



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

**Financial Statements Audit Report**

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

**For the period January 1, 2016 through December 31, 2016**

**Published March 8, 2018**

**Report No. 1020848**





## Office of the Washington State Auditor

**Pat McCarthy**

March 8, 2018

Board of Commissioners  
Mid-Valley Hospital  
Omak, Washington

### **Report on Financial Statements**

Please find attached our report on Mid-Valley 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**

**Mid-Valley Hospital  
Okanogan County  
January 1, 2016 through December 31, 2016**

Board of Commissioners  
Mid-Valley Hospital  
Omak, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Mid-Valley Hospital, Okanogan County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 15, 2018. As discussed in Note 15 and Note 25 to the financial statements, the Caribou Trail Professional Medical Service Group, a component unit of the District, ceased operations and dissolved effective October 28, 2016, with all remaining assets and liabilities transferring to the member hospital districts.

The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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Pat McCarthy

State Auditor

Olympia, WA

February 15, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Mid-Valley Hospital Okanogan County January 1, 2016 through December 31, 2016**

Board of Commissioners  
Mid-Valley Hospital  
Omak, Washington

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

We have audited the accompanying financial statements of Mid-Valley Hospital, Okanogan County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

### **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 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Mid-Valley Hospital, as of December 31, 2016, 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.

## **Matters of Emphasis Regarding Discontinued Operations of the Discretely Presented Component Unit**

As discussed in Note 15 and Note 25 to the financial statements, the Caribou Trail Professional Medical Services Group, a component unit of the District, ceased operations and dissolved effective October 28, 2016, with all remaining assets and liabilities transferring to the member hospital districts. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

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



## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

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

February 15, 2018

## **FINANCIAL SECTION**

**Mid-Valley Hospital  
Okanogan County  
January 1, 2016 through December 31, 2016**

### **BASIC FINANCIAL STATEMENTS**

Statements of Net Position – 2016

Statements of Revenues, Expenses and Changes in Net Position – 2016

Statements of Cash Flows – 2016

Notes to Financial Statements – 2016

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

## Statements of Net Position

Ended December 31, 2016, (Component Unit October 28, 2016)

<i>Assets and Deferred Outflows of Resources</i>	District	Component Unit
Current assets:		
Cash and cash equivalents		
Cash	\$ 1,540,531	\$ -
Restricted	3,457,946	-
Receivables:		
Patient accounts - Net	2,856,658	-
Other	357,981	-
Taxes	67,446	-
Third-party	384,996	-
LLC member hospital districts	-	-
Inventories	786,319	-
Prepaid expenses	312,401	-
Total current assets	9,764,278	-
Noncurrent assets:		
Transfer	173,232	-
Nondepreciable capital assets	419,782	-
Depreciable capital assets - Net of accumulated depreciation	8,241,701	-
Total noncurrent assets	8,834,715	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 18,598,993</b>	<b>\$ -</b>

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

## Statements of Net Position (Continued)

Ended December 31, 2016, (Component Unit October 28, 2016)

<i>Liabilities, Deferred Inflows of Resources, and Net Position</i>	District	Component Unit
Current liabilities:		
Current maturities - Long-term debt	\$ 512,678	\$ -
Current maturities - Capital lease	464,192	-
Current portion - Compensated absences	124,710	-
Accounts payable - Trade	1,136,832	-
Payroll and related liabilities	525,592	-
Other	21,052	-
Total current liabilities	2,785,056	-
Noncurrent liabilities:		
Long-term debt - Less current maturities	4,207,043	-
Long-term capital lease - Less current maturities	2,395,950	-
Long-term compensated absences - Less current portion	660,790	-
Total noncurrent liabilities	7,263,783	-
Total liabilities	10,048,839	-
Net position:		
Net investment in capital assets	1,081,620	-
Restricted for donations	3,767	-
Restricted for investments and capital assets	3,454,179	-
Unrestricted	4,010,588	-
Total net position	8,550,154	-
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	 \$ 18,598,993	 \$ -

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

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

Ended December 31, 2016, (Component Unit October 28, 2016)

