



# Washington State Auditor's Office

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## Financial Statements Audit Report

# Okanogan County Public Hospital District No. 3 (Mid-Valley Hospital)

For the period January 1, 2014 through December 31, 2014

Published December 7, 2015

Report No. 1015599





## Washington State Auditor's Office

December 7, 2015

Board of Commissioners  
Mid-Valley Hospital  
Omak, Washington

### Report on Financial Statements

Please find attached our report on the Mid-Valley Hospital's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## STATUS OF PRIOR AUDIT FINDINGS

### Mid-Valley Hospital Okanogan County January 1, 2014 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Mid-Valley Hospital. The State Auditor's Office has reviewed the status as presented by the District.

|  |   |   |  |   |   |  |
|--|---|---|--|---|---|--|
| <b>Audit Period:</b><br>2013   | <b>Report Ref. No:</b><br>1013705                       | <b>Finding Ref. No:</b><br>2013-001                 |  |   |   |  |
| <b>Finding Caption:</b><br>Okanogan County Public Hospital District No. 3's financial condition has continued to decline which puts it at risk for not being able to meet its financial obligations and maintain current service levels.   |   |   |  |   |   |  |
| <b>Background:</b><br>We noted during our prior audit of that District that it had begun relying upon registered warrants from the Okanogan County Treasurer's Office to pay daily operating costs.<br><br>Registered warrants are short-term funding available through the Treasurer's Office to pay daily operating expenses and long-term debt obligations when a local government has a cash shortfall. The District began occasionally using registered warrants for short term financing in 2007. However, it began relying on registered warrants in 2013 without paying them off. The District's registered warrants balance grew to \$1.75 million as of December 31, 2013, and has grown to \$1.93 as of October 31, 2014. The Treasurer's Office has limited the District's ability to use registered warrants to \$2 million.<br><br>We recommend the District's Board develop a formal plan to address its financial condition including customer services, future operating income and cash flow. We further recommend the Board continue to closely monitor and evaluate to ensure the plan is being followed and the desired results achieved. |   |   |  |   |   |  |
| <b>Status of Corrective Action: (check one)</b><br><table><tr><td><input type="checkbox"/> Fully Corrected</td><td><input checked="" type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> No Corrective Action Taken</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>  |   |   | <input type="checkbox"/> Fully Corrected                       | <input checked="" type="checkbox"/> Partially Corrected | <input type="checkbox"/> No Corrective Action Taken | <input type="checkbox"/> Finding is considered no longer valid |
| <input type="checkbox"/> Fully Corrected   | <input checked="" type="checkbox"/> Partially Corrected | <input type="checkbox"/> No Corrective Action Taken | <input type="checkbox"/> Finding is considered no longer valid |   |   |  |
| <b>Corrective Action Taken:</b><br><i>Cash borrowing as of 11/10/15 is at zero, and there is over \$400,000 on deposit for next week's bills. Mid Valley is still borrowing \$200,000 to \$300,000 from the Treasurer to pay bills. The Treasurer has placed a \$600,000 cap on registered warrants. The administrator is investigating how Mid Valley Hospital may make a levy to establish a Working Capital Reserve which will support short-term capital needs. Until that is in place, there may be a need to</i>   |   |   |  |   |   |  |

*register a few warrants. In terms of customer service, H.R. has presented courses to managers which train employees about what is “good customer service”, and how one needs to improve their own behavior in regards to the customer. A number of highly compensated employees have been removed from the organization, and, on accrual basis, Mid Valley is showing a profit of over \$600,000 as of September 2015. The Board, through administration will do all things possible to remain under the limitations imposed by the Treasurer. This may well entail layoffs and service reductions.*

**INDEPENDENT AUDITOR'S 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**

**Mid-Valley Hospital  
Okanogan County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Mid-Valley Hospital  
Omak, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Mid-Valley Hospital, Okanogan County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2015. The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

**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 opinions 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 District'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 the District's 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*. However, we noted certain matters that we have reported to the management of the District in a separate letter dated November 18, 2015.

## 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

November 16, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Mid-Valley Hospital Okanogan County January 1, 2014 through December 31, 2014**

Board of Commissioners  
Mid-Valley Hospital  
Omak, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Mid-Valley Hospital, Okanogan County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 12.

### **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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 auditor's 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 auditor considers internal control relevant to the District'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 District'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 opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Mid-Valley Hospital, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 information that governmental 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 November 16, 2015 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. The purpose of that report 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. That report is 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

November 16, 2015

## **FINANCIAL SECTION**

**Mid-Valley Hospital  
Okanogan County  
January 1, 2014 through December 31, 2014**

### **BASIC FINANCIAL STATEMENTS**

Statements of Net Position – 2014

Statements of Revenues, Expenses and Changes in Net Position – 2014

Statements of Cash Flows – 2014

Notes to Financial Statements – 2014

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Statements of Net Position

Year Ended December 31, 2014

|  | <i>Assets</i> | District             | Component<br>Unit |
|--|---------------|----------------------|-------------------|
| Current assets:  |               |                      |                   |
| Cash and cash equivalents                                    | \$            | 354,818              | \$ 6,842          |
| Receivables:   |               |                      |                   |
| Patient accounts - net                                       |               | 4,530,797            | 303,473           |
| Other  |               | 234,737              | 40,375            |
| Taxes  |               | 43,911               | -                 |
| Third-party  |               | 663,536              | -                 |
| LLC member hospital districts                                |               | -                    | 66,724            |
| Inventories  |               | 810,656              | 27,407            |
| Prepaid expenses   |               | 306,528              | 32,464            |
| Total current assets   |               | 6,944,983            | 477,285           |
| Capital assets:  |               |                      |                   |
| Nondepreciable capital assets                                |               | 224,231              |                   |
| Depreciable capital assets - Net of accumulated depreciation |               | 6,646,481            | 20,935            |
| Total capital assets - Net of accumulated depreciation       |               | 6,870,712            | 20,935            |
| Other assets:  |               |                      |                   |
| Receivable from LLC  |               | 1,177,909            | -                 |
| Physician recruitment program - Loans to students            |               | 126,223              | 448,000           |
| Total other assets   |               | 1,304,132            | 448,000           |
| <b>TOTAL ASSETS</b>  |               | <b>\$ 15,119,827</b> | <b>\$ 946,220</b> |

