



# Washington State Auditor's Office

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## Financial Statements Audit Report

# Caribou Trail Professional Medical Services Group

Okanogan County

For the period January 1, 2013 through December 31, 2014

Published December 24, 2015

Report No. 1015629





## Washington State Auditor's Office

December 24, 2015

Board of Commissioners  
Caribou Trail Professional Medical Services Group  
Omak, Washington

### Report on Financial Statements

Please find attached our report on the Caribou Trail Professional Medical Services Group's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **Caribou Trail Professional Medical Services Group, LLC Okanogan County January 1, 2014 through December 31, 2014**

**2014-001 Caribou Trail Professional Medical Services Group, LLC, continues to rely on cash advances from its majority interest member to pay daily operating costs.**

#### ***Background***

Caribou Trail Professional Medical Services Group, LLC, is a joint venture of five regional public hospital districts to provide orthopedic services. During prior audits of the Group we found it was relying on cash advances from its majority interest member, Okanogan County Public Hospital District No. 3 (dba Mid-Valley Hospital), in order to pay daily operating costs.

#### ***Description of Condition***

As was reported in our prior audit, the Group began significantly relying on cash advances for short term financing from its majority interest member in 2011. However, the Group's continued operating losses have not provided sufficient funds to pay back any of these advances to date. The Group's payable to its majority interest member was \$1,203,374 as of December 31, 2014, and has grown to \$1,365,637 as of September 30, 2015. The following table shows the Group's cash and payable balances, and gain or loss from operations, over time.

<b>Fiscal Year</b>	<b>Ending Cash Balance</b>	<b>Ending Payable to Mid Valley Hospital</b>	<b>Gain (Loss) from Operations</b>
2010	\$ 81,410	\$ 4,025	\$ 19,226
2011	\$ 4,925	\$ 123,132	\$ (174,467)
2012	\$ 100	\$ 383,827	\$ (255,325)
2013	\$ 2,955	\$ 692,069	\$ (369,321)
2014	\$ 6,842	\$ 1,203,374	\$ (626,915)
Sep-15	\$ 36,598	\$ 1,365,637	---

### ***Cause of Condition***

The Group's revenues increased seven percent in 2014 but remained at levels significantly lower than 2010 through 2012. The Group has been unable to reduce expenditures in response to lower revenue levels, as operating expenses increased 18 percent in 2014, primarily in salaries and wages.

### ***Effect of Condition***

The Group has not been able to meet its monthly financial obligations while providing the current level of services. The Group's Board has had discussion of potentially closing its operations. In addition, some member hospitals have considered leaving the Group.

### ***Recommendation***

We recommend the Group's Board adopt 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.

### ***Group's Response***

*Caribou Trail Professional Medical Services Group did contract with an outside accounting firm to help understand the operations. A couple of recommendations that are being pursued are hiring a manager and reducing staff via utilizing a computerized charting system at its maximum capacity. With the advent of a new surgeon, some increase in volume was expected, and annualized expectations now are that Caribou will experience a 10% increase in volume. Cash collections do not exceed expenses, so all member hospitals contribute a service fee of \$69 per surgical RVU to help offset cash shortages. This amount is still short of covering expenses by about \$48,000 per month. This shortfall is a burden borne by Mid Valley Hospital. To remedy this, there was a \$150,000 reduction in the senior surgeon's salary beginning July 1, 2015. One PA-C left the company in November 1, 2015. One will be hired whenever one can be recruited, but it looks like that will be at least until January 2016.*

*Structurally, another study is to soon be completed by an outside accounting firm which will help management understand if it is better to pay in more capital to Caribou Trail, and take over ownership, keeping it intact. One other option may be to transfer operations into Mid Valley Medical Group, an RHC, and then subcontract out the Orthopedist to other facilities allowing the separate facilities to bill our Type II billing since there is considerable Medicare business in Caribou Trail.*

