



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Chelan County Public Hospital District
No. 2
(Lake Chelan Community Hospital)

For the period January 1, 2014 through December 31, 2015

Published February 2, 2017

Report No. 1018515





Office of the Washington State Auditor
Pat McCarthy

February 2, 2017

Board of Commissioners
Lake Chelan Community Hospital
Chelan, Washington

Report on Financial Statements

Please find attached our report on the Lake Chelan Community Hospital's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**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**

**Lake Chelan Community Hospital
Chelan County
January 1, 2014 through December 31, 2015**

Board of Commissioners
Lake Chelan Community Hospital
Chelan, 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 Lake Chelan Community Hospital, Chelan County, Washington, as of and for the years ended December 31, 2015 and 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 January 19, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

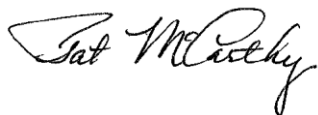
COMPLIANCE AND OTHER MATTERS

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*.

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.



Pat McCarthy

State Auditor

Olympia, WA

January 19, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lake Chelan Community Hospital Chelan County January 1, 2014 through December 31, 2015

Board of Commissioners
Lake Chelan Community Hospital
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lake Chelan Community Hospital, Chelan County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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 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 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 basic of the Lake Chelan Community Hospital, as of December 31, 2015 and 2014, and the respective 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 17 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.



Pat McCarthy

State Auditor

Olympia, WA

January 19, 2017

FINANCIAL SECTION

**Lake Chelan Community Hospital
Chelan County
January 1, 2014 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015 and 2014

Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014

Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis is intended to provide an interpretive context to enhance the reader's awareness and understanding of some of the issues influencing the organization's financial position for the year ended December 31, 2015. This overview represents management's perspective on these issues and should be viewed as a source of information complimentary to the financial statements themselves.

Chelan County Public Hospital District No. 2 (The District) is a non-profit, municipal corporation, which includes Lake Chelan Community Hospital, Lake Chelan Community Apartments, Home Health, Lake Chelan Clinic, and an Ambulance Company. The District is a Critical Access Hospital (CAH) licensed for 34 beds, but held to 25 in-patient CAH requirements. The District serves a population base of over 10,000. The hospital has operated since 1948 and became a hospital district in 1969. The current facility was constructed in 1972 with a third floor added to the hospital in 1994.

CAH status for the Hospital has a favorable impact on District finances. Medicare and Medicaid reimbursement is cost based and therefore typically higher than what the District would otherwise receive under a fixed, DRG or APC-driven, prospective payment system (PPS). The District receives tax revenue representing approximately 3.13% of 2015's gross patient receipts: \$689,024 general hospital levy and \$759,400 EMS levy.

The District is governed by a five member elected board of directors. Day-to-day operations are managed by the Chief Executive Officer. The District employed 216 FTE's on December 31, 2015, and had an annual payroll of \$18.5M including benefits.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Financial Highlights Executive Overview

The District finished 2015 with a gain of \$124,326.

Lake Chelan Community Hospital put the following capital purchases in service during 2015:

Two Story

Modular Building (delivery & installation) \$167,706; Parking Lot Seal Coat \$22,147; Information Technology Server Room Remodel \$13,870; Physical Therapy Remodel \$8,831; Emergency Department T-System Software \$20,830; EMS Spectrum Communications Radios \$10,448; Surgery Scopes \$176,479, Camera \$120,880, Reprocessor \$35,467 and Wishbone Instrument Set \$12,188; Radiology GE C Arm Upgrade \$12,822; IT Barracuda Message Archiver \$8,929; Plant Floor Scrubber \$6,052; Clinic Digital Radiology System \$52,229 and Centricity Software Licenses \$34,343. The Lake Chelan Community Hospital Foundation donated funds which made the following purchases possible: Stryker Hospital Bed \$10,092; Emergency Department T-System Appliance Hardware \$20,370, Otoscope \$5,715 and Ophthalmoscope \$6,398; Surgery Zimmer Large Power Set \$20,398 and Clinic Samsung Ultrasound \$25,530.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Comparisons of 2015 Actual to Budget and Prior Year Performance

Net patient service revenue was \$23,310,675 in 2015 which was an increase from the prior year and about 2.48% increase from budget net patient service revenue. The net increase is attributed to the changes in total patient services revenue as reflected in the total patient services gross revenue table below. Total operating revenue was under budget by 5.69% and under budget in the prior year by 7.4%.

