



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

September 17, 2018

Board of Commissioners
Odessa Memorial Healthcare Center
Odessa, 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 Odessa Memorial Healthcare Center'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

**Lincoln County
Public Hospital District No. 1
doing business as
Odessa Memorial Healthcare Center**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016



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

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Odessa, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln County Public Hospital District No. 1 doing business as Odessa Memorial Healthcare Center (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 listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 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, and 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 March 7, 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, 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
March 12, 2018

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Statements of Net Position
December 31, 2017 and 2016

ASSETS	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,220,473	\$ 2,413,446
Receivables:		
Patient accounts, net of estimated uncollectibles of \$29,400 and \$19,900, respectively	1,462,703	1,169,853
Estimated third-party payor settlements	340,119	308,000
Taxes	20,268	10,670
Other	20,419	45,294
Inventories	101,378	84,872
Prepaid expenses and other assets	85,128	87,792
Cash and cash equivalents limited as to use	112,500	115,161
Taxes receivable restricted for bond principal and interest repayment	6,715	4,641
Total current assets	5,369,703	4,239,729
<i>Noncurrent assets</i>		
Capital assets, net	2,521,760	2,823,910
Total assets	\$ 7,891,463	\$ 7,063,639

See accompanying notes to basic financial statements.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Accounts payable	\$ 199,308	\$ 183,162
Accounts payable, capital	7,000	7,000
Accrued compensation and related liabilities	359,754	332,179
Accrued interest payable	6,088	6,845
Current maturities of long-term debt	171,512	162,296
Current maturities of capital lease obligations	4,042	22,518
Total current liabilities	747,704	714,000
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	1,132,990	1,304,502
Capital lease obligations, less current maturities	10,653	14,725
Total noncurrent liabilities	1,143,643	1,319,227
Total liabilities	1,891,347	2,033,227
<i>Net position</i>		
Net investment in capital assets	1,189,475	1,306,024
Restricted for bond principal and interest	15,162	14,049
Unrestricted	4,795,479	3,710,339
Total net position	6,000,116	5,030,412
Total liabilities and net position	\$ 7,891,463	\$ 7,063,639

See accompanying notes to basic financial statements.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Operating revenues</i>		
Net patient service, net of provision for bad debts of \$40,400 and \$20,887, respectively	\$ 7,292,219	\$ 6,362,496
Grants	46,889	63,098
Electronic health records incentive receipts	-	113,815
Other	106,080	117,852
Total operating revenues	7,445,188	6,657,261
<i>Operating expenses</i>		
Salaries and wages	3,213,527	3,195,619
Employee benefits	815,024	864,274
Medical and other supplies	422,761	480,618
Professional fees	1,456,893	1,210,071
Purchased services:		
Utilities	201,032	190,128
Other	682,032	630,928
Depreciation and amortization	382,063	492,316
Rentals	17,082	21,566
Insurance	50,225	51,503
Licenses, taxes, and other	247,101	241,258
Total operating expenses	7,487,740	7,378,281
<i>Operating loss</i>	(42,552)	(721,020)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	774,978	600,195
Taxation for bond principal and interest repayment	242,790	232,689
Contributions	1,392	500
Investment income	24,665	10,275
Interest expense	(81,137)	(91,655)
Total nonoperating revenues, net	962,688	752,004
Excess of revenues over expenses before capital grants and contributions	920,136	30,984
<i>Capital grants and contributions</i>	49,568	43,441
Change in net position	969,704	74,425
Net position, beginning of year	5,030,412	4,955,987
Net position, end of year	\$ 6,000,116	\$ 5,030,412