	District	Component Unit
Operating revenue:		
Net patient service revenue	\$ 29,348,901	\$ 687,551
Other	864,167	521,827
<b>Total operating revenue</b>	<b>30,213,068</b>	<b>1,209,378</b>
Operating expenses:		
Salaries and wages	14,563,879	1,235,912
Employee benefits	3,659,293	171,100
Professional fees	2,699,719	237,238
Supplies	4,120,595	30,268
Purchased services	2,102,495	221,473
Utilities	427,334	16,754
Insurance	408,104	119,574
Rent	593,458	110,451
Other	567,008	62,326
Depreciation	1,090,112	5,568
<b>Total operating expenses</b>	<b>30,231,997</b>	<b>2,210,664</b>
<b>Loss from operations</b>	<b>(18,929)</b>	<b>(1,001,286)</b>
Nonoperating revenue (expenses):		
Interest income	2,893	-
Interest expense	(248,468)	-
Forgiveness of debt	(547,552)	2,389,390
Noncapital grants and contributions	104,497	-
Gain on sale of assets	2,093	(18,305)
Property taxes	1,019,893	-
Other	165,455	205,000
<b>Total nonoperating revenue - Net</b>	<b>498,811</b>	<b>2,576,085</b>
Excess of revenues over expenses	479,882	1,574,799
Capital grants and contributions	640	-
Transfer	173,232	(173,232)
Change in net position	653,754	1,401,567
Net position at beginning	7,896,400	(1,401,567)
<b>Net position at end</b>	<b>\$ 8,550,154</b>	<b>\$ -</b>

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

## Statements of Cash Flows

Ended December 31, 2016, (Component Unit October 28, 2016)

	District	Component Unit
Cash flows from operating activities:		
Cash received from operations	\$ 30,445,405	\$ 982,667
Cash received from other operating revenue	766,851	660,402
Cash paid for salaries and benefits	(18,248,138)	(1,486,473)
Cash paid for supplies, professional fees and other operating expenses	(10,700,316)	(1,137,325)
Net cash provided by (used in) operating activities	2,263,802	(980,729)
Cash flows from noncapital financing activities:		
Cash received from property taxes	997,692	-
Cash received from donations and other nonoperating revenue	269,952	-
Miscellaneous revenue	-	205,000
Loans to/from component unit	(547,552)	734,121
Net cash provided by noncapital financing activities	720,092	939,121
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	16,455	-
Capital grants and contributions	640	-
Principal payments on long-term debt	(809,010)	-
Interest paid on long-term debt	(248,468)	-
Payments for purchase of capital assets	(998,964)	-
Proceeds from sale of assets	2,093	-
Net cash used in capital and related financing activities	(2,037,254)	-
Cash flows from investing activities:		
Loans issued for physician recruitment program	70,400	-
Interest received	2,893	-
Net cash provided by investing activities	73,293	-
Net increase (decrease) in cash and cash equivalents	1,019,933	(41,608)
Cash and cash equivalents at beginning	3,978,544	41,608
Cash and cash equivalents at end	\$ 4,998,477	\$ -
Cash and cash equivalents:		
Cash	\$ 1,540,531	\$ -
Restricted	3,457,946	-
Total cash and cash equivalents	\$ 4,998,477	\$ -

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

## Statements of Cash Flows (Continued)

Ended December 31, 2016, (Component Unit October 28, 2016)

	District	Component Unit
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Loss from operations	\$ (18,929)	\$ (1,001,286)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation	1,090,112	5,568
Provision for bad debts	1,245,868	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(308,336)	295,116
Member hospital districts receivable	-	44,949
Other accounts receivable	(97,316)	93,626
Third-party receivable	158,972	-
Inventories	6,224	27,928
Prepaid expenses	23,679	62,815
Accounts payable - Trade	168,465	-
Payroll and related liabilities	(3,220)	(79,461)
Compensated absences	(21,746)	-
Accounts payable to other vendors	-	(429,666)
Other	20,029	(318)
Total adjustments	2,282,731	20,557
Net cash provided by (used in) operating activities	\$ 2,263,802	\$ (980,729)

### Noncash Investing, Capital and Financing Activities:

Capital lease obligations for new equipment	\$ 2,468,484	\$ -
Prior year capital expenditures charged to operations in current year	44,035	-

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

## Notes to Financial Statements

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

#### **The Entity**

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

The District is a member of Caribou Trail Professional Medical Services Group, LLC, with one other area hospital districts remaining in the LLC, which ceased operations as of October 28, 2016 (see note 15).