*There are expectations of business being brisk in December as people tend to choose to have elective surgery to maximize the annual insurance deductible amounts. The most senior surgeon may reduce workloads more allowing the new surgeon to take a more central role in the business. Any plans to significantly change operations will not happen until January 2016, and, that will be after study of possible ways to go with the structure of Caribou. Indeed, the business may be collapsed into another, more rewarding and manageable form. A manager is anticipated to be hired in the next few days, and they should be able to start by November 30, 2015. Immediately, that person will be positioned to be part of the re-design of Caribou.*

*An ending note is that for Mid Valley, the two surgeons working in Caribou generate more than \$14,000,000 in gross revenues at Mid Valley. This translates into hundreds of patients in this area not having to drive some 200 miles for orthopedic services. Additionally, of course there are Professional Fees collected in Caribou of over \$1.4 million. Lastly, there is estimated to be \$11,000,000 in revenue generated in hospital fees at other facilities who are members of Caribou. This level of business is not readily ignored, and the Board will do all it can possibly do to keep orthopedic business going in the Greater Okanogan County.*

### ***Auditor's Remarks***

We appreciate the Group's commitment to resolving this issue. We will follow up on the status of this issue during the next regularly scheduled audit.

## STATUS OF PRIOR AUDIT FINDINGS

### Caribou Trail Professional Medical Services Group 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 Caribou Trail Professional Medical Services Group. The State Auditor's Office has reviewed the status as presented by the Group.

<b>Audit Period:</b> 2013	<b>Report Ref. No:</b> 1013704	<b>Finding Ref. No:</b> 2013-001
<b>Finding Caption:</b> Caribou Trail Professional Medical Services Group, LLC, continues to rely on cash advances from its majority interest member to pay daily operating costs.		
<b>Background:</b> As was reported in our prior audit, the Group began significantly relying on cash advances for short term financing from its majority interest member in 2011. However, the Group's continued operating losses have not provided sufficient funds to pay back any of these advances to date. The Group's payable to its majority interest member was \$692,069 as of December 31, 2013, and has grown to exceed \$1 million as of October 31, 2014.  We recommend the Group'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> <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input checked="" type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> No Corrective Action Taken </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
<b>Corrective Action Taken:</b> <i>Caribou Trail Professional Medical Services Group did contract with an outside accounting firm to help understand the operations. A couple of recommendations that are being pursued are hiring a manager and reducing staff via utilizing a computerized charting system at its maximum capacity. With the advent of a new surgeon, some increase in volume was expected, and annualized expectations now are that Caribou will experience a 10% increase in volume. Cash collections do not exceed expenses, so all member hospitals contribute a service fee of \$69 per surgical RVU to help offset cash shortages. This amount is still short of covering expenses by about \$48,000 per month. This shortfall is a burden borne by Mid Valley Hospital. To remedy this, there was a \$150,000 reduction in the senior surgeon's salary beginning July 1, 2015. One PA-C left the company in November 1, 2015. One will be hired whenever one</i>		

*can be recruited, but it looks like that will be at least until January 2016. Structurally, another study is to soon be completed by an outside accounting firm which will help management understand if it is better to pay in more capital to Caribou Trail, and take over ownership, keeping it intact. One other option may be to transfer operations into Mid Valley Medical Group, an RHC, and then sub-contract out the Orthopedist to other facilities allowing the separate facilities to bill our Type II billing since there is considerable Medicare business in Caribou Trail. There are expectations of business being brisk in December as people tend to choose to have elective surgery to maximize the annual insurance deductible amounts. The most senior surgeon may reduce workloads more allowing the new surgeon to take a more central role in the business. Any plans to significantly change operations will not happen until January 2016, and, that will be after study of possible ways to go with the structure of Caribou. Indeed, the business may be collapsed into another, more rewarding and manageable form. A manager is anticipated to be hired in the next few days, and they should be able to start by November 30, 2015. Immediately, that person will be positioned to be part of the re-design of Caribou. An ending note is that for Mid Valley, the two surgeons working in Caribou generate more than \$14,000,000 in gross revenues at Mid Valley. This translates into hundreds of patients in this area not having to drive some 200 miles for orthopedic services. Additionally, of course there are Professional Fees collected in Caribou of over \$1.4 million. Lastly, there is estimated to be \$11,000,000 in revenue generated in hospital fees at other facilities who are members of Caribou. This level of business is not readily ignored, and the Board will do all it can possibly do to keep Orthopedic business going in the Greater Okanogan County.*