See Accompanying Notes to Financial Statements

| <i>Liabilities and Net Position</i>                            | Component            |                   |
|--|----------------------|-------------------|
|  | District             | Unit              |
| Current liabilities:   |                      |                   |
| Current maturities, long-term debt                             | \$ 472,469           | \$ -              |
| Warrants payable   | 2,099,247            | -                 |
| Accounts payable - Trade                                       | 1,061,717            | 68,134            |
| Accounts payable to majority interest Member Hospital District | -                    | 118,737           |
| Advance payable to majority interest Member Hospital District  | -                    | 1,084,637         |
| Payroll and related liabilities                                | 422,007              | 93,323            |
| Accrued vacation   | 724,528              | -                 |
| Other  | 6,020                | 310               |
| Total current liabilities                                      | 4,785,988            | 1,365,141         |
| Noncurrent liabilities:  |                      |                   |
| Physician recruitment program due to Member Hospital Districts | -                    | 448,000           |
| Long-term debt - Less current maturities                       | 1,672,039            | -                 |
| Total liabilities  | 6,458,027            | 1,813,141         |
| Net position:  |                      |                   |
| Net investment in capital assets                               | 4,726,204            | 20,935            |
| Restricted expendable net position                             | 11,714               | -                 |
| Unrestricted   | 3,923,882            | (887,856)         |
| Total net position   | 8,661,800            | (866,921)         |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                      | <b>\$ 15,119,827</b> | <b>\$ 946,220</b> |

See Accompanying Notes to Financial Statements

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Statements of Revenues, Expenses, and Changes in Net Position

Year Ended December 31, 2014

|  | District      | Component Unit |
|--|---------------|----------------|
| Operating revenue:                                 |               |                |
| Net patient service revenue                        | \$ 28,301,853 | \$ 1,171,461   |
| Other  | 789,822       | 4,593          |
| Services provided to LLC Member Hospital Districts | -             | 725,272        |
| Total operating revenue                            | 29,091,675    | 1,901,326      |
| Operating expenses:                                |               |                |
| Salaries and wages                                 | 14,685,958    | 1,637,589      |
| Employee benefits                                  | 3,528,094     | 214,833        |
| Professional fees                                  | 2,139,160     | -              |
| Supplies   | 3,935,939     | 68,241         |
| Purchased services                                 | 2,737,608     | 239,296        |
| Utilities  | 416,415       | 22,304         |
| Insurance  | 440,354       | 78,339         |
| Other  | 494,323       | 117,575        |
| Rent   | 428,862       | 119,699        |
| Depreciation and amortization                      | 1,240,492     | 30,365         |
| Total operating expenses                           | 30,047,205    | 2,528,241      |
| Loss from operations                               | (955,530)     | (626,915)      |
| Nonoperating revenue (expenses):                   |               |                |
| Interest income                                    | 1,167         | -              |
| Interest expense                                   | (190,967)     | -              |
| Noncapital grants and contributions                | 84,647        | -              |
| Loss on sale of assets                             | (12,413)      | -              |
| Property taxes                                     | 595,385       | -              |
| Other  | 169,221       | -              |
| Total nonoperating revenue (expenses)              | 647,040       | -              |
| Deficiency of revenues over expenses               | (308,490)     | (626,915)      |
| Capital grants and contributions                   | 16,708        | -              |
| Decrease in net position                           | (291,782)     | (626,915)      |
| Net position at beginning                          | 8,953,582     | (240,006)      |
| Net position at end                                | \$ 8,661,800  | \$ (866,921)   |

See Accompanying Notes to Financial Statements

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Statements of Cash Flows

Year Ended December 31, 2014

|  | District      | Component Unit |
|--|---------------|----------------|
| Cash flows from operating activities:                                  |               |                |
| Cash received from operations  | \$ 28,308,721 | \$ 1,232,499   |
| Cash received from other operating revenue                             | 637,774       | 681,458        |
| Cash paid for salaries and benefits                                    | (18,188,040)  | (1,827,379)    |
| Cash paid for supplies, professional fees and other operating expenses | (10,380,779)  | (491,191)      |
| Net cash provided by (used in) operating activities                    | 377,676       | (404,613)      |
| Cash flows from noncapital financing activities:                       |               |                |
| Cash received from property taxes                                      | 593,363       | -              |
| Cash received from donations and other nonoperating revenue            | 253,868       | -              |
| Loans to Member Hospital District for physician recruitment program    | (91,379)      | (32,000)       |
| Cash (paid) received for advance payable                               | (403,290)     | 408,500        |
| Net cash provided by noncapital financing activities                   | 352,562       | 376,500        |
| Cash flows from capital and related financing activities:              |               |                |
| Capital grants and contributions                                       | 16,708        | -              |
| Principal payments on long-term debt                                   | (497,100)     | -              |
| Interest paid on long-term debt  | (190,967)     | -              |
| Payments for purchase of capital assets                                | (36,470)      | -              |
| Net cash used in capital and related financing activities              | (707,829)     | -              |
| Cash flows from investing activities:                                  |               |                |
| Loans issued for physician recruitment program                         | 54,479        | 32,000         |
| Interest received  | 1,167         | -              |
| Net cash provided by investing activities                              | 55,646        | 32,000         |
| Net increase in cash and cash equivalents                              | 78,055        | 3,887          |
| Cash and cash equivalents - Beginning of year                          | 276,763       | 2,955          |
| Cash and cash equivalents - End of year                                | \$ 354,818    | \$ 6,842       |

See Accompanying Notes to Financial Statements

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Statements of Cash Flows

Year Ended December 31, 2014

|   | District     | Component Unit |
|---|--------------|----------------|
| Reconciliation of loss from operations to net cash provided by (used in) operating activities:        |              |                |
| Loss from operations  | \$ (955,530) | \$ (626,915)   |
| Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities: |              |                |
| Depreciation and amortization   | 1,240,492    | 30,365         |
| Provision for bad debts   | 3,096,036    | -              |
| Changes in operating assets and liabilities:  |              |                |
| Patient accounts receivable   | (2,680,670)  | 61,038         |
| Member hospital districts receivable  | -            | (8,422)        |
| Other accounts receivable   | (152,048)    | (39,985)       |
| Third-party receivable  | (408,498)    | -              |
| Inventories   | (85,295)     | 8,982          |
| Prepaid expenses  | 9,735        | (2,084)        |
| Warrants payable  | 201,173      | -              |
| Accounts payable - Trade  | 87,587       | -              |
| Advance payable to District   | -            | 102,805        |
| Payroll and related liabilities   | (5,096)      | 25,043         |
| Accrued vacation  | 43,930       | -              |
| Accrued pension   | (12,822)     | -              |
| Accounts payable to other vendors   | -            | 44,322         |
| Other   | (1,318)      | 238            |
| Total adjustments   | 1,333,206    | 222,302        |
| Net cash provided by (used in) operating activities   | \$ 377,676   | \$ (404,613)   |

