



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

**Financial Statements Audit Report**  
**Skagit Hospice Services, LLC.**  
**(Hospice of the Northwest)**

**Skagit County**

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

**Published May 1, 2017**

**Report No. 1019009**





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

May 1, 2017

Board of Appointed Representatives  
Hospice of the Northwest  
Mount Vernon, Washington

**Report on Financial Statements**

Please find attached our report on the Hospice of the Northwest's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

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**

**Hospice of the Northwest  
Skagit County  
January 1, 2015 through December 31, 2015**

Board of Appointed Representatives  
Hospice of the Northwest  
Mount Vernon, 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 Hospice of the Northwest, Skagit County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Hospice's basic financial statements, and have issued our report thereon dated April 24, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Hospice'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 Hospice's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospice'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 Hospice'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 Hospice's financial statements are free from material misstatement, we performed tests of the Hospice'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 Hospice'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 Hospice'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

April 24, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Hospice of the Northwest Skagit County January 1, 2015 through December 31, 2015**

Board of Appointed Representatives  
Hospice of the Northwest  
Mount Vernon, Washington

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

We have audited the accompanying financial statements of the Hospice of the Northwest, Skagit County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Hospice'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Hospice'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 Hospice'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 Hospice of the Northwest, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 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 April 24, 2017 on our consideration of the Hospice'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 Hospice's internal control over financial reporting and compliance.

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

Pat McCarthy  
State Auditor  
Olympia, WA

April 24, 2017



## **FINANCIAL SECTION**

**Hospice of the Northwest  
Skagit County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

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

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis provides an overview of the financial position and financial activities of Skagit Hospice Services, LLC, doing business as Hospice of the Northwest (Hospice NW).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section. The statement of net position and the statement of revenues, expenses, and changes in net position report information about Hospice NW's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Hospice NW's net position and changes in it. Over time, increases or decreases in the Hospice NW's net position are one indicator of whether its financial health is improving or deteriorating. 2015 is the first year the financial statements of Hospice NW have been presented in GAAP format. The accompanying 2014 statements are provided for comparison purposes and presented in GAAP format however, they are unaudited.

**Statements of Net Position (in thousands)**

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,658	\$ 2,474
Patient accounts receivable	1,686	1,119
Other current assets	65	33
Total current assets	<u>3,409</u>	<u>3,627</u>
<b>CAPITAL ASSETS</b>		
Depreciable capital assets, net of accumulated depreciation	<u>22</u>	<u>53</u>
<b>DEFERED OUTFLOW OF RESOURCES</b>		
	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 3,431</u>	<u>\$ 3,680</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 696	\$ 1,001
Total current liabilities	<u>696</u>	<u>1,001</u>
<b>DEFERED OUTFLOW OF RESOURCES</b>		
	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	22	53
Restricted	-	-
Unrestricted	<u>2,713</u>	<u>2,626</u>
Total net position	<u>2,735</u>	<u>2,679</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,431</u>	<u>\$ 3,680</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Statements of Net Position (in thousands) (continued)**

*Assets*

Total current assets of \$3,409 at December 31, 2015, were \$218 lower than at year-end 2014. This decrease is made up of an \$817 decrease in cash, mostly attributable to the \$600 membership distribution. An increase in patient accounts receivable, which increased on higher patient volumes, and other current assets account for the remaining change in current assets.

At December 31, 2015 depreciable assets net of accumulated depreciation decreased \$31 when compared to December, 31 2014. This decrease is related to current year additions to accumulated depreciation.

Hospice NW did not have any deferred outflows of resources at year-end 2014 or 2015.

*Liabilities*

Current liabilities decreased by \$305 from \$1,001 at year-end 2014 to \$696 at year-end 2015. This decrease is made up of a decrease in accounts payable of \$305.