See accompanying notes to basic financial statements.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
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	\$ 6,967,250	\$ 5,549,116
Receipts from grants	46,889	63,098
Electronic health records incentive receipts	-	113,815
Other receipts	106,080	117,852
Payments to and on behalf of employees	(4,000,976)	(4,065,874)
Payments to suppliers and contractors	(3,049,947)	(2,798,156)
Net cash provided by (used in) operating activities	69,296	(1,020,149)
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	765,380	595,459
Contributions	1,392	500
Net cash provided by noncapital financing activities	766,772	595,959
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	240,716	232,249
Purchase of capital assets	(79,844)	(111,613)
Capital grants and contributions	49,568	43,441
Principal paid on long-term debt and capital lease obligations	(184,844)	(183,995)
Interest paid on long-term debt and capital lease obligations	(81,894)	(92,372)
Net cash used in capital and related financing activities	(56,298)	(112,290)
<i>Cash flows from investing activities</i>		
Investment income received	24,596	10,091
Net increase (decrease) in cash and cash equivalents	804,366	(526,389)
Cash and cash equivalents, beginning of year	2,528,607	3,054,996
Cash and cash equivalents, end of year	\$ 3,332,973	\$ 2,528,607

See accompanying notes to basic financial statements.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
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	\$ 3,220,473	\$ 2,413,446
Cash and cash equivalents limited as to use	112,500	115,161
Total cash and cash equivalents	\$ 3,332,973	\$ 2,528,607
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (42,552)	\$ (721,020)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	382,063	492,316
Provision for bad debts	40,400	20,887
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(333,250)	(127,940)
Estimated third-party payor settlements	(32,119)	(308,000)
Other	24,875	15,054
Inventories	(16,506)	13,511
Prepaid expenses and other assets	2,664	4,982
Increase (decrease) in liabilities:		
Accounts payable	16,146	(5,631)
Accrued compensation and related liabilities	27,575	(5,981)
Estimated third-party payor settlements	-	(398,327)
Net cash provided by (used in) operating activities	\$ 69,296	\$ (1,020,149)

See accompanying notes to basic financial statements.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements
Years Ended December 31, 2017 and 2016

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Lincoln County Public Hospital District No. 1 doing business as Odessa Memorial Healthcare Center (the District) operates a licensed 25-bed hospital, the Odessa Medical Clinic, and Quail Court, a 12-unit assisted living complex in Odessa, Washington. The District provides inpatient, outpatient, skilled nursing, assisted living, medical clinic, and ambulance services for residents of Lincoln County.

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.

Odessa Healthcare Foundation (the Foundation), a Washington tax-exempt, non-stock corporation, was incorporated in 1988 as a separate entity, and was organized to assist the District in raising donated funds. The Foundation does not meet the criteria to be considered a component unit of the District. Contributions received from the Foundation were approximately \$51,000 and \$44,000 in 2017 and 2016, respectively.

A separate report was not issued for the Foundation. The Foundation's financial statements can be obtained by contacting the Foundation at PO Box 368, Odessa, Washington 99122.

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of 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. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – All cash receipts are deposited into a depository account and transferred to the Lincoln County Treasurer who acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer. The Treasurer invests cash in interest-bearing investments at the direction 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.

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

Cash and cash equivalents limited as to use – Assets limited as to use include designated assets set aside by the Board of Commissioners (the Board) for resident care and employee health insurance, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets restricted by bond agreement for principal and interest repayment.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
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)

Compensated absences – The District’s policy is to permit employees to accumulate earned, but unused paid time off based on hours worked and number of years of service. The maximum amount an employee may accrue is 268 hours. All paid time off is accrued and expensed when earned.

The District permits employees to accumulate paid sick leave benefits based on hours worked. The maximum amount an employee may accrue is 480 hours. All sick leave is 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 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 revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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

Grants and contributions – From time to time, the District receives grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to specific 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.

Subsequent events – Subsequent events have been reviewed through March 12, 2018, the date on which the financial statements were available to be issued.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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 Revised Code of Washington (RCW), Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. The District has elected to use the County Treasurer to be its treasurer to issue warrants and make investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2017 and 2016, were \$2,896,000 and \$2,199,400, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

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 Federal and US Bank, pledge securities with this commission, which is 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.