	FY 2015		
	LAKE CHELAN COMMUNITY HOSPITAL		
	Actual	Budget	Variance
Ambulance	\$ 2,096,876	\$ 2,065,207	1.53%
Home Health	129,268	422,272	-69.39%
Med Surg	1,736,349	1,720,443	0.92%
Surgery	2,266,311	1,996,891	13.49%
Emergency Room	4,981,104	5,429,656	-8.26%
Anesthesiology	1,200,729	1,077,165	11.47%
Labor & Delivery	749,628	1,008,968	-25.70%
Respiratory Therapy	774,644	972,995	-20.39%
Physical Therapy	1,314,798	1,668,714	-21.21%
Laboratory	3,037,331	3,239,234	-6.23%
Radiology	4,091,745	4,149,049	-1.38%
Sanctuary	4,147,929	4,158,561	-0.26%
Pharmacy	3,435,000	3,849,529	-10.77%
All Others	12,995,041	13,789,391	-5.76%
Totals	\$ 42,956,753	\$ 45,548,075	-5.69%

Overview of the Financial Statements

The District's financial statements consist of three statements: Statement of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Required Financial Statements

All of the revenue and expenses for years 2015 and 2014 are accounted for in the statements of revenue, expenses, and changes in net position. The statements can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of quality of service it provides to the community, as well as local economic factors, to assess the overall health of the District.

The District's financial statements report information of the District using accounting methods similar to those used by private sector health care organizations. These statements offer short-term and long-term information about its activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Net Position and Statements of Revenue, Expenses and Changes in Net Position

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statement of net position and the statements of revenue, expenses and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted asset and liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

The Statements Revenue, Expenses and Changes in Net Position (Continued)

These two statements report the District's net position and changes. You can think of the District's net position as the difference between assets and liabilities and one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's patient base and measure of the quality of service it provides to the community, and local economic factors to assess the overall health of the District.

The Statements of Cash Flows

The final required statement is the Statements of Cash Flows. Cash Flow statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

The Financial Analysis of the District

The following is a presentation of certain financial information derived from the Statement of Net Position:

The statement of net position shows a decrease of \$179,589 in total assets from 2014 to 2015. The filed Medicare cost report indicates the Medicare and Medicaid settlements to be in the amount of \$292,416 receivable and \$69,202 payable. Noncurrent assets show an increase of \$2,588,451 from 2014 to 2015. Long term debt decreased \$294,844 while current liabilities had a decrease of \$164,591. Capital lease obligations increased \$233,173 from 2014 to 2015.

	2015	2014	2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 5,538,767	\$ 7,733,456	\$ 5,823,669
Noncurrent cash and cash equivalents	3,480,359	891,908	2,932,511
Capital assets - Net	8,083,694	8,291,692	8,293,002
Other assets	-	273,259	271,435
Deferred outflows of resources	606,877	698,971	404,548
Total assets and deferred outflows of resources	<u>\$ 17,709,697</u>	<u>\$ 17,889,286</u>	<u>\$ 17,725,165</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities	\$ 2,601,237	\$ 2,765,828	\$ 2,620,481
Long term debt less current maturities	7,257,028	7,551,872	7,761,715
Capital lease obligation less current portion	267,754	34,581	20,753
Deferred inflows of resources	-	77,653	194,867
Total liabilities and deferred inflows of resources	<u>10,126,019</u>	<u>10,429,934</u>	<u>10,597,816</u>
NET POSITION			
Net investment in capital assets	555,808	846,023	665,923
Restricted expendable	3,313	3,363	3,388
Unrestricted	7,024,557	6,609,966	6,458,038
Total net position	<u>7,583,678</u>	<u>7,459,352</u>	<u>7,127,349</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,709,697</u>	<u>\$ 17,889,286</u>	<u>\$ 17,725,165</u>

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Operating Results and Changes in the District's Net Position

The following is a presentation of certain financial information derived from the District's statements of revenue, expenses and changes in net position:

Overall, the District had an increase in net position of \$124,326 from 2014 to 2015.

	2015	2014	2013
OPERATING REVENUES			
Net patient service revenue	\$ 23,310,675	\$ 22,744,993	\$ 19,149,940
Other operating revenue	218,601	480,101	702,703
Total operating revenues	23,529,276	23,225,094	19,852,643
OPERATING EXPENSES			
Salaries and benefits	18,500,000	17,835,464	15,291,306
Professional fees	464,972	475,743	515,861
Medical supplies and drugs	1,932,739	1,964,716	1,627,838
Purchased services	1,241,303	1,037,371	925,691
Insurance	232,555	314,100	312,508
Other operating expenses	1,830,450	1,775,335	1,744,854
Depreciation and amortization	833,833	763,259	738,403
Total operating expenses	25,035,852	24,165,988	21,156,461
OPERATING LOSS	(1,506,576)	(940,894)	(1,303,818)
NON OPERATING REVENUES - NET	1,539,147	1,227,879	1,179,490
Capital Grants and Contributions	91,755	45,018	61,141
CHANGE IN NET POSITION	124,326	332,003	(63,187)
NET POSITION - Beginning of year	7,459,352	7,127,349	7,190,536
NET POSITION - End of year	\$ 7,583,678	\$ 7,459,352	\$ 7,127,349

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

The District's Statements of Cash Flows

The following is a presentation of certain financial information derived from the District's Statements of Cash Flows:

The District ended the year with an increase in cash flow of \$2,487,526.