**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**

**Caribou Trail Professional Medical Services Group  
Okanogan County  
January 1, 2013 through December 31, 2014**

Board of Commissioners  
Caribou Trail Professional Medical Services Group  
Brewster, 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 Caribou Trail Professional Medical Services Group, Okanogan County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated November 16, 2015.

Our report includes information about the status of the Group's financial condition. This information is more fully described in Finding 2014-001 in the Schedule of Audit Findings and Responses. The Group's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response. The Group 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 audits of the financial statements, we considered the Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group'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 Group'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 Group's financial statements are free from material misstatement, we performed tests of the Group'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*.

## 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 Group'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 Group'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.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 16, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Caribou Trail Professional Medical Services Group Okanogan County January 1, 2013 through December 31, 2014**

Board of Commissioners  
Caribou Trail Professional Medical Services Group  
Brewster, Washington

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

We have audited the accompanying financial statements of the Caribou Trail Professional Medical Services Group, Okanogan County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed on page 15.

### **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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Group'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 Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Caribou Trail Professional Medical Services Group, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis Regarding Fiscal Sustainability**

As discussed in Notes 6 and 11 to the financial statements and described in Finding 2014-001 in the Schedule of Audit Findings and Responses, the Group's financial position continues to decline. The Group has had to borrow from the majority interest member in order to pay for operations and to address cash flow shortages. The Group's cash flow constraints are expected to continue in the future. As a result, there exists uncertainty about the Group's ability to maintain services at present levels under these conditions. Our opinion is not modified with respect to this matter.

## **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 Group'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 Group's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 16, 2015

## FINANCIAL SECTION

**Caribou Trail Professional Medical Services Group  
Okanogan County  
January 1, 2013 through December 31, 2014**

### **BASIC FINANCIAL STATEMENTS**

Statements of Net Position – 2014 and 2013

Statements of Revenues and Expenses and Changes in Net Position – 2014 and 2013

Statements of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

# Caribou Trail Professional Medical Services Group, LLC

## Statements of Net Position

December 31, 2014 and 2013

<i>Assets</i>	2014	2013
Current assets:		
Cash and cash equivalents	\$ 6,842	\$ 2,955
Receivables:		
Patient - Net	303,473	364,511
Member Hospital Districts	66,724	58,302
Other	40,375	390
Inventories	27,407	36,389
Prepaid expenses	32,464	30,380
Total current assets	477,285	492,927
Capital assets:		
Fixed equipment	136,551	136,551
Less accumulated depreciation	(115,616)	(85,251)
Total capital assets - Net	20,935	51,300
Noncurrent assets, total:		
Physician recruitment program - loans to students	448,000	480,000
<b>TOTAL ASSETS</b>	<b>\$ 946,220</b>	<b>\$ 1,024,227</b>

See Accompanying Notes to Financial Statements



<i>Liabilities and Net Position</i>	<b>2014</b>	<b>2013</b>
Current liabilities:		
Accounts payable	\$ 68,134	\$ 23,812
Accounts payable to majority interest Member Hospital District	118,737	15,932
Advance payable to majority interest Member Hospital District	1,084,637	676,137
Accrued compensation and related liabilities	93,323	68,280
Other	310	72
Total current liabilities	1,365,141	784,233
Noncurrent liabilities, total:		
Physician recruitment program due to Member Hospital Districts	448,000	480,000
Net position:		
Net Investment in capital assets	20,935	51,300
Unrestricted	(887,856)	(291,306)
Total net position	(866,921)	(240,006)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 946,220</b>	<b>\$ 1,024,227</b>

See Accompanying Notes to Financial Statements.

