299
Total long-term debt and capital lease obligation	\$ 14,413,586	\$ 2,823,965	\$ (450,958)	\$ 16,786,593	\$ 499,123

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Long-term debt</i>					
2008 LTGO Bonds	\$ 1,246,000	\$ -	\$ (170,000)	\$ 1,076,000	\$ 183,000
2011 LTGO Bonds	956,268	-	(956,268)	-	-
2012 UTGO Bonds	13,000,000	-	(200,000)	12,800,000	225,000
2012 UTGO Bonds Premium	494,511	-	(22,824)	471,687	22,824
Grant County Note Payable	12,000	-	(12,000)	-	-
Total long-term debt	15,708,779	-	(1,361,092)	14,347,687	430,824
<i>Capital lease obligation</i>					
Pharmacy Pyxis Machine	84,934	-	(19,035)	65,899	20,135
Total capital lease obligation	84,934	-	(19,035)	65,899	20,135
Total long-term debt and capital lease obligation	\$ 15,793,713	\$ -	\$ (1,380,127)	\$ 14,413,586	\$ 450,959

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. Long-term Debt and Capital Lease Obligation (continued):

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

- **Limited tax general obligation bonds** – The District issued limited tax general obligation bonds on September 24, 2008, in the original amount of \$2,156,000 to refund the District's limited tax general obligation bonds dated August 1, 1998. The 1998 limited tax general obligation bonds were issued to refinance a short-term construction line of credit and to cover additional costs to complete a construction project. The 2008 limited tax general obligation bonds are payable semiannually on December 1 and June 1, in varying principal installments from \$200,000 in 2018 to \$251,000 in 2021; plus semiannual interest at 4.05 percent payable June 1 and December 1 of each year.

The District issued limited tax general obligation bonds on November 9, 2011, in the original amount of \$1,500,000. These bonds were paid in full during 2016.

The District issued limited tax general obligation bonds on August 31, 2017, in the original amount not to exceed \$4,000,000 to finance construction and renovation of the District's facilities. The 2017 limited tax general obligation bonds are payable semiannually on December 1 and June 1, in interest only installments in 2018 and principal installments from 2019 to 2033; with semiannual interest at 3.42 percent payable June 1 and December 1 of each year. As of December 31, 2017, the District had borrowed \$2,823,965 of the available \$4,000,000.

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

- **Unlimited tax general obligation bonds** – The District issued unlimited tax general obligation bonds on August 30, 2012, in the original amount of \$13,000,000 to finance renovation and construction of an addition to the District's facilities. The 2012 unlimited tax general obligation bonds are payable annually on December 1, in varying principal installments from \$255,000 in 2018 to \$1,250,000 in 2036; plus annual interest ranging from 4 percent in 2018 to 5.5 percent in 2036, payable December 1 of each year.

The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due. The unlimited tax general obligation bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2012 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

- **Note payable** – Note payable to Grant County in the original amount of \$60,000. This note was paid in full in 2016.
- **Capital lease obligation** – The pharmacy Pyxis machine lease was renewed in February 2015 for five years with an original capitalized cost of \$101,944. The lease payments are due monthly in the amount of \$1,944, including imputed interest at 5.6 percent, collateralized by the pharmacy Pyxis machine.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. Long-term Debt and Capital Lease Obligation (continued):

The capital lease obligation is reflected in the District's assets and liabilities. The asset acquired under the capital lease had a capitalized cost of \$101,944 as of December 31, 2017 and 2016, and accumulated amortization of \$50,972 and \$30,583 as of December 31, 2017 and 2016, respectively. Amortization expense is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

Scheduled principal and interest repayments on the District's 2012 unlimited tax general obligation bonds are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 255,000	\$ 668,413	\$ 923,413
2019	285,000	658,213	943,213
2020	315,000	646,813	961,813
2021	345,000	631,063	976,063
2022	385,000	613,813	998,813
2023 to 2027	2,570,000	2,727,375	5,297,375
2028 to 2032	3,940,000	1,912,038	5,852,038
2033 to 2036	4,480,000	639,375	5,119,375
	\$ 12,575,000	\$ 8,497,103	\$ 21,072,103

Scheduled principal and interest repayments on the District's 2008 and 2017 limited tax general obligation bonds and capital lease obligation are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 221,299	\$ 157,514	\$ 378,813
2019	395,839	121,923	517,762
2020	396,771	106,834	503,605
2021	422,557	108,717	531,274
2022	177,474	78,054	255,528
2023 to 2027	983,528	294,112	1,277,640
2028 to 2033	1,165,261	112,379	1,277,640
	\$ 3,762,729	\$ 979,533	\$ 4,742,262

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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 who 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 increased significantly from the prior year due to an increase in revenue from uninsured patients and a decrease in collections from these patients. The District has not changed its charity care or uninsured discount policies during 2017 or 2016. 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.