### Noncash Investing, Capital and Financing Activities:

|   |            |      |
|---|------------|------|
| Capital lease obligations for new equipment | \$ 181,624 | \$ - |
|---|------------|------|

See Accompanying Notes to Financial Statements

# Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

## Notes to Financial Statements

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### Note 1      Summary of Significant Accounting Policies (District)

#### The Entity

Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital (the "District"), a licensed 44-bed (25 set-up beds, 5 bassinets, 5 swing beds) acute care hospital in Omak, Washington. The District provides acute care and clinical services to patients in the Omak market. The services include acute care, hospital inpatient and outpatient surgery, emergency room, obstetrics, and the related ancillary procedures (lab, anesthesia, x-ray, therapy, etc.) associated with those services. The District is a member of Caribou Trail Professional Medical Services Group, LLC with four other area hospital districts.

#### Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by the Government Accounting Standards Board (GASB).

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in the Accounting and Reporting Manual for Hospitals. The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

##### **Cash and Cash Equivalents**

All cash receipts are deposited directly to the District's depository accounts with the Okanogan County Treasurer. Periodically, such cash is transferred to the operating accounts, and warrants are issued by the District against these accounts. For purposes of the statements of cash flows, the District considers all cash and cash investments with maturity dates of ninety days or less as cash and cash equivalents.

##### **Patient Accounts Receivable and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowance for uncollectable accounts which reflect management's best estimate of the amounts that will not be collected. The carrying amounts of patient accounts receivables are reduced by allowances that reflect managements' best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily from uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowances for uncollectable accounts.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

##### **Patient Accounts Receivable and Credit Policy** (Continued)

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectable accounts and provision for bad debts. Management regularly reviews data from the major payor sources revenue in evaluating the sufficiency of the allowance for uncollectable accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectable accounts and a provisions for bad debts 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 includes 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 discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable accounts.

##### **Property Taxes**

The District has the authority to impose taxes on property within the boundaries of the health care district. Taxes are received from Okanogan County (the "County"). Ad Valorem taxes and per parcel assessments are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same year. Taxes are payable in two equal installments on April 30 and October 31.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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**Note 1                      Summary of Significant Accounting Policies (District) (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 operation of the District.

**Noncurrent Assets Limited as to Use**

Noncurrent assets are comprised of certain cash and cash equivalents and other resources set aside for specific purposes due to restrictions placed on them. Board designated assets include assets set aside by the Board of Commissioners for future capital improvements or other designated purposes. Board designated and restricted assets that are required for obligations classified as current liabilities are reported as current assets.

**Capital Assets**

Capital assets are recorded at cost or, if donated, at fair value at date of donation. Expenditures for maintenance and repairs are charged to operations as incurred, betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts, and the resulting gain or loss is classified in non-operating gains and losses.

Depreciation and amortization have been computed on the straight-line method over the following estimated useful service lives:

|                                     |                |
|-------------------------------------|----------------|
| Land improvements                   | 15 to 20 years |
| Buildings and building improvements | 20 to 40 years |
| Major moveable equipment            | 3 to 20 years  |
| Software                            | 3 to 5 years   |

Property held for future expansion is stated at cost.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

##### **Asset Impairment**

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue and expenses and changes in net position. No impairment losses were recorded in 2014.

##### **Compensated Absences**

The Annual Leave (AL) program at the District provides eligible personnel with appropriate compensation during holidays and vacation time. The District accrues annual leave for compensated absences as an expense and liability when earned based on the employee's status. The maximum allowable balance of AL time for each employee is twice their annual accrual. AL balances which have been accrued in a prior calendar year but not used during a subsequent calendar year will be paid to the employee in a lump sum the following January with the option through written request to defer payout until June the following year. All employees who terminate their employment will be paid unused AL hours at the regular rate of pay. The sick leave program provides employees with appropriate compensation for illnesses for themselves or an eligible family member. The maximum allowable balance of sick leave is 960 hours. The District does not accrue a liability for sick leave.

The District has entered into physician and other professional employee contracts in which the individual receives a benefit bank upon employment date which includes vacation, sick, holiday and continuing education. Individual contracts address the number of days accrued, payout methods, and if days carry over to next employment year.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

##### **Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted expendable net position when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the remaining net position that does not meet the definitions above. When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first.

##### **Operating Revenues and Expenses**

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenue result from exchange transactions associated with providing health care services, the District's primary business. Non-exchange revenue, including taxes, and grants and contributions received for purposes other than capital assets acquisition, and results from joint ventures, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

##### **Patient Service Revenues**

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. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, the District recognizes revenue 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 willing to pay for services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

##### **Charity Care**

The District provides health care services to patients who meet certain criteria under its Healthcare Assistance Program without charge or at amounts less than established rates. The District maintains records to identify the amounts of charges forgone for services and supplies furnished under the Healthcare Assistance Program. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

##### **Grants and Donations**

From time to time, the District received grants from the State of Washington as well as contributions from individual and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

##### **LIDSH Revenue**

The District received Low Income Disproportionate Share (LIDSH) funds from the Washington State Department of Social and Health Services (DSHS). The District recorded \$464,166 as a reduction to contractual adjustments during 2014.

##### **Component Unit**

In July 2003, the District entered into an inter-local cooperation agreement with four hospital districts in the area and formed Caribou Trail Professional Medical Services Group, LLC (LLC) for the purpose of furthering the missions of the districts by delivering high quality and cost-effective specialty medical services for patients and to ensure that such medical services and related services are available in the rural communities served by the districts through the recruitment and retention of physicians and other health care professionals. Compiled financial statements of the LLC for 2014 and previous years can be obtained by contacting the District.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

##### **Electronic Health Record Incentive Funding**

The American Recovery and Reinvestment Act of 2009 ("ARRA") provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

The District recognizes revenue for EHR incentive payments when there is reasonable assurance that the District will meet the conditions of the program, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based on management's best estimates which are based in part on cost report data that is subject to audit by fiscal intermediaries, accordingly, amounts recognized are subject to change. In addition, the District's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The District incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments.