# Caribou Trail Professional Medical Services Group, LLC

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

Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenue:		
Patient service revenue	\$ 3,963,430	\$ 3,694,603
Revenue deductions and allowances including provision for bad debt	(2,791,969)	(2,600,943)
Net patient service revenue	1,171,461	1,093,660
Other operating revenue:		
Services provided to Member Hospital Districts	725,272	673,665
Other	4,593	4,620
Total operating revenue	1,901,326	1,771,945
Operating expenses:		
Salaries and wages	1,637,589	1,355,345
Employee benefits	214,833	203,096
Supplies	68,241	62,253
Purchased services, utilities	22,304	18,823
Purchased services, other	239,296	121,372
Insurance	78,339	107,218
Rent	119,699	119,863
Other	117,575	117,639
Depreciation	30,365	35,657
Total operating expenses	2,528,241	2,141,266
Loss from operations	(626,915)	(369,321)
Decrease in net position, excess of expenses	(626,915)	(369,321)
Net position - Beginning of year	(240,006)	129,315
Net position - End of year	\$ (866,921)	\$ (240,006)

See Accompanying Notes to Financial Statements.

# Caribou Trail Professional Medical Services Group, LLC

## Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from patient services	\$ 1,232,499	\$ 1,172,358
Cash received from other operating revenue	681,458	716,286
Cash paid for salaries and benefits	(1,827,379)	(1,628,960)
Cash paid for supplies, purchased services and other operating expenses	(491,191)	(534,633)
Net cash used in operating activities	(404,613)	(274,949)
Cash flows from noncapital financing activities:		
Loans from Member Hospital District for physician recruitment program	(32,000)	-
Cash advance from Member Hospital Districts	408,500	306,300
Net cash provided by noncapital financing activities	376,500	306,300
Cash flows from capital and related financing activities		
Payments for purchase of capital assets	-	(23,381)
Net cash used in capital and related financing activities	-	(23,381)
Cash flows from investing activities:		
Loans issued for physician recruitment program	32,000	(50,000)
Net cash used in nonoperating activities	32,000	(50,000)
Net increase (decrease) in cash and cash equivalents	3,887	(42,030)
Cash and cash equivalents - Beginning of year	2,955	44,985
Cash and cash equivalents - End of year	\$ 6,842	\$ 2,955

See Accompanying Notes to Financial Statements

# Caribou Trail Professional Medical Services Group, LLC

## Statements of Cash Flows (Continued)

Years Ended December 31, 2014 and 2013

Reconciliation of loss from operations to net cash used in operating activities:

Loss from operations	\$	(626,915)	\$	(369,321)
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Adjustments to reconcile loss from operations to net cash used in operating activities:

Depreciation and amortization	30,365	35,657
Provision (credit) for bad debt	-	(193,967)

Change in operating assets and liabilities:

Receivables:

Patient accounts	61,038	272,665
Member Hospital Districts	(8,422)	38,391
Other	(39,985)	(390)

Inventories	8,982	(2,560)
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Prepaid expenses	(2,084)	13,172
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Accounts payable to majority interest Member Hospital District	102,805	1,942
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Accrued compensation and related liabilities	25,043	(70,519)
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Accounts payable to other vendors	44,322	(1)
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Other current liabilities	238	(18)
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Total adjustments	222,302	94,372
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Net cash used in operating activities	\$	(404,613)	\$	(274,949)
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See Accompanying Notes to Financial Statements.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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### Note 1      **Summary of Significant Accounting Policies**

#### **The Entity**

The LLC operates a medical service clinic located in Brewster and Omak, Washington and provides services in Omak, 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.

#### **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.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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

#### **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.

#### **Patient Accounts Receivable**

Accounts receivable are uncollateralized patient obligations that are stated at the amount management expects 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.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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

#### **Patient Accounts Receivable** (Continued)

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 balance sheets 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.

#### **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.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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

#### **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. 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 Revenues**

Revenues 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.



# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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

#### **Services Provided to Member Hospital District**

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% and 62% of this revenue for 2014 and 2013, respectively.

#### **Reclassifications**

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

### **Note 2**      **Stewardship, Compliance, and Accountability**

There was no violation of finance-related legal or contractual provisions for the LLC's year ended December 31, 2014 and 2013.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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### Note 3      Cash and Cash Equivalents

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, the LLC had bank balances as follows:

	2014	2013
Insured (FDIC)	\$ 39,245	\$ 9,067
Totals	\$ 39,245	\$ 9,067
Carrying value	\$ 6,842	\$ 2,955
	2014	2013
Included in the following statement of net position captions:		
Cash and cash equivalents	\$ 6,842	\$ 2,955
Carrying value	\$ 6,842	\$ 2,955

Cash collected from the member hospitals to fund the residency program is recorded as assets whose use is limited. There was no net payable to member hospitals for 2014 and 2013.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

### Note 4 Patient Accounts Receivable

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:

	2014		2013	
	Amount	Percent	Amount	Percent
Receivable from patients and their insurance carriers	\$ 742,541	73%	\$ 711,053	59%
Receivable from Medicare	201,985	20%	225,611	19%
Receivable from Medicaid	67,073	7%	269,832	22%
Total patient accounts receivable	1,011,599	100%	1,206,496	100%
Less allowance for uncollectible amounts and contractual adjustments	(708,126)		(841,985)	
Patient accounts receivable, net	\$ 303,473		\$ 364,511	

### Note 5 Physician Recruitment Program

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 advances will be forgiven by each hospital in proportion to the percentage of services the member hospital receives from the LLC. The amounts received from the member hospitals to fund the program are recorded as a non-current liability on the LLC's balance sheet. 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 balance sheet. 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.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

### Note 6 Related Party Transactions

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). The advances payable to Member Districts are amounts advanced to the LLC to cover operating costs due to cash shortages. The LLC owes these amounts back to the Member Districts.

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

	2014	2013
Current assets:		
Accounts receivable	\$ 66,724	\$ 58,302
Prepaid	5,189	5,082
Total	\$ 71,913	\$ 63,384
Non-current assets:		
Physician Recruitment Program, total	\$ 448,000	\$ 480,000
Current liabilities:		
Accounts and advances payable to majority interest Member Hospital District	\$ 1,203,374	\$ 692,069
Accounts payable to other Member Hospital Districts	168	336
Total	\$ 1,203,542	\$ 692,405
Non-current liabilities:		
Physician Recruitment Program, total	\$ 448,000	\$ 480,000
Net position:		
Unrestricted (deficit) surplus	\$ (887,856)	\$ (291,306)
Other operating revenue:		
Services provided to Member Hospital Districts	\$ 725,272	\$ 673,665
Expenses (primarily purchased from Mid-Valley Hospital):		
Supplies	\$ 847	\$ 7,209
Purchased Services, Other	56,190	15,068
Rent	64,880	64,354
Other	5,378	4,131
Total	\$ 127,295	\$ 90,762

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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### Note 6 Related Party Transactions (Continued)

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.

### Note 7 Capital Assets

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

	Balance January 1, 2014	Additions	Retirements	Balance December 31, 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

Capital asset additions, retirements and balances for the year ended 2013 were as follows:

	Balance January 1, 2013	Additions	Retirements	Balance December 31, 2013
Fixed Equipment	\$ 113,170	\$ 23,381	\$ -	\$ 136,551
Less accumulated depreciation	(49,594)	(35,657)	-	(85,251)
Fixed equipment, Net	\$ 63,576	\$ (12,276)	\$ -	\$ 51,300

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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### Note 8      Leasing Activities

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.

### Note 9      Risk Management

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.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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### Note 10      Pension Plan

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.

# Caribou Trail Professional Medical Services Group, LLC

## Notes to Financial Statements

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### Note 11      **Going Concern**

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.



## ABOUT THE STATE AUDITOR'S OFFICE

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