#### **Financial Statement Presentation**

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

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

#### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

For purposes of the statements of cash flows, the District considers all cash and cash investments with maturity dates of ninety days or less as cash and cash equivalents.



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

## Notes to Financial Statements

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

#### Patient Accounts Receivable and Credit Policy

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

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

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

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

## Notes to Financial Statements

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

#### Property Taxes

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

#### Inventories

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

#### Restricted Assets

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

#### Capital Assets

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

The District utilizes the most recent Estimated Useful lives of Depreciable Hospital Assets Guide published by the American Hospital Association. Depreciation and amortization have been computed on the straight-line method over the following estimated useful service lives:

Land improvements	5 to 25 years
Buildings and building improvements	5 to 40 years
Major moveable equipment	2 to 20 years
Software	3 to 5 years

Property held for future expansion is stated at cost.

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

## Notes to Financial Statements

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

#### Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue and expenses and changes in net position. No impairment losses were recorded in 2016.

#### Compensated Absences

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

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

#### Net Position

Net position is classified and displayed in three components: Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted resources are a component of net position with constraints placed on their use either by creditors, grantors, donors, etc. or by law through constitutional provision or enabling legislation. Unrestricted resources are all other assets that do not meet the definition of restricted resources or net investment in capital assets.

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

## Notes to Financial Statements

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

#### **Net Position (Continued)**

When the District has both restricted and unrestricted resources available to finance particular program/activities, it is the District's policy to use restricted resources before unrestricted resources.

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

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

#### **Patient Service Revenues**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, the District recognizes revenue basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

#### **Charity Care**

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

#### **Grants and Donations**

From time to time, the District received grants from the State of Washington as well as contributions from individual and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

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

## Notes to Financial Statements

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

#### **Grants and Donations (Continued)**

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.

#### **DSH Revenue**

The District received Disproportionate Share (DSH) funds from the Washington State Department of Social and Health Services (DSHS). The District recorded \$535,892 as a reduction to contractual adjustments during 2016.

#### **Component Unit**

In July 2003, the District entered into an inter-local cooperation agreement with four hospital districts in the area and formed Caribou Trail Professional Medical Services Group, LLC (LLC) for the purpose of furthering the missions of the districts by delivering high quality and cost-effective specialty medical services for patients and to ensure that such medical services and related services are available in the rural communities served by the districts through the recruitment and retention of physicians and other health care professionals. Compiled financial statements of the LLC for 2016 and previous years can be obtained by contacting the District.

On October 20, 2016, the two remaining members with a vested interest, Okanogan-Douglas Counties Public Hospital District No. 1; d/b/a Three Rivers Hospital and the District signed a resolution to cease operations as of October 28, 2016.

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

## Notes to Financial Statements

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

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

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

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

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

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

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

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

## Notes to Financial Statements

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### Note 2: Compliance

Management believes the District is in substantial compliance with current laws and regulation through the year ended December 31, 2016.

### Note 3: Bank Deposits and Investments

#### Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000.

The Revised Code of Washington, Chapter 39, authorized municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. All final decisions regarding the purchase and sale of investment securities remain with the District Board. The District maintains an investment policy designed to maximize return and limit the following types of risks:

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

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

*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.

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

## Notes to Financial Statements

### Note 3: Bank Deposits and Investments (Continued)

#### Cash and Cash Equivalents (Continued)

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

The carrying amounts of deposits are included in the District’s statements of net position as follows at December 31, 2016:

	District	Component Unit
Deposits:		
Current assets:		
Cash and cash equivalents	\$ 1,540,531	\$ -
Restricted for donations	3,767	-
Restricted for investments and capital assets	3,454,179	-
Total deposits	\$ 4,998,477	\$ -

### Note 4: Patient Accounts Receivable (District)

The mix of patient accounts receivable at December 31, 2016 is as follows:

Receivable from patients and their insurance carriers	\$ 5,354,396
Receivable from Medicare	1,295,940
Receivable from Medicaid	1,604,895
Total patient accounts receivable	8,255,231
Less - Contractual adjustments	3,218,341
Less - Allowance for doubtful accounts	2,180,232
Total adjustments	5,398,573
Patient accounts receivable - Net	\$ 2,856,658



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

## Notes to Financial Statements

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### Note 5: Property Taxes (District)

The District received approximately 1.63% of its financial support from property taxes. The funds were used as follows:

Levied to support operations	\$ 619,669
Levied to support bond	381,946
<hr/>	
Total levied	\$ 1,001,615

Property taxes are levied by the District and collected by the Okanogan County Treasurer. The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer.