**Performance Overview**

The following is a comparison of 2015 actual revenues, expenses, and changes in net position results to 2014 results (in thousands):

	2015	2014
<b>OPERATING REVENUES</b>		
Net patient service revenue	\$ 7,606	\$ 6,748
Other Operating Revenues	397	256
Total operating revenues	8,002	7,004
<b>OPERATING EXPENSES</b>		
Wages and benefits	4,492	3,831
Professional fees	127	279
Supplies	1,053	982
Purchased services	1,156	1,062
Other	487	423
Depreciation and amortization	31	37
Total operating expenses	7,346	6,615
Operating Income	657	389
NET NONOPERATING INCOME	-	-
CAPITAL CONTRIBUTIONS	-	6
PARTNERSHIP DISTRIBUTIONS	(600)	-
INCREASE IN NET POSITION	57	395
NET POSITION, beginning of year	2,679	2,284
NET POSITION, end of year	\$ 2,735	\$ 2,679

**Performance Overview (continued)**

*Operating Revenues*

In 2015, operating revenues grew by \$999 or 14.3% over 2014. Operating revenues are made up of two components: net patient service revenue and other operating revenue. Net patient service revenue grew by \$858 or 12.7%, this increase is primarily related to a 9.8% increase in patient volume from 42,452 patient days in 2014 to 46,626 patient days in 2015. Increases in per diem reimbursement accounts for the remaining increase. Other operating increase \$141 or 55.1% from 2014 to 2015. This increase is related to an increase in grant funding from the Hospice Foundation.

*Operating Expenses*

Operating expenses increased by \$731 or 11.1% from 2014 to 2015. Wages and benefits increased by \$661, or 17.2% compared to 2014, this variance is related to patient volume and the employment of medical directors that were providing services as contractors, categorized as professional fees, in previous years. This change is the main cause of the variance in professional fees which decreased in 2015 compared to 2014 by \$152 or 54.5%. Supplies usage increased due to patient volume by \$7.2% or \$71. In 2015 purchased services increased by \$94 or 8.9%, related to volume. Other operating expenses increase \$64 or 15.1% year over year, employee travel to provide hospices services along with increases in excise tax and dues and subscriptions were the causes of this variance. Retirement of certain assets and capital assets that reached their depreciable useful life caused depreciation and amortization expense to decrease by \$7 or 17.5 from 2014 to 2015.

*Net Position*

Operating income for 2015 was \$657, \$268 or 68% higher than 2014. Hospice NW made a distribution of \$600 to the members in 2015 after have no distribution in 2014. The operating income less the member's distribution accounted for an increase in net position of \$57 from 2014 to 2015.

**Contacting the Hospice NW's Financial Management of Net Position**

This financial report is designed to provide our patients, suppliers, and members, with a general overview of Hospice NW's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospice NW's management at 227 Freeway Drive, Mount Vernon, Washington 98273.

**Skagit Hospice Services, LLC**  
**STATEMENTS NET POSITION**

	December 31, 2015
<b>ASSETS</b>	
CURRENT ASSETS	
Cash	\$ 1,657,624
Patient accounts receivable	1,686,304
Other receivables	59,893
Prepaid expenses and other assets	5,113
	<u>3,408,935</u>
Total current assets	<u>3,408,935</u>
CAPITAL ASSETS	
Depreciable capital assets, net of accumulated depreciation	22,306
	<u>22,306</u>
Total capital assets	<u>22,306</u>
Total assets	3,431,241
DEFERED OUTFLOW OF RESOURCES	
	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 3,431,241</u>
<b>LIABILITIES AND NET POSITION</b>	
CURRENT LIABILITIES	
Accounts payable	\$ 695,828
	<u>695,828</u>
Total current liabilities	<u>695,828</u>
DEFERED OUTFLOW OF RESOURCES	
	-
NET POSITION	
Net investment in capital assets	22,306
Restricted	-
Unrestricted	2,713,107
	<u>2,735,413</u>
Total net position	<u>2,735,413</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,431,241</u>