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,212,058	\$ 7,948,609
Medicaid	3,527,464	4,063,221
ProShare	284,037	628,097
Other third-party payors	3,126,597	2,178,834
Patients	1,454,734	1,296,812
	16,604,890	16,115,573
Less:		
Charity care	40,791	87,633
Provision for bad debts	620,441	311,357
Net patient service revenue	\$ 15,943,658	\$ 15,716,583

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

8. Net Patient Service Revenue (continued):

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 hospital has been designated a critical access hospital and the clinic a rural health clinic by Medicare and they are reimbursed for inpatient, outpatient, and clinic 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. Nonrural health clinic physician services are reimbursed on a fee schedule.
- *Medicaid* – Reimbursement for inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. Nursing home services are reimbursed based on costs as defined and limited by the Medicaid program. Rural health clinic services are reimbursed on a prospective rate per visit. Nonrural health clinic physician services are reimbursed on a fee schedule.
- *Other* – The hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedule, 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 \$23,000 and \$335,000 in the years ended December 31, 2017 and 2016, respectively, due to differences between original estimates and final settlements.

The District received approximately \$291,000 and \$628,000 of Nursing Facility Proportionate Share Program (ProShare) funds during 2017 and 2016, respectively, from the state of Washington to provide services to Medicaid eligible nursing home patients.

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, 2017 and 2016, were \$34,000 and \$71,000, respectively. The District did not receive any gifts or grants to subsidize charity care services during 2017 or 2016.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

9. Electronic Health Records (EHR) Incentive:

The District recognized Medicaid incentive payments in the years ended December 31, 2012, 2013, 2014, and 2015. During the year ended December 31, 2017, the District's EHR payments were audited, and it was determined that the District was overpaid in the amount of \$128,985. The District recognized a payback of EHR incentive payments in the amount of \$128,985 as a result of this audit.

10. 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 percent of fair market value. A revaluation of all property is required every four years.

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

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

The District's regular tax levy was \$0.53 per \$1,000 in 2017 and \$0.56 per \$1,000 in 2016, on a total assessed valuation of \$893,657,880 and \$835,440,782 in 2017 and 2016, respectively, for a total regular levy of \$470,847 and \$470,429 in 2017 and 2016, respectively.

The District's bond levy was \$0.79 per \$1,000 in 2017 and \$1.20 per \$1,000 in 2016 on a total assessed valuation of \$886,658,880 and \$830,139,267 in 2017 and 2016, respectively, for a total bond levy of \$702,413 and \$1,000,000 in 2017 and 2016, 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.

11. Defined Contribution Plan:

The District provides pension benefits for all of its full-time employees who have attained age 20 through the Columbia Basin Hospital Employees' Pension Plan (the defined contribution plan). This plan is administered by VALIC Retirement Services Company (VALIC). In a defined contribution plan, benefits depend solely on amounts contributed by the District to the plan plus investment earnings.

Employees are eligible to participate after one year of service if they agree to contribute at least 3 percent of their compensation to the deferred compensation plan. The District contributes to the defined contribution fund a discretionary percentage of employee contributions to the deferred compensation plan.

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Defined Contribution Plan (continued):

The District also pays an additional 0.1 percent of compensation for each year of service. The contributions are vested at 20 percent after one year of service with graduated increases until vesting reaches 100 percent after five years of service. District contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the District's current period contribution requirement. The District made the required contributions of \$297,958 and \$296,688 for 2017 and 2016, respectively, to the defined contribution plan.

Benefit terms including contribution requirements are established and may be amended by the District.

12. Deferred Compensation Plan:

In addition to the defined contribution plan described above, the District provides the Columbia Basin Hospital Tax-Deferred Compensation Plan (the deferred compensation plan), to substantially all employees, under Section 457 of the Internal Revenue Code. The deferred compensation plan is funded solely from employee contributions, which are deposited with VALIC. This plan is administered by VALIC. Plan participants contributed approximately \$357,000 and \$354,000 in 2017 and 2016, respectively, to the deferred compensation plan.

Benefit terms including contribution requirements are established and may be amended by the District.

13. 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; 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.

Medical malpractice claims – The District has its professional liability insurance coverage with Physician's Insurance. The policy provides protection on a "claims-made" basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. There is no deductible on this policy.

The District also has excess professional liability insurance with Physician's Insurance on a "claims-made" basis. The excess malpractice insurance provides \$4,000,000 per claim of primary coverage with an annual aggregate limit of \$4,000,000. There is no deductible on this policy.

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

Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

13. Contingencies (continued):

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

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

Rural health clinic Medicaid reimbursement – Effective January 1, 2009, the state of Washington (the State) changed its methodology for calculating the Medicaid reimbursement rates paid on eligible rural health clinic fee-for-service and managed care encounters. Included in the estimate prepared by management are assumptions regarding allowable encounters and the fee-for-service equivalents for those encounters. These estimates are subject to change based on the State's final reconciliation and settlement of 2014, 2015, 2016, and 2017 activity. The difference between the final settlements and the amounts estimated by management could be material; any difference will be recorded when the final settlement becomes known.

14. 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 Grant County.

The mix of receivables from patients was as follows:

	2017	2016
Medicare	29 %	35 %
Medicaid	23	20
Other third-party payors	28	27
Patients	20	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 hospital operations.



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
Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Ephrata, 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 Grant County Public Hospital District No. 3 doing business as Columbia Basin Hospital (the District) as of and for the year ended December 31, 2017, 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 10, 2018.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 10, 2018

**Grant County Public Hospital District No. 3
doing business as Columbia Basin Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017**

The audit for the year ended December 31, 2016, reported no audit findings, nor were there any unresolved prior year findings from years ended December 31, 2015, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2017.