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash provided by (used in) operating activities	\$ 996,449	\$ (2,099,879)	\$ (1,504,892)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net cash provided by noncapital financing activities	1,562,416	1,488,071	1,418,508
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net cash used in capital and related financing activities	(111,536)	(1,517,061)	(1,249,364)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash provided by investing activities	40,197	76,461	102,527
Net increase (decrease) in cash and cash equivalents	2,487,526	(2,052,408)	(1,233,221)
Cash and cash equivalents - Beginning of year	1,745,991	3,798,399	5,031,620
Cash and cash equivalents - End of year	<u>\$ 4,233,517</u>	<u>\$ 1,745,991</u>	<u>\$ 3,798,399</u>

Contacting the District's Financial Management

This financial report provides our patients, suppliers, taxpayers and creditors with a general overview of Lake Chelan Community Hospital District's finances and shows the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrative Office at Lake Chelan Community Hospital, 503 E. Highland Avenue, Chelan, Washington.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statement of Net Position December 31, 2015 and 2014

<i>Assets and Deferred Outflows of Resources</i>	2015	2014
Current assets:		
Cash and cash equivalents	\$ 753,158	\$ 854,083
Receivables:		
Patient accounts - Net	4,177,959	4,499,790
Taxes	87,116	145,467
Estimated third-party payor settlements	-	1,558,434
Other	114,551	346,583
Inventories	249,598	193,252
Prepaid expenses	156,385	135,847
Total current assets	5,538,767	7,733,456
Noncurrent cash and cash equivalents:		
Restricted for capital improvements	3,313	3,363
Internally designated for EMS	552,402	296,637
Internally designated for capital acquisitions	2,924,644	591,908
Total noncurrent assets limited as to use	3,480,359	891,908
Capital assets:		
Nondepreciable capital assets	4,904,740	5,095,010
Depreciable capital assets - Net of accumulated depreciation	3,178,954	3,196,682
Total capital assets - Net of accumulated depreciation	8,083,694	8,291,692
Other assets:		
Lake Chelan Community Apartment assets	-	273,259
Deferred outflows of resources:		
Excess consideration provided for acquisition - Net	240,857	313,687
Deferred charge on refunding	366,020	385,284
Total deferred outflows of resources	606,877	698,971
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 17,709,697	\$ 17,889,286

See accompanying notes to financial statements.

<i>Liabilities, Deferred Inflows of Resources and Net Position</i>	2015	2014
Current liabilities:		
Current maturities - Long-term debt	\$ 300,000	\$ 215,000
Current portion - Capital lease obligations	69,124	29,500
Accounts payable	487,926	330,018
Employee compensation and related liabilities	391,748	1,033,600
Estimated third-party payor settlements	250,455	-
Accrued vacation	1,078,954	1,134,033
Accrued interest payable	23,030	23,677
Total current liabilities	2,601,237	2,765,828
Long-term debt - Less current maturities	7,257,028	7,551,872
Capital lease obligations - Less current portion	267,754	34,581
Total liabilities	10,126,019	10,352,281
Deferred inflows of resources - EHR incentive revenue	-	77,653
Net position:		
Net investment in capital assets	555,808	846,023
Restricted expendable	3,313	3,363
Unrestricted	7,024,557	6,609,966
Total net position	7,583,678	7,459,352
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 17,709,697	\$ 17,889,286

See accompanying notes to financial statements.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenue:		
Patient service revenue (net of contractual allowances and discounts)	\$ 24,812,339	\$ 24,019,865
Provision for bad debts	(1,501,664)	(1,274,872)
Net patient service revenue	23,310,675	22,744,993
Other operating revenue	218,601	480,101
Total operating revenue	23,529,276	23,225,094
Operating expenses:		
Salaries and wages	15,189,147	14,205,786
Employee benefits	3,310,853	3,629,678
Professional fees	464,972	475,743
Supplies	1,932,739	1,964,716
Purchased services - Utilities	187,242	201,360
Purchased services - Other	1,241,303	1,037,371
Insurance	232,555	314,100
Repairs and maintenance	638,762	617,745
Rent	428,074	329,857
Other	576,372	626,373
Depreciation and amortization	833,833	763,259
Total operating expenses	25,035,852	24,165,988
Loss from operations	(1,506,576)	(940,894)
Nonoperating revenues - Net	1,539,147	1,227,879
Excess of revenue over expenses	32,571	286,985
Capital grants and contributions	91,755	45,018
Increase in net position	124,326	332,003
Net position - Beginning of year	7,459,352	7,127,349
Net position - End of year	\$ 7,583,678	\$ 7,459,352