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

For 2016, the District's regular tax levy was \$.670608 per \$1,000 on a total assessed valuation of \$922,075,868 for a total regular levy of \$618,351.

For 2016, the District's bond tax levy was \$.417595 per \$1,000 on a total assessed valuation of \$918,546,170 for a total bond levy of \$383,580.

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

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

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

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

## Notes to Financial Statements

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

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

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

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

*Accounting for Medicare and Medicaid Contractual Arrangements* - The Hospital is reimbursed for cost-reimbursable items at interim rates with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying consolidated financial statements. The Hospital's cost reports have been audited by the Medicare fiscal intermediaries through December 31, 2015. The Hospital's Medicaid cost reports have been audited through December 31, 2015.

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

Based on the District's policy, for the year ended December 31, 2016, the Hospital recognized \$155,200 in EHR incentive payments from the Medicare program, which is included in other operating revenue in the accompanying statements of revenues, expenses, and changes in net position.

### **Laws and Regulations**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violations of these laws and regulations could result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from patient services.

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

## Notes to Financial Statements

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

#### **Laws and Regulations (Continued)**

Management believes the Organization is in substantial compliance with current laws and regulations. CMS uses recovery audit contractors (RACs) as part of CMS's further efforts to ensure accurate payments. CMS uses RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment.

The Organization's policy is to adjust to or from revenue the amounts assessed under the RAC audits at the time a change in reimbursement is agreed upon between the Organization and CMS. RAC reviews with the Organization are anticipated; however, the outcomes of such potential reviews are unknown and cannot be reasonably estimated at December 31, 2016.

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

## Notes to Financial Statements

### Note 7: Capital Assets (District)

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

	Balance January 1, 2016	Additions/ Transfers	Retirements	Balance December 31, 2016
Nondepreciable capital assets:				
Land	\$ 84,306	\$ -	\$ -	\$ 84,306
Other	118,222	-	-	118,222
Construction in progress	362,082	(122,930)	(21,898)	217,254
<b>Total nondepreciable capital assets</b>	<b>564,610</b>	<b>(122,930)</b>	<b>(21,898)</b>	<b>419,782</b>
Depreciable capital assets:				
Land improvements	913,092	276,426	(15,197)	1,174,321
Buildings service and fixed equipment	11,210,145	1,358,353	(10,434)	12,558,064
Equipment	5,125,108	1,999,634	(51,190)	7,073,552
Software	1,028,055	-	-	1,028,055
<b>Total depreciable capital assets</b>	<b>18,276,400</b>	<b>3,634,413</b>	<b>(76,821)</b>	<b>21,833,992</b>
<b>Total capital assets before depreciation</b>	<b>18,841,010</b>	<b>3,511,483</b>	<b>(98,719)</b>	<b>22,253,774</b>
Less accumulated depreciation for:				
Land improvements	610,716	70,968	(15,197)	666,487
Buildings service and fixed equipment	6,929,933	405,722	(10,433)	7,325,222
Equipment	4,120,532	490,701	(29,054)	4,582,179
Software	895,682	122,721	-	1,018,403
<b>Total accumulated depreciation</b>	<b>12,556,863</b>	<b>1,090,112</b>	<b>(54,684)</b>	<b>13,592,291</b>
<b>Total capital assets - Net</b>	<b>\$ 6,284,147</b>	<b>\$ 2,421,371</b>	<b>\$ (44,035)</b>	<b>\$ 8,661,483</b>

At December 31, 2016, construction in progress consisted of mainline water, Apollo Solutions energy services, and ER office remodel. The projects are expected to be completed during 2017 and expected to cost approximately an additional \$2,462,000. The District plans on utilizing current bond funds for the projects as well as operating funds.