The accompanying notes are an integral part of these statements

**Skagit Hospice Services, LLC**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Year Ended December 31, 2015
OPERATING REVENUES	
Net patient service revenue	\$ 7,605,727
Other Operating Revenues	396,772
Total operating revenues	8,002,499
OPERATING EXPENSES	
Salaries and wages	3,593,608
Employee benefits	898,402
Professional fees	126,652
Supplies	1,052,985
Purchased services	1,156,289
Other	487,054
Depreciation and amortization	30,837
Interest and amortization	-
Total operating expenses	7,345,828
Operating Income	656,670
NONOPERATING INCOME, net	-
Excess of revenues over expenses before capital contributions and partnership distributions	656,670
CAPITAL CONTRIBUTIONS	-
PARTNERSHIP DISTRIBUTIONS	(600,000)
INCREASE IN NET POSITION	56,670
NET POSITION, beginning of year	2,678,742
NET POSITION, end of year	\$ 2,735,413

The accompanying notes are an integral part of these statements

**Skagit Hospice Services, LLC**  
**STATEMENTS OF CASH FLOWS**

	Year Ended December 31, <u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from and on behalf of patients	\$ 7,038,563
Cash paid to suppliers	(3,130,553)
Cash paid to employees	(4,492,011)
Other cash receipts	<u>367,497</u>
Net cash from operating activities	<u>(216,504)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds of capital donations	
Purchase of capital assets	-
Other	<u>-</u>
Net cash from capital and financing activities	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	<u>-</u>
Net cash from investing activities	<u>-</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Partnership distributions	<u>(600,000)</u>
Net cash from noncapital and financing activities	<u>(600,000)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(816,504)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>2,474,129</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 1,657,624</u></b>

The accompanying notes are an integral part of these statements

**Skagit Hospice Services, LLC**  
**STATEMENTS OF CASH FLOWS**

	Year Ended December 31, <u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating income	\$ 656,670
Adjustments to reconcile operating income to net cash from from operating activities	
Depreciation	30,837
Changes in operating assets and liabilities	
Accounts receivable, net	(567,164)
Other receivables	(29,275)
Prepaid expenses	(2,334)
Accounts payable	<u>(305,239)</u>
Net cash from operating activities	<u>\$ (216,504)</u>

The accompanying notes are an integral part of these  
statements



**Skagit Hospice Services, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Organization**

**Organization** - Skagit Hospice Services, LLC, doing business as Hospice of the Northwest (Hospice NW) was formed as a domestic limited liability company by Public Hospital Districts No. 1 (PHD No. 1) and No. 304 (PHD No. 304) of Skagit County, Washington to provide hospice services to residents of the districts and surrounding communities. Capital and profit interests held by each of the hospital district's is as follows: PHD No. 1 (50%) and PHD No. 304 (50%).

**Note 2 - Summary of Significant Accounting Policies**

**Accounting standards** - The financial statements of Hospice NW have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below. 2015 is the first year the financial statements of Hospice NW have been presented in GAAP format.

**Basis of presentation** - The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

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

**Cash and cash equivalents** - Cash and cash equivalents include demand and interest-bearing deposits with an original maturity of three months or less.

**Capital assets** - Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. Hospice NW's capitalization threshold is \$1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by Hospice NW are as follows:

Land improvements	10 - 16 years
Buildings	26 - 40 years
Fixed equipment	10 - 20 years
Major movable and minor equipment	3 - 20 years

**Risk Management** – Hospice NW is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee accident benefits. Risk management services including commercial insurance coverage are provided to Hospice NW as part of a management agreement with PHD No. 1 for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Pursuant to that agreement PHD No. 1, has kept in full force and effect, professional liability insurance on a claims-made basis of at least \$1 million per occurrence and \$3 million annual aggregate limit. In addition, employees of PHD No. 1 provided as a purchased service to Hospice NW are covered under PHD No. 1's self-insured worker's compensation policy.