See accompanying notes to financial statements.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 25,441,395	\$ 20,764,101
Receipts from other operating revenue	140,948	362,887
Payments to employee	(19,196,931)	(17,197,965)
Payments to suppliers, contractors, and others	(5,388,963)	(6,028,902)
Net cash provided by (used in) operating activities	996,449	(2,099,879)
Cash flows from noncapital financing activities:		
Property taxes for operations	1,469,976	1,412,973
Receipts from donations and other nonoperating revenues	94,035	75,098
Interest paid on noncapital debt	(1,595)	-
Net cash provided by noncapital financing activities	1,562,416	1,488,071
Cash flows from capital and related financing activities:		
Capital grants and contributions	91,753	45,018
Principal paid on capital debt	(215,000)	(215,000)
Principal paid on capital lease obligations	(50,029)	(40,873)
Proceeds from sale of assets	630,332	14,177
Excess consideration provided for acquisition	-	(364,700)
Interest paid	(289,966)	(292,391)
Payments for purchase of property, buildings and equipment	(278,626)	(661,468)
Payments on escrow accounts related to property held for future expansion	-	(1,824)
Net cash used in capital and related financing activities	(111,536)	(1,517,061)
Cash flows from investing activities:		
Cash received from Lake Chelan Community Apartment assets - Net	29,774	37,511
Interest received	10,423	38,950
Net cash provided by investing activities	40,197	76,461
Net increase (decrease) in cash and cash equivalents	2,487,526	(2,052,408)
Cash and cash equivalents - Beginning of year	1,745,991	3,798,399
Cash and cash equivalents - End of year	\$ 4,233,517	\$ 1,745,991

See accompanying notes to financial statements.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Loss from operations	\$ (1,506,576)	\$ (940,894)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	833,833	763,259
Provision for bad debts	1,501,664	1,274,872
Deferred EHR revenue recognized	(77,653)	(117,214)
Change in operating assets and liabilities:		
Receivables:		
Patient accounts	(1,179,833)	(2,032,772)
Estimated third-party payor settlements	1,558,434	(1,222,992)
Other	232,032	(273,445)
Inventories	(56,346)	1,036
Prepaid expenses	(20,538)	(15,313)
Accounts payable	157,908	(173,915)
Employee compensation and related liabilities	(641,852)	433,200
Estimated third-party payor settlements	250,455	-
Accrued vacation	(55,079)	204,299
Total adjustments	2,503,025	(1,158,985)
Net cash provided by (used in) operating activities	\$ 996,449	\$ (2,099,879)
Supplemental Schedule of Noncash Investing and Financing Activities:		
Equipment acquired under capital lease	\$ 322,826	\$ 50,042

See accompanying notes to financial statements.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity

Chelan County Public Hospital District No. 2 owns and operates Lake Chelan Community Hospital (the "District"), a licensed 34-bed acute care hospital, and Lake Chelan Clinic, (the "Clinic"), in Chelan, Washington. The District provides acute care and clinical services to patients in the Chelan market. The services include acute care, hospital inpatient and outpatient surgery, obstetrics, ambulance, emergency room, physician, behavioral health, chemical dependency, and the related ancillary procedures (lab, x-ray, therapy, etc.) associated with those services.

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 disclosures 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.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

All cash receipts are deposited directly into the District's depository bank account. Periodically, such cash is transferred to the Chelan County Treasurer who acts as the District's Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. At the direction of the District, the County Treasurer invests cash in certificates of deposit, money market funds, and other short-term investments until it is necessary to redeem warrants. For purposes of the statements of cash flows, the District considers all cash and cash investments with maturity dates of less than ninety days 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 balance sheets net of contractual adjustments and allowance for doubtful 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 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 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 allowance for doubtful accounts.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (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 doubtful accounts and provision for bad debts. Management regularly reviews data from the major payor sources revenue in evaluating the sufficiency of the allowance for doubtful 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 doubtful 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 doubtful 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 Chelan 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.

Inventories

Inventories of supplies are stated at cost (FIFO), which is considered lower than market value. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

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 acquisitions are recorded at cost or, if donated, at fair value at the date of donation. The District capitalizes all assets with a cost of \$5,000 or greater. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements.

The estimated useful lives of capital assets are as follows:

Land improvements	3 to 52 years
Buildings and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years
Software	3 to 5 years

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.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Asset Impairment (Continued)

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 2015 and 2014.

Compensated Absences

The Annual Leave (AL) program at the District provides eligible personnel with appropriate compensation during sick time, 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 amount 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 accrue to a two-year maximum. A payout of 40 hours is available to employees upon approval. All employees who terminate their employment, with proper notice, will be paid unused AL hours at the regular rate of pay upon completion of three years of employment.