The District has deferred a portion of the payment received under the Medicare EHR program. The deferred revenue is being amortized and recognized as revenue over three years, which is the period the software would have been depreciated and cost reimbursed through the cost report.

# Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

## Notes to Financial Statements

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### Note 1      **Summary of Significant Accounting Policies (District)** (Continued)

#### **Reclassifications**

Certain reclassifications of 2013 amounts have been made in the accompanying financial statements to conform to 2014 presentation.

#### **Subsequent Events**

Subsequent events have been evaluated through the date of the opinion, which is the date the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statements.

### Note 2      **Compliance**

Management believes the District is in substantial compliance with current laws and regulation through the year ended December 31, 2014.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 3 Bank Deposits and Investments

##### Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At December 31, 2014, the Company exceeded the insured limits by \$104,818.

The Revised Code of Washington, Chapter 39, authorized 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. All final decisions regarding the purchase and sale of investment securities remain with the District Board. The District maintains an investment policy designed to maximize return and limit the following types of risks:

*Custodial credit risk* – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

*Credit risk* – The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a policy specifically requiring or limiting investments of type.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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**Note 3**      **Bank Deposits and Investments** (Continued)

**Cash and Cash Equivalents** (Continued)

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

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

The carrying amounts of deposits are included in the District’s statements of net position as follows at December 31, 2014:

|                           | <b>District</b> |         | <b>Component<br/>Unit</b> |       |
|---------------------------|-----------------|---------|---------------------------|-------|
| Deposits:                 |                 |         |                           |       |
| Current assets:           |                 |         |                           |       |
| Cash and cash equivalents | \$              | 354,818 | \$                        | 6,842 |
| Total deposits            | \$              | 354,818 | \$                        | 6,842 |

# Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

## Notes to Financial Statements

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### Note 4      Patient Accounts Receivable (District)

The mix of patient accounts receivable at December 31, 2014 is as follows:

|   |    |            |
|---|----|------------|
| Receivable from patients and their insurance carriers | \$ | 7,061,825  |
| Receivable from Medicare                              |    | 3,024,035  |
| Receivable from Medicaid                              |    | 2,245,972  |
|   |    | <hr/>      |
| Total patient accounts receivable                     |    | 12,331,832 |
|   |    | <hr/>      |
| Less - Allowance for uncollectible amounts            |    | 3,096,036  |
| Less - Contractual adjustments                        |    | 4,704,999  |
|   |    | <hr/>      |
| Total adjustments                                     |    | 7,801,035  |
|   |    | <hr/>      |
| Patient accounts receivable - Net                     | \$ | 4,530,797  |
|   |    | <hr/>      |

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 5      Property Taxes (District)

The District received approximately 0.97% of its financial support from property taxes. The funds were used as follows:

|                              |    |         |
|------------------------------|----|---------|
| Levied to support operations | \$ | 584,843 |
|------------------------------|----|---------|

Property taxes are levied by the District and collected by the Okanogan County Treasurer. 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. 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 the vote of people.

For 2014, the District's regular tax levy was \$.631359 per \$1,000 on a total assessed valuation of \$936,599,860 for a total regular levy of \$591,331.

Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as other non-operating revenues. No allowance for doubtful taxes receivable is considered necessary.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 6      Reimbursement Arrangements with Third-Party Payors (District)

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

*Medicare* - The Hospital is designated as a critical access hospital (CAH). Under this designation, inpatient and outpatient hospital services rendered to Medicare program beneficiaries are paid based upon a cost-reimbursement methodology, with the exception of certain lab and mammography services, which remain on a fee schedule. Professional services provided by physicians and other clinicians are reimbursed based on prospectively determined fee schedules.

*Medicaid* - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after the submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

*Others* - The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital on these agreements includes prospectively determined rates per discharge, discounts from established rates, and other payment methods.

*Accounting for Medicare and Medicaid Contractual Arrangements* - The Hospital is reimbursed for cost-reimbursable items at interim rates with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying consolidated financial statements. The Hospital's cost reports have been audited by the Medicare fiscal intermediaries through December 31, 2012. The Hospital's Medicaid cost reports have been audited through December 31, 2011.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 6      Reimbursement Arrangements with Third-Party Payors (District) (Continued)

##### Electronic Health Record Incentive Funding

Based on the District's policy, for the year ended December 31, 2014, the Hospital recognized \$195,372 in EHR incentive payments from the Medicare program, which is included in other operating revenue in the accompanying statements of revenues, expenses, and changes in net position.

As of December 31, 2014, the District received Medicaid EHR incentive payments totaling \$194,730. The Medicaid EHR incentive payment is recognized as other operating revenue the year it is received.

##### Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violations of these laws and regulations could result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from patient services. Management believes the Organization is in substantial compliance with current laws and regulations. CMS uses recovery audit contractors (RACs) as part of CMS's further efforts to ensure accurate payments. CMS uses RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Organization's policy is to adjust to or from revenue the amounts assessed under the RAC audits at the time a change in reimbursement is agreed upon between the Organization and CMS. RAC reviews with the Organization are anticipated; however, the outcomes of such potential reviews are unknown and cannot be reasonably estimated at December 31, 2014.

# Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

## Notes to Financial Statements

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### Note 7              Short-Term Debt (District)

Warrants issued by the public hospital district auditor are payable by the district treasurer from funds on deposit with the treasurer. If insufficient funds are on deposit with the treasurer when the warrants are presented for payment, the warrants become interest bearing registered warrants.

