



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

December 6, 2018

Board of Commissioners  
Quincy Valley Medical Center  
Quincy, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Quincy Valley Medical Center's financial statements for the fiscal years ended December 31, 2017 and 2016. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

**Grant County  
Public Hospital District No. 2  
doing business as  
Quincy Valley Medical Center**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2017 and 2016



**DINGUS | ZARECOR & ASSOCIATES<sup>PLLC</sup>**  
Certified Public Accountants

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Grant County Public Hospital District No. 2  
doing business as Quincy Valley Medical Center  
Quincy, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of Grant County Public Hospital District No. 2 doing business as Quincy Valley Medical Center (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### 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.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 District as of December 31, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 2 to the financial statements, the District may not have sufficient cash or other liquid assets to pay for its obligations. In addition, the District has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to these matter.

## **Other Matters**

Management has omitted the management's discussion and analysis that 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 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 June 21, 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 for the year ended December 31, 2017. We issued a similar report for the year ended December 31, 2016, dated November 29, 2017, which has not been included with the 2017 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are 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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
June 21, 2018

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Statements of Net Position**  
**December 31, 2017 and 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 176,719	\$ 100,481
Receivables:		
Patient accounts, net of estimated uncollectibles of \$458,527 and \$166,999, respectively	616,403	345,272
Taxes	34,829	35,766
Estimated third-party payor settlements	387,000	98,000
Electronic health records receivable	487,496	-
Inventories	115,758	153,349
Prepaid expenses	23,977	16,575
Total current assets	1,842,182	749,443
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	61,277	61,431
Capital assets, net of accumulated depreciation	1,651,722	1,944,303
Total noncurrent assets	1,712,999	2,005,734
<b>Total assets</b>	<b>\$ 3,555,181</b>	<b>\$ 2,755,177</b>

*See accompanying notes to basic financial statements.*

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Statements of Net Position (Continued)**  
**December 31, 2017 and 2016**

<b>LIABILITIES AND NET POSITION</b>	<b>2017</b>	<b>2016</b>
<i>Current liabilities</i>		
Accounts payable	\$ 309,136	\$ 464,501
Registered warrants payable	4,437,699	3,742,067
Estimated third-party payor settlements	133,000	130,000
Accrued compensation and related liabilities	171,170	216,352
Accrued vacation	128,513	135,225
Short-term note payable	48,798	-
Current maturities of long-term debt	118,495	120,738
Current maturities of capital lease obligations	41,146	55,770
Total current liabilities	5,387,957	4,864,653
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	1,608,592	1,724,572
Capital lease obligations, less current maturities	14,361	62,573
Total noncurrent liabilities	1,622,953	1,787,145
Total liabilities	7,010,910	6,651,798
<i>Net position</i>		
Invested in capital assets, net of related debt	(130,872)	(19,350)
Unrestricted	(3,324,857)	(3,877,271)
Total net position	(3,455,729)	(3,896,621)
<b>Total liabilities and net position</b>	<b>\$ 3,555,181</b>	<b>\$ 2,755,177</b>

*See accompanying notes to basic financial statements.*

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$365,893 and \$598,506, respectively	\$ 6,614,306	\$ 6,633,031
Electronic health records incentive	487,496	-
Grants	57,334	26,541
Other	54,107	82,385
Total operating revenues	7,213,243	6,741,957
<i>Operating expenses</i>		
Salaries and wages	3,096,930	3,869,881
Employee benefits	675,205	927,382
Supplies	440,915	765,118
Professional fees	1,443,063	1,416,362
Purchased services	1,214,313	1,147,190
Utilities	115,929	121,441
Repairs and maintenance	207,088	251,586
Rentals and leases	300,106	266,148
Depreciation and amortization	321,933	536,871
Insurance	60,942	71,507
Other	52,717	120,834
Total operating expenses	7,929,141	9,494,320
<i>Operating loss</i>	(715,898)	(2,752,363)
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	1,387,542	1,362,214
Other income	4,458	70,597
Interest expense	(235,210)	(220,561)
Total nonoperating revenues, net	1,156,790	1,212,250
Excess of revenues over (under) expenses before capital grants and contributions	440,892	(1,540,113)
<i>Capital grants and contributions</i>	-	98,042
Change in net position	440,892	(1,442,071)
Net position, beginning of year	(3,896,621)	(2,454,550)
<b>Net position, end of year</b>	<b>\$ (3,455,729)</b>	<b>\$ (3,896,621)</b>