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 480 hours. The District pays out 25% of the accrued balance (480 maximum) at termination of employment after three years of benefited employment status.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the consideration in excess of acquisition value of \$364,700 for a clinic acquired in 2014. This amount is deferred and amortized over five years, the estimated life of the underlying intangibles. The District amortized \$123,843 and \$51,013 during 2015 and 2014.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. Electronic health record incentive funding is deferred and recognized over the period that the related software is depreciated.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Service Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. 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 on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Grants and Contributions

From time to time, the District receives grants from Chelan County and the State of Washington as well as contributions from individuals 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.

Charity Care

The District provides health care services to patients who meet certain criteria under its charity care policy 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 charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Electronic Health Records Incentive Payments

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. For Medicaid purposes, the District may request and receive the first incentive payments as they adopt, implement, upgrade, and demonstrate meaningful use of certified EHR technology. In order to claim the first Medicare payment, the District must actually demonstrate 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.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenue results 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 are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$66,559 and \$59,127 in 2015 and 2014.

Tax Status

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications of 2014 amounts have been made in the accompanying financial statements to conform to the 2015 presentation.

Note 2 Compliance

Management believes the District is in substantial compliance with current laws and regulation through year ended December 31, 2015.

Note 3 Cash and Cash Equivalents

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool (PDPC); savings accounts in qualified public depositories; and certain other investments.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC.

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.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 3 Cash and Cash Equivalents (Continued)

At December 31, the District had bank balances as follows:

	2015	2014
Cash on deposit with Chelan County Treasurer	\$ 3,896,595	\$ 1,002,548
General bank accounts	336,922	743,443
Totals	\$ 4,233,517	\$ 1,745,991

Note 4 Patient Accounts - Net

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

	2015	2014
Receivables from patients and their insurance carriers	\$ 5,197,789	\$ 5,061,790
Receivables from Medicare	1,568,735	1,819,831
Receivables from Medicaid	196,620	143,238
Total patient accounts receivable	6,963,144	7,024,859
Less:		
Contractual adjustments	1,363,610	1,418,456
Allowance for doubtful accounts	1,421,575	1,106,613
Patient accounts - Net	\$ 4,177,959	\$ 4,499,790

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 5 Property Taxes

The District received approximately 3.13% and 3.45% of total revenue from property taxes in 2015 and 2014. These funds were used as follows:

	2015	2014
Levied to support operations	\$ 1,411,625	\$ 1,379,389

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes, limited to 101% of the District's highest in the preceding three tax years increased by amounts resulting from increased assessed valuation for new construction. 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 the people.

For 2015, the District's general tax levy was \$0.2812712260 per \$1,000 on a total assessed valuation of \$2,449,677,487 for a total general levy of \$689,024. Additionally, the District's EMS tax levy was \$.3099999996 per \$1,000 on a total assessed valuation of \$2,449,677,487 for a total EMS levy of \$759,400.

For 2014, the District's general tax levy was \$0.2969215431 per \$1,000 on a total assessed valuation of \$2,262,550,110 for a total general levy of \$671,780. Additionally, the District's EMS tax levy was \$.310000 per \$1,000 on a total assessed valuation of \$2,262,550,110 for a total EMS levy of \$701,391.

Property taxes are recorded as receivables when levied. Since State law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 6 Reimbursement Arrangements With Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenue charged and reimbursement under each of the various programs are included in contractual adjustments. A summary of the basis of reimbursement with major third-party payors follows: Gross revenue billed under the programs totaled \$18,368,959 and \$17,349,859 for 2015 and 2014.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 6 Reimbursement Arrangements With Third-Party Payors (Continued)

Medicare and Medicaid – The District's hospital is designated as a CAH. As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost reimbursement method, with the exception of certain types of laboratory and therapy services, which are reimbursed on a prospectively determined fee schedule. Professional services provided by physicians and other clinicians continue to be reimbursed on prospectively determined fee schedules.

Physician and Professional Services in Rural Health Clinic – Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

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

Accounting for Medicare and Medicaid Contractual Arrangements – The District 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 financial statements. The District's Medicare and Medicaid cost reports have been audited and tentatively settled through 2013.

Electronic Health Record Incentive Funding

In 2015, and 2014, the District amortized \$77,653 and \$117,214 each year of unearned revenue from the Medicare EHR incentive program. This amount is included in other operating revenue in the accompanying 2015 and 2014 statements of revenue, expenses, and changes in net position. As of December 31, 2015, unearned revenue from the Medicare EHR incentive payment totaled \$77,653.

As of December 31, 2015 and 2014 the District received Medicaid EHR incentive payments totaling \$0 and \$77,653. The Medicaid EHR incentive payment is recognized as other operating revenue the year it is received.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 6 Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in substantial compliance with applicable current laws and regulations.