The District had a beginning warrants payable balance of \$1,898,074 and an ending balance of \$2,099,247 as of December 31, 2014. The District had a balance of \$1,471,155 registered warrants as of December 31, 2014.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

#### Note 8 Capital Assets (District)

Capital asset additions, retirements, and balances for the year were as follows:

|  | Balance January<br>1, 2014 | Additions/<br>Transfers | Retirements/<br>Transfers | Balance<br>December 31,<br>2014 |
|--|----------------------------|-------------------------|---------------------------|---------------------------------|
| Nondepreciable capital assets:           |                            |                         |                           |                                 |
| Land                                     | \$ 84,306                  | \$ -                    | \$ -                      | \$ 84,306                       |
| Other                                    | 118,222                    | -                       | -                         | 118,222                         |
| Construction in progress                 | -                          | 21,703                  | -                         | 21,703                          |
| Total nondepreciable capital assets      | 202,528                    | 21,703                  | -                         | 224,231                         |
| Depreciable capital assets:              |                            |                         |                           |                                 |
| Land improvements                        | 897,077                    | -                       | -                         | 897,077                         |
| Buildings service and fixed equipment    | 11,158,319                 | 50,361                  | (8,038)                   | 11,200,642                      |
| Equipment                                | 5,354,819                  | 62,340                  | (384,745)                 | 5,032,414                       |
| Software                                 | 1,067,553                  | 83,689                  | -                         | 1,151,242                       |
| Total depreciable capital assets         | 18,477,768                 | 196,390                 | (392,783)                 | 18,281,375                      |
| Total capital assets before depreciation | 18,680,296                 | 218,093                 | (392,783)                 | 18,505,606                      |
| Less accumulated depreciation for:       |                            |                         |                           |                                 |
| Land improvements                        | 436,822                    | 89,799                  |                           | 526,621                         |
| Buildings service and fixed equipment    | 6,104,125                  | 451,333                 | (8,038)                   | 6,547,420                       |
| Equipment                                | 3,852,620                  | 420,904                 | (372,332)                 | 3,901,192                       |
| Software                                 | 381,205                    | 278,456                 | -                         | 659,661                         |
| Total accumulated depreciation           | 10,774,772                 | 1,240,492               | (380,370)                 | 11,634,894                      |
| Total capital assets - Net               | \$ 7,905,524               | \$ (1,022,399)          | \$ (12,413)               | \$ 6,870,712                    |

At December 31, 2014, construction in progress consisted of Surgery Humidifier project, and an MRI project. The completion of the projects is expected to be during 2015 with the Surgery Humidifier project expected to cost approximately \$49,000 and the MRI project expected to cost approximately \$2,000,000.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

#### Note 9 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (District)

The terms and the due dates of the District's long-term debt, including capital lease obligations at December 31 are as follows:

|  | Balance<br>January 1,<br>2014 | Additions  | Reductions | Balance<br>December 31,<br>2014 | Amounts Due<br>Within One<br>Year |
|--|-------------------------------|------------|------------|---------------------------------|-----------------------------------|
| Bonds and notes payable:   |                               |            |            |                                 |                                   |
| LTGO Bonds 2009  | \$ 1,003,824                  | \$ -       | \$ 144,519 | \$ 859,305                      | \$ 152,948                        |
| LTGO Bonds 2011  | 892,490                       | -          | 107,086    | 785,404                         | 111,357                           |
| Total long-term debt   | 1,896,314                     | -          | 251,605    | 1,644,709                       | 264,305                           |
| Capital leases payable:  |                               |            |            |                                 |                                   |
| GE Precision - R&F - Mammo   | 415,194                       | -          | 170,513    | 244,681                         | 131,234                           |
| Symex America  | 39,669                        | -          | 12,387     | 27,282                          | 13,616                            |
| Fleetwood - Dragon Voice Recognition   | 16,671                        | -          | 15,353     | 1,318                           | 1,318                             |
| GE Logiq E9 Ultrasound   | 92,136                        | -          | 25,731     | 66,405                          | 27,324                            |
| GE Financier Treadmill   | -                             | 31,050     | 3,301      | 27,749                          | 5,901                             |
| GE Financing Capital Improvement Loan  | -                             | 150,574    | 18,210     | 132,364                         | 28,771                            |
| Total capital leases   | 563,670                       | 181,624    | 245,495    | 499,799                         | 208,164                           |
| Total long-term debt, capital leases payable, and other noncurrent liabilities | \$ 2,459,984                  | \$ 181,624 | \$ 497,100 | \$ 2,144,508                    | \$ 472,469                        |

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

| FYE December 31: | Bonds Payable |          |           | Capital Lease Obligations |          |         |
|------------------|---------------|----------|-----------|---------------------------|----------|---------|
|                  | Principal     | Interest | Total     | Principal                 | Interest | Total   |
| 2015             | 264,305       | 77,177   | 341,482   | 208,164                   | 17,814   | 225,978 |
| 2016             | 274,122       | 67,360   | 341,482   | 192,053                   | 8,191    | 200,244 |
| 2017             | 285,387       | 56,096   | 341,483   | 47,288                    | 2,706    | 49,994  |
| 2018             | 301,271       | 40,212   | 341,483   | 38,566                    | 1,234    | 39,800  |
| 2019             | 318,042       | 23,441   | 341,483   | 13,728                    | 106      | 13,834  |
| 2020-2021        | 201,583       | 10,367   | 211,950   | -                         | -        | -       |
| Totals           | 1,644,710     | 274,653  | 1,919,363 | 499,799                   | 30,051   | 529,850 |

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 9 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (District) (Continued)

##### Long-Term Debt

Limited Tax General Obligation Bond, series 2009, dated October 20, 2009, due in semiannual installments of approximately \$100,095, beginning June 2010 through December 2019, including interest at 5.75%.

Limited Tax General Obligation Bond, series 2011, dated April 21, 2011, due in semiannual installments of approximately \$70,600, beginning December 2011 through June 2021, including interest at 3.95% through June 2016 then 5.10% for the remaining term.

##### Capital Leases Payable

GE Precision—R&F-Mammo - Lease agreement dated September 2011, due in monthly installments of \$16,078 for the first three years and \$11,554 thereafter, including interest of 4.03% a month, secured by healthcare equipment with a cost of \$836,881 and related accumulated depreciation of \$451,950.

Sysmex America Inc - Lease agreement dated September 2011, due in monthly installments of approximately \$1,302, including interest of approximately 9.5%, a month secured by healthcare equipment with a cost of \$62,000 and related accumulated depreciation of \$28,048.

Fleetwood Dragon Voice Recognition - Lease agreement dated December 2011, due in monthly installments of approximately \$1,324, including interest of approximately 7.9% a month secured by healthcare equipment with a cost of \$43,906 and related accumulated depreciation of \$26,343.