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

## Notes to Financial Statements

### Note 8: Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (District)

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

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<b>Bonds and notes payable:</b>					
LTGO Bonds 2009	\$ 706,358	\$ -	\$ 161,868	\$ 544,490	\$ 171,310
LTGO Bonds 2011	674,046	-	112,253	561,793	114,077
UTGO Bond - 2015	3,800,000	-	200,000	3,600,000	224,000
John Deere Financial	-	16,455	3,017	13,438	3,291
<b>Total long-term debt</b>	<b>5,180,404</b>	<b>16,455</b>	<b>477,138</b>	<b>4,719,721</b>	<b>512,678</b>
<b>Capital leases payable:</b>					
GE Precision - R&F - Mammo	113,447	-	113,447	-	-
Sysmex America	13,669	-	13,669	-	-
GE Logiq E9 Ultrasound	39,081	-	29,015	10,066	10,066
GE Financial Treadmill	21,848	-	6,117	15,731	6,343
GE Financing Capital Improvement Loan	103,593	-	29,807	73,786	30,879
GE Healthcare LAP-Arthrex Video Tower	188,662	-	36,535	152,127	37,797
Toshiba MRI Lease	243,230	1,856,794	22,495	2,077,529	264,463
Toshiba Ferr-Alert Lease	-	25,890	492	25,398	4,664
GE Endoscopy - Stryker	-	525,000	80,295	444,705	100,670
Alcon Centurion Vision System	-	60,800	-	60,800	9,310
<b>Total capital leases</b>	<b>723,530</b>	<b>2,468,484</b>	<b>331,872</b>	<b>2,860,142</b>	<b>464,192</b>
<b>Total long-term debt and capital leases</b>	<b>\$5,903,934</b>	<b>\$2,484,939</b>	<b>\$ 809,010</b>	<b>\$7,579,863</b>	<b>\$ 976,870</b>

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

## Notes to Financial Statements

### Note 8: Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (District)

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

FYE December 31:	Bonds and Notes Payable			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2017	512,678	181,016	693,694	464,192	111,028	575,220
2018	536,562	157,359	693,921	474,260	93,009	567,269
2019	561,333	132,538	693,871	467,123	74,176	541,299
2020	383,973	109,379	493,352	464,790	55,611	520,401
2021	325,175	93,920	419,095	350,317	38,556	388,873
2022-2026	1,422,000	321,079	1,743,079	639,460	34,483	673,943
2027-2029	978,000	68,637	1,046,637	-	-	-
Totals	\$4,719,721	\$1,063,928	\$5,783,649	\$2,860,142	\$406,863	\$3,267,005

#### Long-Term Debt

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

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

Unlimited Tax General Obligation Bond 2015, dated October 15, 2015, due in semiannual interest payments from approximately \$5,800 to \$82,800, and annual principal payments from approximately \$224,000 to \$337,000, beginning June 2016 through 2029, including interest at 3.47%.

John Deere Financial Agreement, dated January, 2016, due in monthly installments of \$274.26 plus 0.00% interest a month, secured by equipment with a cost of \$20,055.11.

#### Capital Leases Payable

GE Precision-R&F-Mammo - Lease agreement dated September 2011, due in monthly installments of \$16,078 for the first three years and \$11,554 thereafter, including interest of 4.03% a month, secured by healthcare equipment with a cost of \$836,881 and related accumulated depreciation of \$690,710. The lease was paid in full during 2016.

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

## Notes to Financial Statements

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### **Note 8: Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (District) (Continued)**

#### **Capital Leases Payable (Continued)**

Sysmex America Inc - Lease agreement dated September 2011, due in monthly installments of approximately \$1,302, including interest of approximately 9.5%, a month secured by healthcare equipment with a cost of \$62,000 and related accumulated depreciation of \$45,762. The lease was paid in full during 2016.

GE Logiq E9 Ultrasound - Lease agreement dated January 2012, due in monthly installments of \$2,548, including interest of approximately 6.02% a month secured by healthcare equipment with a cost of \$160,731 and related accumulated depreciation of \$152,694.

GE Financial Treadmill - Lease agreement dated April 2014 due in monthly installments of \$567, including interest of 3.62% a month, secured by equipment at a cost of \$31,050 and related accumulated depreciation of \$17,078.

GE Financial Capital Improvement - Lease agreement dated March 2014, due in monthly installments of \$2,749, including interest of 3.54% a month, secured by healthcare equipment with a cost of \$110,732 and a related accumulated depreciation of \$33,145.