**Net position** - Hospice NW's net position is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

**Operating revenues and expenses** - Hospice NW's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing hospice services—Hospice NW's primary business. Nonexchange revenues, such as gains on the sale of assets are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide hospice services. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**Net patient service revenue** - Accounts receivable are reduced by a contractual allowance reserve, the difference between the community rate and the contracted estimated payment due. In evaluating the month-end AR outstanding accounts, and projecting the estimated AR allowance reserve, a detailed analysis is completed at the payer and patient account level to determine the amount that needs to be reserved based on payer contracts and/or government fee schedules.

**Charity Care** - Hospice NW receives payment from the Hospice Foundation (the Foundation) for patients that are unable to meet financial obligations for hospice services to Hospice NW. In 2015, the Foundation paid Hospice NW \$24,180 for uncompensated care.

**Subsequent events** - Subsequent events are events or transactions that occur after the statements of net position date but before financial statements are issued. Hospice NW recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of net position, including the estimates inherent in the process of preparing the financial statements. Hospice NW's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of net position but arose after the statements of net position date and before the financial statements are available to be issued.

### **Note 3 - Deposits and Investments**

At December 31, 2015 Hospice NW had \$1,657,624 in cash deposits at a local financial institution and did not have any other deposits or investments.

**Skagit Hospice Services, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

All of Hospice NW's deposits are either insured or collateralized. Hospice NW's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (WPDPC).

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

**Note 4 - Capital Assets**

Capital asset additions, retirements, and balances for the years ended December 31, 2015 and 2014, were as follows:

	Beginning Balance January 1, 2015	Additions	Retirements	Account transfers	Ending Balance December 31, 2015
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-	-
<b>Total nondepreciable assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	-	-	-	-	-
Buildings and leasehold improvements	-	-	-	-	-
Fixed equipment	-	-	-	-	-
Movable equipment	322,878.30	-	-	-	322,878.30
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	-	-	-	-	-
Buildings and leasehold improvements	-	-	-	-	-
Fixed equipment	-	-	-	-	-
Movable equipment	(269,734.94)	(30,837.46)	-	-	(300,572.40)
<b>Depreciable capital assets, net</b>	<b>53,143.36</b>	<b>(30,837.46)</b>	<b>-</b>	<b>-</b>	<b>22,305.90</b>
	<u><u>\$ 53,143.36</u></u>	<u><u>\$ (30,837.46)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,305.90</u></u>

**Skagit Hospice Services, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Concentration of Credit Risk**

Hospice NW grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from third party payors at December 31, 2015, was as follows:

	<u>2015</u>
Medicare	80%
Medicaid	10%
Commercial	1%
Other thrd party government payors	<u>9%</u>
	<u>100%</u>

**Note 6 - Related Party Transactions**

All employees of Hospice NW are employed by and fall under the benefit plans, including deferred compensation plans, collective bargaining agreements, and employment policies of member PHD No. 1. In addition, Hospice NW, reimburses PHD No. 1 for employee salaries and an additional 25% of salaries for benefits and other costs of employment. In addition, PHD No. 1 provides accounting, business office, materials management, information services, liability insurance coverage, and additional services as needed to Hospice NW. Operating expenses incurred by Hospice NW under these agreements for the year ended December 31, 2015, are as follows:

	<u>2015</u>
PHD No. 1	
Salaries and wages	\$ 3,593,608
Employee benefits	898,402
Professional fees	29,061
Supplies	14,985
Purchased services	796,436
Other	<u>225,321</u>
Total	<u>\$ 5,557,813</u>

Accounts payable owed to PHD No. 1 included in the accompanying balance sheets at December 31, 2015, was \$528,887.

On March 23, 2015 Hospice NW made member distributions of \$300,000 to each of its two members, totaling \$600,000.

Skagit Hospice Services, LLC  
NOTES TO FINANCIAL STATEMENTS

**Note 7 - Leases**

**Operating leases** - Hospice NW leases certain facilities under operating lease arrangements. The following is a schedule by year of future minimum lease payments as of December 31, 2015:

2016	\$ 124,884
2017	124,884
2018	124,884
2019	124,884
2020	<u>20,814</u>
	<u>\$ 520,350</u>

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>