GE Logiq E9 Ultrasound - Lease agreement dated January 2012, due in monthly installments of \$2,548, including interest of approximately 6.02% a month secured by healthcare equipment with a cost of \$160,731 and related accumulated depreciation of \$88,402.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 9 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (District) (Continued)

##### Capital Leases Payable (Continued)

GE Financial Treadmill - Lease agreement dated April 2014 due in monthly installments of \$567, including interest of 3.62% a month, secured by equipment at a cost of \$31,050 and related accumulated depreciation of \$4,658.

GE Financial Capital Improvement - Lease agreement dated March 2014, due in monthly installments of \$2,749, including interest of 3.54% a month, secured by healthcare equipment with a cost of \$110,732 and a related accumulated depreciation of \$12,673.

#### Note 10 Risk Management (District)

The District is one of a number of Washington hospitals who are members of the Washington Casualty Company (WCC). WCC is a wholly owned subsidiary of Coverys, a nonprofit mutual insurance corporation used for payment of liability claims.

The WCC policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies. Although there exists the possibility of claims arising from services provided to patients through December 31, 2014, which have not yet been asserted, the District is unable to determine the ultimate cost if any, of such possible claims and, accordingly, no provision has been made. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The policy provides \$1,000,000 per claim of primary coverage with a \$5,000,000 annual aggregate limit. WCC also provides excess coverage of \$4,000,000 per claim with \$4,000,000 annual aggregate. There are no significant deductible or coinsurance clauses for this policy.

The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 10 Risk Management (District) (Continued)

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

##### Workers' Compensation

The District participates in the self-insured Public Hospital District Workers' Compensation Trust, which is administered by the Washington State Hospital Association. The District pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reinsurance premiums. Payments by the District charged to workers' compensation expense were \$181,717 in 2014.

##### Unemployment

The District participates in the self-insured Public Hospital District Unemployment Compensation Fund, which is administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to unemployment expense were \$34,513 before a \$204,280 dividend received for the year.

#### Note 11 Pension Plan (District)

The District has a defined contribution plan covering all employees who have attained age 18 and been employed one full year. The plan was created under section 401(a) of the Internal Revenue Code. The plan assets are held by Nationwide Financial. The District contributes 3.38% of gross compensation up to the statutory Internal Revenue Services (IRS) limit. The District pension contributions are vested to the employee's account at 20% after two years of service, with annual 20% increases until fully vested after six years of service. The District complies with federal funding requirements. The plan has adopted a December 31 year-end. Pension plan contributions, net of forfeitures, were \$353,995 for the year. As of July 2014, the District has seized contributions to the pension plan.

In addition to the defined contribution plan above, the District provides a voluntary deferred compensation plan to eligible employees under section 457 and 403(b) of the Internal Revenue Code. These plans are funded solely from employee contributions.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 12 Net Patient Service Revenue (District)

Net patient service revenue consisted of the following at December 31, 2014:

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|  |               |
|--|---------------|
| Gross patient service revenue:   |               |
| Inpatient services   | \$ 17,298,658 |
| Outpatient services  | 42,958,653    |
| <hr/>  |               |
| Total gross patient revenue  | 60,257,311    |
|  |               |
| Revenue deductions:  |               |
| Medicare contractual adjustments                                       | (11,533,796)  |
| Medicaid contractual adjustments                                       | (3,134,509)   |
| Other  | (17,287,153)  |
| <hr/>  |               |
| Patient service revenue (net of contractual adjustments and discounts) | \$ 28,301,853 |

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#### Note 13 Charity Care (District)

The District provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community including the health on low-income patients. Consistent with the mission of the District, health care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's Healthcare Assistance Program. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's Healthcare Assistance Program aggregated \$805,514 for the year ended December 31, 2014.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 13 Charity Care (District) (Continued)

The estimated cost of providing care to patients under the District's Healthcare Assistance Program aggregated \$413,221 for the year. The cost was calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing charity care.

#### Note 14 Lease Obligation (District)

The District is committed under various leases for administrative equipment, health care equipment, and for the rural health clinic's construction cost. These leases are considered operating leases for accounting purposes. Rent expenses for the year ended December 31, 2014 amounted to \$428,861. Future minimum rental commitments for these leases are as follows:

| Year Ending December 31: | Total        |
|--------------------------|--------------|
| 2015                     | \$ 412,800   |
| 2016                     | 279,988      |
| 2017                     | 184,637      |
| 2018                     | 115,944      |
| 2019                     | 12,614       |
| Total                    | \$ 1,005,983 |

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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**Note 15      Component Unit Transactions (District)**

The District's financial statements include the following balances and transactions with the LLC (Note 1):

|  |                       |
|--|-----------------------|
| Current assets:                                  |                       |
| Receivables from LLC                             | \$      1,177,909     |
| Other assets:                                    |                       |
| Physician recruitment program, loans to students | \$            89,600  |
| Operating expenses:                              |                       |
| Recruitment                                      | \$            26,452  |
| Professional fees                                | 416,454               |
| Nonoperating revenues                            | \$            116,353 |

# Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

## Notes to Financial Statements

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### Note 16      Summary of Significant Accounting Policies (LLC)

#### The Entity

Caribou Trail Professional Medical Services Group, LLC (LLC) operates a medical service clinic located in Brewster and Omak, Washington and provides services in Tonasket, Republic, Chelan and Grand Coulee, Washington, as well. The LLC was formed on July 1, 2003 by five public hospital districts (Member Hospital Districts) (Douglas, Grant, Lincoln and Okanogan Counties Public Hospital District No. 6, d/b/a, Coulee Medical Center; Okanogan County Public Health Services District No. 4, d/b/a, North Valley Hospital; Okanogan County Public Hospital District No. 3, d/b/a, Mid-Valley Hospital; Okanogan-Douglas Counties Public Hospital District No. 1, d/b/a Three Rivers Hospital; Chelan County Public Hospital District No. 2, d/b/a, Lake Chelan Community Hospital) with the purpose of providing specialty medical services to the residents of the rural communities the Member Hospital Districts serve, thereby, expanding health care services, improving patient convenience and access, controlling costs, and enhancing the quality of care of the Member Hospital Districts.