CMS uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. As of December 31, 2015, the District has not been notified by the RAC of any potential significant reimbursement adjustments.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 7 Capital Assets

Capital asset additions, retirements, and balances for the following at December 31:

	Balance January 1, 2015	Additions/ Transfers	Retirements	Balance December 31, 2015
Nondepreciable capital assets:				
Land	\$ 4,168,630	\$ -	\$ -	\$ 4,168,630
Construction in progress	926,380	(190,270)	-	736,110
Total nondepreciable capital assets	5,095,010	(190,270)	-	4,904,740
Depreciable capital assets:				
Land improvements	393,905	189,854	-	583,759
Buildings	5,149,510	-	27,511	5,121,999
Building service and fixed equipment	923,293	22,701	-	945,994
Equipment	5,318,212	579,167	213,033	5,684,346
Software	1,086,342	-	-	1,086,342
Total depreciable capital assets	12,871,262	791,722	240,544	13,422,440
Total capital assets before depreciation	17,966,272	601,452	240,544	18,327,180
Less accumulated depreciation for:				
Land improvements	269,314	38,146	-	307,460
Buildings	3,645,104	143,381	27,510	3,760,975
Building service and fixed equipment	795,020	12,983	-	808,003
Equipment	4,277,512	488,037	164,585	4,600,964
Software	687,630	78,454	-	766,084
Total accumulated depreciation	9,674,580	761,001	192,095	10,243,486
Total capital assets - Net	\$ 8,291,692	\$(159,549)	\$ 48,449	\$ 8,083,694

At December 31, 2015, construction in progress (CIP) consisted of various projects as well as a lab and IT project, which are expected to be completed during 2016 at an estimated cost of \$19,570.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 7 Capital Assets (Continued)

Capital asset additions, retirements, and balances for the following at December 31:

	Balance January 1, 2014	Additions/ Transfers	Retirements	Balance December 31, 2014
Nondepreciable capital assets:				
Land	\$ 4,168,630	\$ -	\$ -	\$ 4,168,630
Construction in progress	737,721	188,659	-	926,380
Total nondepreciable capital assets	4,906,351	188,659	-	5,095,010
Depreciable capital assets:				
Land improvements	461,334	-	67,429	393,905
Buildings	5,149,510	-	-	5,149,510
Building service and fixed equipment	923,293	-	-	923,293
Equipment	4,841,905	522,851	46,544	5,318,212
Software	1,086,342	-	-	1,086,342
Total depreciable capital assets	12,462,384	522,851	113,973	12,871,262
Total capital assets before depreciation	17,368,735	711,510	113,973	17,966,272
Less accumulated depreciation for:				
Land improvements	333,198	3,545	67,429	269,314
Buildings	3,501,015	144,089	-	3,645,104
Building service and fixed equipment	781,858	13,162	-	795,020
Equipment	3,772,032	551,451	45,971	4,277,512
Software	687,630	-	-	687,630
Total accumulated depreciation	9,075,733	712,247	113,400	9,674,580
Total capital assets - Net	\$ 8,293,002	\$ (737)	\$ 573	\$ 8,291,692

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 8 Long-Term Liabilities

A schedule of changes in the District's long-term debt and capital lease obligations at December 31 is as follows:

	2014	Additions	Reductions	2015	Current Due
Bonds Payable:					
2013 LTGO Bonds	\$ 7,870,000	\$ -	\$ 215,000	\$ 7,655,000	\$ 300,000
Sub total bonds payable	7,870,000	-	215,000	7,655,000	300,000
Bonds Discounts:					
2013 LTGO Bonds Discounts	(103,128)	-	(5,156)	(97,972)	-
Total bonds payable	7,766,872	-	209,844	7,557,028	300,000
Capital lease obligations:					
Stryker - Tower	-	120,880	6,126	114,754	21,806
Olympus - Scopes	-	168,979	13,052	155,927	32,058
Olympus - Reprocessor	-	32,967	1,352	31,615	5,688
Philips Medical Cap	20,753	-	20,753	-	-
Americorp	43,328	-	8,746	34,582	9,572
Total capital lease obligations	64,081	322,826	50,029	336,878	69,124
Total bonds payable and capital lease obligations	\$ 7,830,953	\$ 322,826	\$ 259,873	\$ 7,893,906	\$ 369,124
	2013	Additions	Reductions	2014	Current Due
Bonds Payable:					
2013 LTGO Bonds	\$ 8,085,000	\$ -	\$ 215,000	\$ 7,870,000	\$ 215,000
Sub total bonds payable	8,085,000	-	215,000	7,870,000	215,000
Bonds Discounts:					
2013 LTGO Bonds Discounts	(108,285)	-	(5,157)	(103,128)	-
Total bonds payable	7,976,715	-	209,843	7,766,872	215,000
Capital lease obligations:					
Philips Medical Cap	54,912	-	34,159	20,753	20,753
Americorp	-	50,042	6,714	43,328	8,747
Total capital lease obligations	54,912	50,042	40,873	64,081	29,500
Total bonds payable and capital lease obligations	\$ 8,031,627	\$ 50,042	\$ 250,716	\$ 7,830,953	\$ 244,500

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 8 Long-Term Liabilities (Continued)

The terms and due dates of the District's long-term debt, including capital lease obligations, at December 31, 2015 and 2014, follows:

Long-Term Debt

Limited Tax General Obligation Bonds, dated June 12, 2013, due in varying annual principal installments of \$215,000 in 2013 to \$565,000 in 2034 payable December 1 each year, plus interest at varying rates from 4% to 4.25%, payable each June 1 and December 1 each year; bonds maturing on or after December 1, 2013, are subject to optional redemption prior to their stated maturity dates on or after June 1, 2023 at par plus accrued interest to the date of such redemption.