GE Healthcare LAP-Arthrex Video Tower - Lease agreement dated September 2015, due in monthly installments of \$3,532, including interest of 3.40% a month, secured by healthcare equipment with a cost of \$135,107 and a related accumulated depreciation of \$36,028.

Toshiba MRI Lease - Lease agreement dated August, 2014, due in monthly installments of \$29,212, including interest of 4% a month, secured by healthcare equipment with a cost of \$2,786,301 and a related accumulated depreciation of \$27,357.

Toshiba Ferr-Alert - Lease agreement dated May, 2015, due in monthly installments of \$492, including interest of 4% a month, secured by healthcare equipment with a cost of \$28,106 and a related accumulated depreciation of \$234.

GE Endoscopy-Stryker - Lease agreement dated January, 2016, due in monthly installments of \$9,599, including interest of 3.64% a month, secured by healthcare equipment with a cost of \$499,116 and a related accumulated depreciation of \$96,578.

Alcon Centurion Vision System - Lease agreement dated May 2016, due in monthly installments of \$1,120, including interest of 4% a month, secured by healthcare equipment with a cost of \$67,022 and a related accumulated depreciation of \$4,189.

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

## Notes to Financial Statements

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### **Note 9: Risk Management (District)**

The District is a member of the Parker Smith & Feek (PSF).

The PSF policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies.

Although there exists the possibility of claims arising from services provided to patients through December 31, 2016, which have not yet been asserted, the District is unable to determine the ultimate cost if any, of such possible claims and, accordingly, no provision has been made. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The policy provides \$1,000,000 per claim of primary coverage with a \$5,000,000 annual aggregate limit. PSF 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. Payments by the District charged to workers’ compensation expense was \$227,575 in 2016.

### **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 \$29,350 in 2016.

### **Note 10: Pension Plan (District)**

The District sponsors and contributes to the Okanogan County Public Hospital District #3 Profit Sharing Plan, a defined contribution plan, covering all employees who have attained age 18 and been employed one full year.



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

## Notes to Financial Statements

### Note 10: Pension Plan (District) (Continued)

The plan was created under section 401(a) of the Internal Revenue Code. The plan assets are held by Nationwide Financial. The District pension contributions are vested to the employee's account at 20% after two years of service, with annual 20% increases until fully vested after six years of service. The District complies with federal funding requirements. The plan has adopted a December 31 year-end. Pension plan contributions were \$251,737 and forfeitures of \$23,103, for the year were used for fees and reduce employer contributions. The District's pension expense liability was zero dollars at year end.

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

### Note 11: Net Patient Service Revenue (District)

Net patient service revenue consisted of the following at December 31, 2016:

Gross patient service revenue:	
Inpatient services	\$ 16,352,951
Outpatient services	43,080,115
Total gross patient revenue	
	59,433,066
Revenue deductions:	
Contractual allowances	(28,838,297)
Provision for bad debts	(1,245,868)
Patient service revenue (net of contractual allowances and discounts)	
	\$ 29,348,901

### Note 12: Charity Care (District)

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

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's Healthcare Assistance Program. The District maintains records to identify and monitor the level of charity care it provides.

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

## Notes to Financial Statements

### Note 12: Charity Care (District) (Continued)

The amount of charges foregone for services and supplies furnished under the District's Healthcare Assistance Program aggregated \$830,605 for the year ended December 31, 2016. The estimated cost of providing care to patients under the District's Healthcare Assistance Program aggregated \$430,778 for the year. The cost was calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing charity care.

### Note 13: Lease Obligation (District)

The District is committed under various leases for administrative equipment, health care equipment, and for the rural health clinic's construction cost. These leases are considered operating leases for accounting purposes. Rent expenses for the year ended December 31, 2016 amounted to \$593,457. Future minimum rental commitments for these leases are as follows:

Year Ending December 31:	Total
2017	\$ 340,240
2018	214,530
2019	109,928
2020	99,150
2021	48,360
Total	\$ 812,208

### Note 14: Component Unit Transactions (District)

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

Other revenue	\$ 123,263
Operating expenses:	
Recruitment	\$ 70,442
Professional fees	343,004
Nonoperating revenues	
Forgiveness of debt	\$ 547,552

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

## Notes to Financial Statements

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### Note 15: Summary of Significant Accounting Policies (LLC)

#### The Entity

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

In 2015, Douglas, Grant, Lincoln and Okanogan Counties Public Hospital District No. 6 d/b/a Coulee Medical Center and Okanogan County Public Health Services District No. 4 d/b/a North Valley Hospital effectively ceased membership with the LLC and ended services with the LLC as of August 31, 2016.