The LLC operates under the laws of the State of Washington for Washington limited liability companies. The Member Hospital Districts that own the LLC operate under the laws of the State of Washington for Washington municipal corporations. As organized, the Member Hospital Districts are exempt from payment of federal income tax. Since the LLC is a wholly owned entity of the Member Hospital Districts, the LLC is also exempt from income tax.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 16      **Summary of Significant Accounting Policies (LLC)** (Continued)

##### **Financial Statement Presentation**

The accounting policies of Caribou Trail Professional Medical Services Group, LLC (LLC) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies. No policies result in material departures from GAAP.

The LLC uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

##### **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.

##### **Cash and Cash Equivalents**

The LLC considers all highly liquid cash and cash investments with a maturity of three months or less to be cash and cash equivalents.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 16      **Summary of Significant Accounting Policies (LLC)** (Continued)

##### **Patient Accounts Receivable and Credit Policy**

Accounts receivable are uncollateralized patient obligations that are stated at the amount management expect to collect from outstanding balances. Most of these obligations are from local residents who are insured under third-party payer agreements. The LLC bills third-party payers on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payer, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The LLC does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to accounts receivable. In addition, management provides for potential uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are recorded in the accompanying compiled statements net of contractual adjustments and allowance for uncollectible accounts.

##### **Member Hospital Districts Receivable**

The LLC employs two orthopedic surgeons and two physician assistants. Patient care provided directly to the Member Hospital Districts at their locations is billed to the Member Hospital Districts based on relative value units (RVU). The LLC records receivables and revenues for those amounts.

##### **Inventories**

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

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 16      **Summary of Significant Accounting Policies (LLC) (Continued)**

##### **Capital Assets**

Capital asset acquisitions and expenditures exceeding \$5,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified as nonoperating gains (losses). Depreciation has been computed on the straight-line method over the estimated useful service lives of the assets. Depreciation and amortization have been computed on the straight-line method over 5 to 15 years.

##### **Advance Payable to Majority Interest Member Hospital District**

Okanogan Public Hospital District No. 3, d/b/a, Mid-Valley Hospital advanced the LLC start-up funds for operations and may advance funding for temporary operating costs or other purposes.

##### **Compensated Absences**

The holiday and vacation program at the LLC provides eligible personnel with appropriate compensation during holidays and vacation time. All vacation time is accrued as it is earned. Vacation time balances which have been earned in a prior calendar year but are not used carry forward to the subsequent year. All employees who terminate their employment will be paid unused vacation hours at the base rate of pay. The sick leave program provides employees with appropriate compensation for illnesses for themselves or an eligible family member. The maximum accumulation of sick leave is 240 hours and is not paid out upon termination. The LLC does not accrue a liability for sick leave.

##### **Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

# Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital

## Notes to Financial Statements

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### Note 16      **Summary of Significant Accounting Policies (LLC)** (Continued)

#### **Net Position (continued)**

Net position is reported as restricted expendable net position when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the remaining net position that does not meet the definitions above. When both restricted and unrestricted resources are available for use, it is the LLC's policy to use externally restricted resources first.

#### **Patient Service Revenue**

Revenue from direct patient services are reported on the accrual basis in the period in which services are provided at established rates whether or not collection in full is anticipated. Contractual adjustments, the results of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual allowances include differences between established rates and amounts estimated by management to be collected under various reimbursement programs in effect.

#### **Services Provided to Member Hospital Districts**

Patient care provided directly to the Member Hospital Districts at their locations is billed to the Member Hospital Districts based on relative value units (RVU). These services are reported on an accrual basis in the period which services are provided. No allowance for uncollectibility is considered necessary. Services provided at Okanogan County Public Hospital District No. 3, d/b/a, Mid-Valley Hospital accounted for 63% of this revenue for 2014.

#### **Reclassifications**

Certain reclassifications have been made to the 2013 combined financial statements to conform to the classifications used in 2014.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 17      Stewardship, Compliance, and Accountability (LLC)

There was no violation of finance-related legal or contractual provisions for the LLC's year ended December 31, 2014.

#### Note 18      Cash and Cash Equivalents (LLC)

The LLC maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. Certain deposits in excess of federally insured limits are collateralized by pledges of securities held by the financial institution. At December 31, 2014, the LLC did not exceed the insured limits.

At December 31, 2014, the LLC had bank balances as follows:

|   | 2014      |
|---|-----------|
| Insured (FDIC)(PDPC)  | \$ 39,245 |
| Uncollateralized  | -         |
| Totals  | \$ 39,245 |
| Carrying value  | \$ 6,842  |
|   | 2,014     |
| Included in the following statement of net position captions: |           |
| Cash and cash equivalents                                     | \$ 6,842  |
| Assets whose use is limited                                   | -         |
| Carrying value  | \$ 6,842  |

Cash collected from the member hospitals to fund the residency program is recorded as assets whose use is limited. The net payable to member hospitals was \$0 for 2014.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 18 Patient Accounts Receivable (LLC)

The LLC grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around the member districts. No single patient comprises more than five percent of the total receivable at year-end. The mix of patient receivables is as follows at December 31:

|  | Amount     | Percent |
|--|------------|---------|
| Receivable from patients and their insurance carriers                  | \$ 742,541 | 73%     |
| Receivable from Medicare   | 201,985    | 20%     |
| Receivable from Medicaid   | 67,073     | 7%      |
| Total patient accounts receivable                                      | 1,011,599  | 100%    |
| Less - Allowance for uncollectible amounts and contractual adjustments | 708,126    |         |
| Patient accounts receivable - Net                                      | \$ 303,473 |         |

#### Note 19 Physician Recruitment Program (LLC)

In 2009, a program was established by the LLC and its member hospitals to loan tuition funds to student resident physicians. The loans will be forgiven if the students work for the LLC as physicians for five years after completion of their education. If the student cannot fulfill the requirements of the program, they must repay any remaining loan portions plus interest.

Each member hospital advanced funds to the LLC for the purpose of funding the loan program. The advance will be forgiven by each hospital in proportion to the percentage of services the member hospital receives from the LLC.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### **Note 19**      **Physician Recruitment Program (LLC)** (Continued)

The amounts received from the member hospitals to fund the program is recorded as a non-current liability on the LLC's statements of net position. These are the amounts to be paid back to the member hospitals in case of default.

The loan amounts disbursed to the students is recorded as a non-current asset on the LLC's statements of net position. These are the amounts to be collected from the student in case of default. In the event that the student fulfills their obligation over the required amount of time, both amounts will be forgiven.