Legal Debt Margin

The District is subject to a general obligation debt limit of 2.5% of the assessed value of all taxable property within the District. That amount for the 2015 tax collection year was \$61,241,937 and the District's outstanding general obligation debt was \$7,655,000 or 12.50% of the debt limit.

Capital Lease Obligations

Lease obligation to Philips Medial Capital due in monthly installments of \$4,297 in 2014 through July 2015, including interest at 5.15% collateralized by equipment at a cost of \$199,934, with accumulated depreciation of \$199,934.

Lease obligation to Americorp Financial, LLC due in monthly installments of \$1,029 in 2014 through July 2019, including interest at about .76% collateralized by equipment at a cost of \$50,042, with accumulated depreciation of \$17,512.

Lease obligation to Stryker - Tower due in monthly installments of \$2,375 in 2015 through July 2020, including interest at about 6.38% collateralized by equipment at a cost of \$120,880, with accumulated depreciation of \$10,062.

Lease obligation to Olympus - Scopes due in monthly installments of \$3,057 in 2015 through July 2020, including interest at about 3.27% collateralized by equipment at a cost of \$168,979, with accumulated depreciation of \$14,690.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 8 Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Lease obligation to Olympus - Reprocessor due in monthly installments of \$670 in 2015 through July 2020, including interest at about 8.10% collateralized by equipment at a cost of \$32,967, with accumulated depreciation of \$2,952.

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

Years Ending December 31,	Bonds and Notes Payable			Capital Lease Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 300,000	\$ 276,356	\$ 576,356	\$ 69,124	\$ 16,444	\$ 85,568
2017	300,000	270,356	570,356	73,009	12,558	85,567
2018	305,000	264,356	569,356	77,159	8,409	85,568
2019	315,000	258,256	573,256	72,038	4,267	76,305
2020	320,000	251,956	571,956	45,548	876	46,424
2021-2025	1,780,000	1,103,744	2,883,744	-	-	-
2026-2030	2,210,000	735,363	2,945,363	-	-	-
2031-2034	2,125,000	230,350	2,355,350	-	-	-
Total	\$ 7,655,000	\$ 3,390,737	\$ 11,045,737	\$ 336,878	\$ 42,554	\$ 379,432

Note 9 Line of Credit

The District entered into an unsecured bank line of credit agreement with North Cascades Bank that provides for maximum borrowing of \$1,000,000 at prime rate plus .50% as of December 31, 2014. The purpose of the line of credit is for the District to support working capital during prolonged receivable collection period. There were zero line of credit activities as of December 31, 2015.

Note 10 Leases

The District is committed under various leases for equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended December 31, 2015 and 2014 amounted to \$59,890 and \$59,944.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 11 Risk Management

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 policy. Although there exists the possibility of claims arising from services provided to patients through December 31, 2015, 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's limits provide \$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. 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. Amounts paid by the District for workers' compensation expense were \$102,792 and \$7,881 for 2015 and 2014.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 11 Risk Management (Continued)

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 \$33,470 and \$72,885 for 2015 and 2014.

Health Insurance

The District has a self-funded health insurance plan in addition to the District's preexisting self-funded dental plan, which provide medical and dental benefits to employees and their dependents. Health and dental costs are expensed as incurred. Health and dental expense includes claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end.

The health plan has reinsurance to cover catastrophic individual claims over \$80,000. The dental plan covers annual individual claims up to \$2,000. The plans have no aggregate reinsurance.

The District incurred self-funded health expenses, including dental expense, of \$1,611,693 and \$2,025,270 for the year ended December 31, 2015 and 2014. The following represents the health plan activity for the District and estimated claims outstanding at December 31:

	Beginning of Fiscal year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2014	\$ -	\$ 1,580,549	\$ 1,158,050	\$ 422,499
2015	\$ 422,499	\$ 1,611,693	\$ 1,823,253	\$ 210,939

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 12 Charity Care

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 of 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 charity care policy. 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 charity care policy aggregated \$376,248 and \$474,888 for the years ended December 31, 2015 and 2014.

The estimated cost of providing care to patients under the District's charity care policy aggregated \$226,315 and \$283,730 in 2015 and 2014. The cost was calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing the charity care.