*See accompanying notes to basic financial statements.*



**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 6,105,973	\$ 7,098,186
Receipts from grants	57,334	26,541
Other receipts	54,107	98,972
Payments to employees	(3,824,029)	(4,913,156)
Payments to suppliers and contractors	(3,960,249)	(3,940,707)
Net cash used in operating activities	(1,566,864)	(1,630,164)
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	1,388,479	1,361,718
Interest paid on outstanding registered warrants	(147,211)	(126,815)
Noncapital contributions	1,932	47,884
Change in registered warrants payable	695,632	1,034,168
Principal payments on short-term note payable	-	(233,035)
Net cash provided by noncapital financing activities	1,938,832	2,083,920
<i>Cash flows from capital and related financing activities</i>		
Grants received for capital assets	-	98,042
Principal paid on long-term debt and capital lease obligations	(181,059)	(319,148)
Interest paid on long-term debt and capital lease obligations	(87,999)	(93,746)
Proceeds from issuance of long-term debt	-	124,019
Proceeds from sale of capital assets	-	71,389
Purchase of capital assets	(29,352)	(236,465)
Net cash used in capital and related financing activities	(298,410)	(355,909)
<i>Cash flows from investing activities, interest received</i>	2,526	2,865
Net increase in cash and cash equivalents	76,084	100,712
Cash and cash equivalents, beginning of year	161,912	61,200
<b>Cash and cash equivalents, end of year</b>	<b>\$ 237,996</b>	<b>\$ 161,912</b>

*See accompanying notes to basic financial statements.*

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 176,719	\$ 100,481
Cash and cash equivalents limited as to use	61,277	61,431
<b>Total cash and cash equivalents</b>	<b>\$ 237,996</b>	<b>\$ 161,912</b>
<b><i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</i></b>		
Operating loss	\$ (715,898)	\$ (2,752,363)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation and amortization	321,933	536,871
Provision for bad debts	365,893	598,506
Decrease (increase) in assets:		
Receivables:		
Patient accounts receivable, net	(637,024)	(188,351)
Estimated third-party payor settlements	(289,000)	150,000
Electronic health records	(487,496)	-
Other	-	16,587
Inventories	37,591	228,904
Prepaid expenses	(7,402)	2,666
Increase (decrease) in liabilities:		
Accounts payable	(155,365)	(12,091)
Short-term note payable	48,798	-
Estimated third-party payor settlements	3,000	(95,000)
Accrued compensation and related liabilities	(45,182)	(33,993)
Accrued vacation	(6,712)	(81,900)
<b>Net cash used in operating activities</b>	<b>\$ (1,566,864)</b>	<b>\$ (1,630,164)</b>

*See accompanying notes to basic financial statements.*

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Grant County Public Hospital District No. 2 doing business as Quincy Valley Medical Center (the District) owns and operates Quincy Valley Hospital, a 25-bed acute care facility and Quincy Valley Medical Center, a Medicare certified rural health clinic. The District provides healthcare services to patients in Quincy, Washington, and the surrounding area. Services provided by the District include an acute care hospital, emergency room, physician's clinic, and other related ancillary procedures (laboratory, imaging, therapy, etc.) associated with those services.

**b. Summary of Significant Accounting Policies**

*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.

*Enterprise fund accounting* – The District's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – Electronic funds transfer (EFT) cash receipts are deposited to the District's depository account at a bank. Periodically, such cash is transferred to the Grant County Treasurer (Treasurer) who acts as the District Treasurer. Non-EFT cash receipts are deposited directly to the Treasurer. Warrants are issued by the District against the cash placed with the Treasurer. The Treasurer invests cash in interest-bearing investments at the discretion of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

*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 District's operation.

*Capital assets* – Capital assets are defined by the District as assets with initial individual cost of more than \$5,000. Capital assets are recorded at historical cost. Donations are recorded at estimated fair value at the date of donation. Assets under capital lease obligations are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

**Capital assets (continued)** – All capital assets other than land and construction in progress are depreciated by the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Buildings and improvements	20 to 40 years
Equipment	3 to 25 years

**Accrued vacation** – The District’s policy is to permit employees to earn paid time off (PTO) based upon years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, PTO accrues from 184 to 256 hours per year. The District’s policy is to permit employees to carry these hours from one year to the next. On termination of employment, an employee shall be paid all accrued, but unused hours, provided the employee has given the notice required by personnel policies and the employee has not been terminated for cause.

**Net position** – Net position of the District is classified into three components. *Net position invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *invested in capital assets net of related debt* or *restricted*. The District did not have any *restricted net position* in 2017 or 2016.

**Operating revenues and expenses** – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

**Restricted resources** – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

**Grants and contributions** – From time to time, the District receives grants from the state of Washington and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or a purpose related to the District’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

***Risk transfer pools*** –The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Trust and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both trusts are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation and unemployment claims, maintenance of reserves, and administrative expenses. Premiums are charged to operations as they are incurred. Total unemployment insurance expense was \$287,321 and \$368,299 in 2017 and 2016, respectively, and total workers' compensation benefits expense was \$103,814 and \$143,820 in 2017 and 2016, respectively.

***Subsequent events*** – The District has evaluated subsequent events through June 21, 2018, the date on which the financial statements were available to be issued.