3. Patient Accounts Receivable:

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

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

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

3. Patient Accounts Receivable (continued):

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

	2017	2016
Receivables from patients and their insurance carriers	\$ 329,866	\$ 349,856
Receivables from Medicare	1,030,561	707,006
Receivables from Medicaid	131,676	132,891
Total patient accounts receivable	1,492,103	1,189,753
Less allowance for uncollectible accounts	29,400	19,900
Patient accounts receivable, net	\$ 1,462,703	\$ 1,169,853

4. Property Taxes:

The Lincoln County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior July 1. Assessed values are established by the County Assessor at 100 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 assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31.

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

For the year ended December 31, 2017, the District's regular tax levy was \$0.60 per \$1,000 on a total assessed valuation of \$239,878,437, for a total regular levy of \$142,872. The District's excess tax levy was \$2.64 per \$1,000 on a total assessed valuation of \$238,838,487, for an excess levy of \$630,001. The District's bond levy was \$1.02 per \$1,000 on a total assessed valuation of \$238,838,487, for a total bond levy of \$243,501.

For the year ended December 31, 2016, the District's regular tax levy was \$0.61 per \$1,000 on a total assessed valuation of \$232,821,937, for a total regular levy of \$141,218. The District's excess tax levy was \$1.96 per \$1,000 on a total assessed valuation of \$232,181,967, for an excess levy of \$455,007. The District's bond levy was \$1.00 per \$1,000 on a total assessed valuation of \$232,181,967, for a total bond levy of \$232,600.

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.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Cash and Cash Equivalents Limited as to Use:

The composition of cash and cash equivalents limited as to use was as follows:

	2017	2016
Internally designated by the Board for resident care	\$ 95,308	\$ 95,779
Internally designated by the Board for employee health insurance	8,745	9,974
Restricted by bond agreement for bond principal and interest repayment	8,447	9,408
Cash and cash equivalents limited as to use	\$ 112,500	\$ 115,161

6. Capital Assets:

The District capitalizes assets whose basis exceeds \$2,500 and whose estimated useful lives exceed three years. Capital assets are reported at historical cost or estimated fair value at the date of donation.

All capital assets, other than land and construction in progress, are depreciated or amortized (in the case of capital leases), using the straight-line method over the estimated useful life of the asset. Such amortization is included in the depreciation and amortization in the basic financial statements. Useful lives have been estimated as follows:

Land improvements	8 to 20 years
Buildings and improvements	5 to 35 years
Equipment	3 to 25 years

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

6. Capital Assets (continued):

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

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ -	\$ 7,224	\$ -	\$ -	\$ 7,224
Land	16,481	-	-	-	16,481
Total capital assets not being depreciated	16,481	7,224	-	-	23,705
<i>Capital assets being depreciated</i>					
Land improvements	265,966	-	-	-	265,966
Building and improvements	2,960,374	-	-	-	2,960,374
Equipment	6,727,379	72,689	-	-	6,800,068
Total capital assets being depreciated	9,953,719	72,689	-	-	10,026,408
<i>Less accumulated depreciation for</i>					
Land improvements	(197,133)	(10,229)	-	-	(207,362)
Building and improvements	(1,801,611)	(96,352)	-	-	(1,897,963)
Equipment	(5,147,546)	(275,482)	-	-	(5,423,028)
Total accumulated depreciation	(7,146,290)	(382,063)	-	-	(7,528,353)
Total capital assets being depreciated, net	2,807,429	(309,374)	-	-	2,498,055
Capital assets, net	\$ 2,823,910	\$ (302,150)	\$ -	\$ -	\$ 2,521,760

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

6. Capital Assets (continued):

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 16,481	\$ -	\$ -	\$ -	\$ 16,481
Total capital assets not being depreciated	16,481	-	-	-	16,481
<i>Capital assets being depreciated</i>					
Land improvements	265,966	-	-	-	265,966
Building and improvements	2,925,781	34,593	-	-	2,960,374
Equipment	6,675,891	77,204	(25,716)	-	6,727,379
Total capital assets being depreciated	9,867,638	111,797	(25,716)	-	9,953,719
<i>Less accumulated depreciation for</i>					
Land improvements	(186,019)	(11,114)	-	-	(197,133)
Building and improvements	(1,703,506)	(98,105)	-	-	(1,801,611)
Equipment	(4,790,165)	(383,097)	25,716	-	(5,147,546)
Total accumulated depreciation	(6,679,690)	(492,316)	25,716	-	(7,146,290)
Total capital assets being depreciated, net	3,187,948	(380,519)	-	-	2,807,429
Capital assets, net	\$ 3,204,429	\$ (380,519)	\$ -	\$ -	\$ 2,823,910