Note 13 Pension Plan

The District has a voluntary contributory money-purchase pension plan that is available to all employees that contribute three percent of their salary to the District's 403(b) plan. The plan is administered by CPI Qualified Plan Consultants, Inc. Any changes to the plan provisions must be both documented in the board minutes and authorized with a signature from one of the plan representatives. The plan is funded solely by employer contributions in which the District will contribute five percent of the employees' salary only if certain eligibility criteria are met by the employees, including the contribution to the 403(b) plan.

Employees are vested upon deposit. Pension costs include only current service costs, which are accrued and funded on a current basis. Pension plan expense was \$503,151 and \$487,146 for the years ended December 31, 2015 and 2014.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 13 Pension Plan (Continued)

The District also has a voluntary retirement plan which was established by the District under section 403(b) of the Internal Revenue Code. The plan is funded solely by employee contributions, which are deposited in employee controlled accounts established with American Mutual Funds.

The District also has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 available to employees who have exceeded the maximum level of contributions to their 403(b) plan. The plan is administered by CPI Qualified Plan Consultants, Inc. and is funded solely by employee contributions with the fees paid for by the District.

Note 14 Net Patient Service Revenue

Net patient service revenue consisted of the following:

	2015	2014
Gross patient service revenue:		
Inpatient services	\$ 3,239,642	\$ 3,170,320
Outpatient services	39,717,111	36,193,943
Total gross patient revenue	42,956,753	39,364,263
Revenue deductions:		
Medicare contractual allowances	(6,985,688)	(5,208,910)
Medicaid contractual allowances	(1,264,831)	(1,354,077)
Other	(9,893,895)	(8,781,411)
Patient service revenue (net of contractual allowances and discounts)	\$ 24,812,339	\$ 24,019,865

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 14 Net Patient Service Revenue (Continued)

The following table reflects the percentage of gross patient service revenue by payor source for the years ended December 31:

	2015	2014
Medicare	39%	39%
Medicaid	22%	20%
Other	39%	41%
Totals	100%	100%

Note 15 Functional Expenses

The District provides general health care services to residents within its geographical area. Expenses related to providing these services consisted of the following:

	2015	2014
Health care services	\$ 21,696,815	\$ 20,687,007
General and administrative	3,654,371	3,795,653
Total expenses	\$ 25,351,186	\$ 24,482,660

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 16 Related Organization

Foundation

Lake Chelan Community Hospital Foundation (the "Foundation"), formed in 1981, is a separate tax-exempt Washington corporation. The Foundation is not considered a component unit that must be combined with the District for financial statement purposes. The Foundation has assets and net assets of approximately \$2,669,000 and \$2,905,000 at December 31, 2015 and 2014, according to unaudited financial statements. Donations of \$154,047 and \$88,760 were contributed to the District by the Foundation for the years ended December 31, 2015 and 2014.

Lake Chelan Community Apartments

Lake Chelan Community Hospital was contracted with the Housing Authority of Chelan County and the City of Wenatchee to manage LCCA. The 28-unit apartment is located in Chelan, Washington. LCCA was financed under Section 221 (d) (3) of the National Housing Act. Under this program, LCCA provided housing to tenants subject to regulation by the Department of Housing and Urban Development (HUD) and receives a rent subsidy. During the 2015 and 2014, rental subsidy from HUD totaled \$17,165 and \$68,988, 40 and 42 percent of total revenue.

The District assumed the existing Housing and Urban Development (HUD) loan on the LCCH Apartments in 2005. The District operates the property to serve the low income households for a period of time in order to meet the existing loan requirements.

At December 31, 2015 and 2014, all assets and liabilities of the rental property are included within the balance sheet of the District. At December 31, 2015 and 2014, rental income, net of expenses, is reported as nonoperating revenues on the statement of revenue and expenses and changes in net position. On April 28, 2015, the District entered into an agreement to sell the Lake Chelan Community Apartments.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 17 Nonoperating Revenues Net

Total nonoperating revenues (expenses) for the years ended December 31, were as follows:

	2015	2014
Interest earnings	10,423	38,950
Interest expense	(315,334)	(316,672)
Non-capital grants and contributions	94,035	75,098
Gains on disposal of assets	308,624	13,604
Property tax	1,411,625	1,379,388
Lake Chelan Community Apartment assets revenue - Net of expenses	29,774	37,511
Total nonoperating revenues	\$ 1,539,147	\$ 1,227,879

Note 18 Sale of Lake Chelan Community Apartments

On March 24, 2015, the District passed Resolution 549, authorizing the sale of Lake Chelan Community Apartments. The District entered into an agreement on April 28, 2015. The District recognized a net gain of, \$314,000, which is included in nonoperating revenues-net within the statement of revenues and expenses and changes in net position.

ABOUT THE STATE AUDITOR'S OFFICE

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