On October 20, 2016, the two remaining members with a vested interest, Okanogan-Douglas Counties Public Hospital District No. 1; d/b/a Three Rivers Hospital and Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital signed a resolution to cease operations as of October 28, 2016. Immediately after cessation, the majority interest member, Mid-Valley Hospital will administer a plan to close all accounts included within the Statements of Net Position. All existing accounts receivable will be reasonably collected upon in order to satisfy non-member accounts payable in full. All remaining physical assets will be declared "surplus" and disposed of in accordance with the signed resolution.

The dissolution of each asset and liability are described in the following notes to the financial statements.

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

The LLC is a discretely presented component unit of Mid-Valley Hospital.

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

## Notes to Financial Statements

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### Note 15: Summary of Significant Accounting Policies (LLC) (Continued)

#### Financial Statement Presentation

The accounting policies of the LLC conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies. No policies result in material departures from GAAP. The LLC uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

#### Use of Estimates

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

#### Cash and Cash Equivalents

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

#### Patient Accounts Receivable

Accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. Most of these obligations are from local residents who are insured under third-party payer agreements. The LLC bills third-party payers on the patients' behalf, or if a patient is uninsured, the patient is billed directly.

Once claims are settled with the primary payer, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The LLC does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to accounts receivable.

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

## Notes to Financial Statements

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### **Note 15: Summary of Significant Accounting Policies (LLC) (Continued)**

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

In addition, management provides for potential uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are recorded in the accompanying compiled balance sheets net of contractual adjustments and allowance for uncollectible accounts.

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

During 2016, the LLC employed two orthopedic surgeons and one physician assistant. Patient care provided directly to the Member Hospital Districts at their locations is billed to the Member Hospital Districts based on relative value units (RVU). The LLC records receivables and revenues for those amounts.

#### **Inventories**

Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the LLC. Remaining inventory has been transferred to Mid-Valley Hospital as "surplus" as part of the dissolution process.

#### **Capital Assets**

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

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

Okanogan Public Hospital District No. 3 d/b/a Mid-Valley Hospital advanced the LLC start-up funds for operations and may advance funding for temporary operating costs or other purposes. Due to dissolution, advance payable is recognized as a forgiveness of debt on the statements of revenues, expenses, and change in net position.

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

## Notes to Financial Statements

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### **Note 15: Summary of Significant Accounting Policies (LLC) (Continued)**

#### **Compensated Absences**

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

#### **Net Position**

Net position represents the difference between assets, and liabilities. Net position of the LLC is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted is remaining net position that does not meet the definitions above.

#### **Patient Service Revenues**

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

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

Patient care provided directly to the Member Hospital Districts at their locations is billed to the Member Hospital Districts based on relative value units (RVU). These services are reported on an accrual basis in the period which services are provided. No allowance for uncollectibility is considered necessary. Services provided at Okanogan County Public Hospital District No. 3 d/b/a Mid-Valley Hospital accounted for 67% of this revenue for year ended October 28, 2016.

### **Note 16: Stewardship, Compliance, and Accountability (LLC)**

There was no violation of finance-related legal or contractual provisions for the LLC's year ended October 28, 2016.

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

## Notes to Financial Statements

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### **Note 17: Cash and Cash Equivalents (LLC)**

The LLC maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. Certain deposits in excess of federally insured limits are collateralized by pledges of securities held by the financial institution. At October 28, 2016, the LLC did not exceed the insured limits.

Cash collected from the member hospitals to fund the residency program is recorded as assets whose use is limited. Remaining cash funds have been transferred to Mid-Valley Hospital to settle outstanding operation requirements per dissolution.

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

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

All existing accounts receivable will be collected and used to satisfy non-member accounts payable.