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. Long-term Debt and Capital Lease Obligations:

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

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>2004 unlimited tax general obligation bond</i>	\$ 1,466,798	\$ -	\$ (162,296)	\$ 1,304,502	\$ 171,512
<i>Capital lease obligations</i>	37,243	-	(22,548)	14,695	4,042
Total long-term debt and capital lease obligations	\$ 1,504,041	\$ -	\$ (184,844)	\$ 1,319,197	\$ 175,554

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>2004 unlimited tax general obligation bond</i>	\$ 1,620,373	\$ -	\$ (153,575)	\$ 1,466,798	\$ 162,296
<i>Capital lease obligations</i>	67,663	-	(30,420)	37,243	22,518
Total long-term debt and capital lease obligations	\$ 1,688,036	\$ -	\$ (183,995)	\$ 1,504,041	\$ 184,814

Long-term debt – Unlimited Tax General Obligation Improvement and Refunding Bond, Series 2004, dated May 27, 2004, in the original amount of \$3,000,000; due in semiannual installments of \$121,098 through 2024, plus interest at 4.8 percent for years 1-10 and 5.6 percent for years 11-20. The proceeds were used to advance refund \$415,000 of outstanding 1997 Limited Tax General Obligation Bonds and to currently refund \$319,397 of outstanding 2002 Limited Tax General Obligation Bonds. The net proceeds of \$2,942,500 (after payment of \$57,500 in loan fees and other issuance costs) plus an additional \$34,000 of District funds were used to refund the 2002 bonds, pay the outstanding bond interest, and to purchase government securities for the advance refunding of the 1997 bonds. The remaining funds were deposited into a construction account with the County Treasurer for use in capital improvements. The government securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 bonds. As a result, the 1997 bonds are considered to be defeased and the liability for those bonds has been removed from the basic financial statements.

The District is required to levy and collect sufficient taxes each year to pay the Unlimited Tax General Obligation Improvement and Refunding Bond principal and interest payments due. The Unlimited Tax General Obligation Improvement and Refunding 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 District's voters approved the 2004 bond 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.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

Capital lease obligations – The minimum lease payments have been capitalized and the related assets and obligations have been recorded using the implicit interest rates in the leases. The assets are amortized to expense on a straight-line basis over the lives of the assets. Interest expense is recorded on the basis of the outstanding lease obligations. The leases provide that the District pay for insurance, taxes, and maintenance associated with the equipment.

Capital lease obligation payable to Kelley Imaging Systems, dated December 8, 2015, in the original amount of \$21,701; due in monthly installments of \$440 through 2021; collateralized by Toshiba e-STUDIO copiers.

Capital lease obligation payable to Bank of the West, dated May 28, 2014, in the original amount of \$79,901; due in monthly installments of \$2,407 through 2017; collateralized by endoscopy equipment. The lease was paid in full during 2017.

These lease obligations are reflected in the District's assets and liabilities. The assets acquired under the capital leases have a capitalized cost of \$15,510 and \$95,411 as of December 31, 2017 and 2016, respectively, and accumulated amortization of \$10,770 and \$74,572 as of December 31, 2017 and 2016, respectively.