#### **Note 20**      **Related Party Transactions (LLC)**

The LLC is owned by the five Member Hospital Districts of which Mid-Valley Hospital's interest is 55% (majority interest). The remaining interest is held by the other four Member Hospital Districts (minority interest).

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

#### Note 20 Related Party Transactions (LLC) (Continued)

The financial statements include the following balances and transactions with the Member Hospital Districts:

|  | 2014         |
|--|--------------|
| Current assets:  |              |
| Accounts receivable - Member Hospital Districts                | \$ 66,724    |
| Prepaid expenses   | 5,189        |
| Total  | \$ 71,913    |
| Noncurrent assets:   |              |
| Physician Recruitment Program, total                           | \$ 448,000   |
| Current liabilities:   |              |
| Accounts payable to majority interest Member Hospital District | \$ 1,084,637 |
| Accounts payable to other Member Hospital Districts            | 118,905      |
| Total  | \$ 1,203,542 |
| Noncurrent liabilities:  |              |
| Physician Recruitment Program, total                           | \$ 448,000   |
| Net position:  |              |
| Unrestricted deficit   | \$ (887,856) |
| Other operating revenues:                                      |              |
| Services provided to Member Hospital Districts                 | \$ 725,272   |
| Expenses (primarily purchased from Mid-Valley Hospital):       |              |
| Supplies   | \$ 847       |
| Purchased services - Other                                     | 56,190       |
| Rent   | 64,880       |
| Other  | 5,378        |
| Total  | \$ 127,295   |

As shown in the accompanying financial statements, the LLC experienced a loss from operations of \$626,915 for the year ended December 31, 2014. The LLC has shown significant operating losses during the last three years. The operating losses are due to provider turnover, reduced patient volumes, deteriorating payer mix and lower reimbursements. The Member Hospital Districts continue evaluating the ability of the LLC to continue as a going concern and repay the advances payable to Member Districts.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 21 Capital Assets (LLC)

Capital asset additions, retirements and balances for the year ended 2014 were as follows:

|                                 | Balance<br>January 1,<br>2014 | Additions/<br>Transfers | Retirements/<br>Transfers | Balance<br>December 31,<br>2014 |
|---------------------------------|-------------------------------|-------------------------|---------------------------|---------------------------------|
| Fixed equipment                 | \$ 136,551                    | \$ -                    | \$ -                      | \$ 136,551                      |
| Less - Accumulated depreciation | (85,251)                      | (30,365)                | -                         | (115,616)                       |
| Fixed equipment - Net           | \$ 51,300                     | \$ (30,365)             | \$ -                      | \$ 20,935                       |

#### Note 22 Leasing Activities (LLC)

The LLC leases building space from local health care facilities under operating leases. The LLC had a building lease commitment through July 1, 2014 with Brewster Medical Office, LLC. On July 1, 2014, the lease automatically renewed for one year at \$3,834 per month. One orthopedic surgeon employed by the LLC owns 25% of Brewster Medical Office, LLC.

The LLC had a rental agreement with Mid-Valley Hospital for the use of a reception area and exam rooms within the Hospital's rural health clinic. This agreement automatically renewed on January 1, 2014. This agreement states a monthly rental amount of \$5,082. Total rental charges from Mid-Valley Hospital relating to the contract totaled \$60,990 for the year ended December 31, 2014.

The LLC also has agreements with Coulee Medical Center and North Valley Hospital for a rental amount of \$55 and \$56 per day, respectively, for space rental.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 23 Risk Management (LLC)

The LLC has its professional liability insurance coverage with Physicians Insurance (the Policy). The Policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the policy. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the LLC purchased claims-made insurance in that year or the LLC purchased "tail" insurance to cover the claims incurred before but reported to the insurance carrier after cancellation or expiration of the claims-made policy. Coverage under the Policy is for \$1,000,000 per claim with a \$5,000,000 annual aggregate limit. The coverage has no significant deductible or coinsurance clauses.

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

The LLC is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The LLC carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance in any of the three prior years.

#### Note 24 Pension Plan (LLC)

The LLC has a defined contribution plan covering all employees who have attained age 18 with more than twelve months of service. The plan was created under section 401(a) of the Internal Revenue Code. Pension contributions are vested to the employees account at 20% after two years of service, with annual 20% increases until fully vested after six years of service. An employee must work at least 1,000 hours a calendar year to be considered a year of vesting. Due to cash constraints, Caribou stopped contributing to the pension plan mid-year. Total contributions for the year totaled \$28,337.90 which equates to approx. a 3.38% contribution rather than the historical 5%.

In addition to the defined contribution plan above, the LLC provides a voluntary deferred compensation plan to all employees under section 457 and 403(b) of the Internal Revenue Code. Investments are participant directed. These plans are funded solely from employee deferrals.

# Okanogan County Public Hospital District No. 3

## d/b/a Mid-Valley Hospital

### Notes to Financial Statements

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#### Note 25      Going Concern (LLC)

Over the past several years, Member Hospitals have continued to supplement operations by making cash advances to the LLC. This activity closely mirrors a single-owner company that has profitable and non-profitable business lines which are interdependent upon each other. In the whole, services are rendered in many lines, and the store does well enough financially to remain viable. In an attempt to gain market share for the Caribou Trail Orthopedics line and become profitable, management now employs a second physician and is actively recruiting for a clinic manager, whose responsibility will be to develop actions which will result in a more profitable operation.

Management has received a substantial report from a notable accounting firm which details the need for a specific business manager, suggests a third PA-C be utilized, and better utilization be made of the Electronic Health Record (EHR). Further, their report supports quality control over receivables and prior authorization.

As of June 30, 2015 the LLC continues to operate at a loss of \$219,159, (annualized to be \$438,318 which is a notable decrease). In July 2015, the senior surgeon received a \$150,000 reduction in pay and the junior surgeon has increased his volume by roughly 50%. Both of these components will help to reduce losses for 2015 Fiscal year.

The accompanying financial statements have been prepared assuming the LLC will continue as a going concern. GAAP contemplates the recovery of the LLC's assets and the satisfaction of liabilities in the normal course of business. In addition, these financial statements do not include any adjustment to the specific amounts and classifications of assets and liabilities, which might be necessary should the LLC be unable to continue as a going concern.

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