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

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

Each member hospital advanced funds to the LLC for the purpose of funding the loan program. The advances will be forgiven by each hospital in proportion to the percentage of services the member hospital receives from the LLC. The amounts received from the member hospitals to fund the program are recorded as a non-current liability on the LLC's balance sheet. These are the amounts to be paid back to the member hospitals in case of default.

The loan amounts disbursed to the students is recorded as a non-current asset on the LLC's balance sheet. These are the amounts to be collected from the student in case of default. In the event that the student fulfills their obligation over the required amount of time, both amounts will be forgiven. During 2016, physician recruitment loan was defaulted on and collected in full.

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

## Notes to Financial Statements

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

As shown in the accompanying financial statements, the LLC experienced a loss from operations of \$1,001,286 for the year ended October 28, 2016. The LLC has shown significant operating losses during the last five years. The operating losses are due to provider turnover, reduced patient volumes, deteriorating payer mix and lower reimbursements.

### Note 21: Capital Assets (LLC)

Capital asset activity consisted of the following for the years ended October 28:

	Balance January 1, 2016	Additions/ Transfers	Retirements/ Transfers	Balance October 28, 2016
Fixed equipment	\$ 136,551	\$ -	\$ (136,551)	\$ -
Less - Accumulated depreciation	121,690	-	(121,690)	-
Fixed equipment - Net	\$ 14,861	\$ -	\$ (14,861)	\$ -

Remaining capital assets have been transferred to Mid-Valley Hospital as “surplus” as part of the dissolution process.

### Note 22: Leasing Activities (LLC)

The LLC leased building space from local health care facilities under operating leases during 2016. The LLC had a building lease commitment through December 31, 2016 with Brewster Medical Office, LLC at \$3,834 per month. One orthopedic surgeon employed by the LLC (prior to July 15, 2016) owns 25% of Brewster Medical Office, LLC.

The LLC had a rental agreement with Mid-Valley Hospital for the use of a reception area and exam rooms within the Hospital’s rural health clinic. This agreement automatically renewed on January 1, 2016. This agreement states a monthly rental amount of \$5,251. Total rental charges from Mid-Valley Hospital relating to the contract totaled \$52,518 for the year ended October 28, 2016.

The LLC also had agreements with Three Rivers Hospital (September and October 2016) for space rental amount of \$500 per month, and Coulee Medical Center (through July 2016) and North Valley Hospital (through August 2016) for a rental amount of \$55 and \$56 per day, respectively, for space rental.



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

## Notes to Financial Statements

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### **Note 23: Risk Management (LLC)**

The LLC has its professional liability insurance coverage with Physicians Insurance (the "Policy"). The Policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the policy. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the LLC purchased claims-made insurance in that year or the LLC purchased "tail" insurance to cover the claims incurred before but reported to the insurance carrier after cancellation or expiration of the claims-made policy. Coverage under the Policy is for \$1,000,000 per claim with a \$5,000,000 annual aggregate limit. The coverage has no significant deductible or coinsurance clauses. The Policy expired and an extended reporting endorsement (tail) coverage was initiated on October 28, 2016.

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

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

### **Note 24: Pension Plan (LLC)**

The LLC sponsors and contributes to the Okanogan County Public Hospital District #3 Profit Sharing Plan, a defined contribution plan, covering all employees who have attained age 18 and been employed one full year.

The plan was created under section 401(a) of the Internal Revenue Code. The plan assets are held by Nationwide Financial. The LLC pension contributions are vested to the employee's account at 20% after two years of service, with annual 20% increases until fully vested after six years of service. The LLC complies with federal funding requirements.

The plan has adopted a December 31 year-end. The Pension plan contributions were \$251,737 and forfeitures of \$23,103, for the year were used for fees and reduce employer contributions by the LLC and Mid-Valley Hospital. The LLC's pension expense liability was zero dollars at year end.

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

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

## Notes to Financial Statements

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### Note 25: Transfer (LLC)

Per resolution signed October 20, 2016, Mid-Valley Hospital will administer a plan to settle all accounts included within the transfer. The transfer consisted of the following items:

Cash	\$	144,695
Accounts receivable - Net		46,393
Other receivables		2,702
Inventory		27,928
Accounts payable		(46,431)
Accrued accounts payable		(2,055)
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Transfer	\$	173,232

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Once liabilities have been settled, Mid-Valley Hospital and Three Rivers Hospital will split any remaining assets.

## 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.

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