Scheduled principal and interest repayments on long-term debt obligations are as follows:

Years Ending December 31,	Unlimited Tax General Obligation Improvement and Refunding Bond		
	Principal	Interest	Total
2018	\$ 171,512	\$ 70,684	\$ 242,196
2019	181,251	60,945	242,196
2020	191,543	50,653	242,196
2021	202,420	39,776	242,196
2022	213,914	28,282	242,196
2023-2024	343,862	19,433	363,295
	\$ 1,304,502	\$ 269,773	\$ 1,574,275

Scheduled principal and interest repayments on capital lease obligations are as follows:

Years Ending December 31,	Capital Lease Obligations		
	Principal	Interest	Total
2018	\$ 4,042	\$ 1,244	\$ 5,286
2019	4,450	835	5,285
2020	4,900	386	5,286
2021	1,303	21	1,324
	\$ 14,695	\$ 2,486	\$ 17,181

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
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 provision for bad debts related to uninsured patients in the period the services are provided. The District's provision for bad debts and writeoffs has not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 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	\$ 4,080,420	\$ 3,404,766
Medicaid	1,012,567	1,094,352
Other third-party payors	1,022,491	843,840
Patients	1,234,400	1,060,633
	7,349,878	6,403,591
Less:		
Charity care	(17,259)	(20,208)
Provision for bad debts	(40,400)	(20,887)
Net patient service revenue	\$ 7,292,219	\$ 6,362,496

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.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

8. 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 increased by approximately \$183,000 and \$51,000 in 2017 and 2016, respectively, 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, 2017 and 2016 were approximately \$25,000 and \$30,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

9. Electronic Health Records (EHR) Incentive Payments:

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

The District recognized the first of its four Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The District's final Medicaid incentive payment of \$113,815 was recognized as revenue in 2016.

10. Pension Plan:

The District has a voluntary contributory defined contribution pension plan which is available to all employees working more than 1,000 hours per year and over the age of 18 after completion of participation requirements. Participating employees may make voluntary contributions of up to 15 percent of their eligible compensation, and the District contributes a matching contribution of up to 3 percent of eligible compensation. Employee voluntary contributions and employer contributions are 100 percent vested. The District funds its contributions bi-weekly. The plan's name is Thrift Plan and Trust of Lincoln County Public Hospital District No. 1 and is sponsored and administered by the District. The District has the authority to amend the plan. Total employer pension contributions were approximately \$55,000 and \$58,000 for 2017 and 2016, respectively. Total employee pension contributions were approximately \$118,000 and \$121,000 for 2017 and 2016, respectively.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Risk Management and Contingencies:

Medical malpractice claims – The District has professional liability insurance coverage with Washington Casualty Company. 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 has no deductible per claim.

The District also has excess professional liability insurance with Washington Casualty Company on a “claims-made” basis. The excess malpractice insurance provides \$1,000,000 per claim of primary coverage with an aggregate limit of \$1,000,000. The policy has no deductible per claim.

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

Risk 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.

Risk transfer pools – The District is a part of the Aging Services of Washington Group Retrospective Rating Program (GRRP) which is a risk transfer pool administered by Comprehensive Risk Management. The District pays its share of quarterly workers’ compensation premiums, but GRRP provides an opportunity to receive premium refunds based on performance. Workers’ compensation expenses under this plan were approximately \$79,000 and \$63,000 in 2017 and 2016, respectively.

The District has a self-insured unemployment compensation plan for its employees. The District is a part of the Public Hospital District Unemployment Compensation Trust (the Trust) which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment compensation claims, maintenance of reserves, and administrative expenses. Unemployment compensation expenses under the plan were approximately \$10,000 and \$17,000, in 2017 and 2016, 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.

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

12. Concentration 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 mix of receivables from patients and third-party payors was as follows:

	2017	2016
Medicare	30 %	29 %
Medicaid	23	24
Other third-party payors	24	28
Patients	23	19
	100 %	100 %

Physicians – The District is dependent on local physicians and mid-level providers practicing in its service area to provide admission and utilize hospital services on an outpatient basis. A decrease in the number of providers or changes 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
Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Odessa, 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 Lincoln County Public Hospital District No. 1 doing business as Odessa Memorial Healthcare Center (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 March 12, 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
March 12, 2018

Lincoln County Public Hospital District No. 1
doing business as Odessa Memorial Healthcare Center
Summary Schedule of Prior Year 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 findings from periods ended December 31, 2015, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2017.