***Upcoming accounting standard pronouncements*** – In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, replacing the requirements of GASB Statement No. 45. The new guidance will be effective for the District's year ending December 31, 2018. GASB Statement No. 75 requires governmental entities to report a liability on the financial statement of other postemployment benefits (OPEB), and provides additional requirements for note disclosures and required supplementary information, including a schedule comparing a government entity's actual OPEB contributions to its contribution requirements. The District has not elected to implement this statement early; however, management is currently evaluating the impact of this statement, if any, in the year of adoption.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending December 31, 2019. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Upcoming accounting standard pronouncements (continued)* – In March 2017, the GASB issued Statement No. 85, *Omnibus*, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The new guidance is effective for the District's year ending December 31, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond insurance costs on any extinguished debt. The new guidance is effective for the District's year ending December 31, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the District's year ending December 31, 2020, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Upcoming accounting standard pronouncements (continued)* – In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending December 31, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

**2. Going Concern:**

The District reported an excess of revenues over expenses of \$440,892 and a deficit of revenues over expenses of \$1,422,071 for the years ended December 31, 2017 and 2016, respectively, resulting in a total net position deficit of \$3,455,729 and \$3,896,621 as of December 31, 2017 and 2016, respectively. In addition, current liabilities exceeded current assets by \$3,545,151 and \$4,115,210 for the years then ended, of which \$4,437,699 and \$3,742,067 is comprised of warrants outstanding, respectively.

Due to several factors including but not limited to, loss of market share to competing facilities, declining volumes, and the inability to recruit and retain new providers, the District's ability to continue as a going concern is in question.

In January 2017, the District began to actively engage with the leadership of the community of Quincy and, more specifically, with the Port of Quincy (the Port), regarding the future of the District. Early in these discussions, the Port took a significant position of leveraging for radical change, eventually proposing a plan including a facility replacement built by the Port to be leased by the District until a possible buy out. Initially titled "The Legacy Project," the plan identified a need to establish partnership(s) with another, larger, healthcare system. A smaller focus group was formed, led by a consultant who researched historic and current market share for both the District and the healthcare entities in the surrounding area.

At this time, the Board of Commissioners has approved moving forward with a Memorandum of Understanding and potentially an Interlocal Agreement. It is the belief of the focus group that alignment with another healthcare partner will bring increased consumer confidence leading to a growth in patient volume, eventually increasing the District's revenue from operations.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**2. Going Concern (continued):**

As of October 3, 2017, the City of Quincy committed to loaning \$1,000,000 to buy down the warrants from the District to ensure the continuity of healthcare services in the area.

As of February 13, 2018, the voters of Quincy approved an additional levy for maintenance and operations of \$875,000 in additional funds in 2019.

The ultimate goal is to establish a model of healthcare that is not only viable but sustainable for the District and rapidly growing city of Quincy.

**3. Bank Deposits and Registered Warrants Outstanding:**

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

All cash, cash equivalents, and cash investments held by the District Treasurer are insured by the state of Washington Public Deposit Protection Commission (PDPC), as provided by the *Revised Code of Washington*, Chapter 39.58, and are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. Qualified public depositories, including US Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington.

The District had no investments at either December 31, 2017 or 2016.

The District has the following assets limited as to use as of the following dates:

	2017	2016
<i>Internally designated by the Board for payment of unclaimed property liability</i>		
Cash and cash equivalents	\$ 12,186	\$ 13,079
<i>Internally designated by the Board for limited tax obligation bonds:</i>		
Cash and cash equivalents	49,091	48,352
Total	\$ 61,277	\$ 61,431

At December 31, 2017, the amount of warrants outstanding was \$4,437,699, of which all were registered warrants and bore interest of 3.5 percent. At December 31, 2016, the amount of warrants outstanding was \$3,742,067, of which all were registered warrants and bore interest of 3.5 percent.



**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**4. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, 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 include 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 the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has changed significantly from the prior year. The allowance for uncollectible accounts and the provision for bad debts both increased significantly due to a difficult implementation of a new computer system. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District consisted of the following amounts:

	<b>2017</b>	<b>2016</b>
Patients and their insurance carriers	\$ 862,515	\$ 311,840
Medicare	118,344	159,796
Medicaid	94,071	40,635
Total patient accounts receivable	<b>1,074,930</b>	512,271
Less allowance for uncollectible accounts	<b>458,527</b>	166,999
<b>Patient accounts receivable, net</b>	<b>\$ 616,403</b>	<b>\$ 345,272</b>

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**5. Capital Assets:**

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 444,175	\$ -	\$ -	\$ -	\$ 444,175
Construction in progress	1,379	5,516	-	(6,895)	-
Total capital assets not being depreciated	445,554	5,516	-	(6,895)	444,175
<i>Capital assets being depreciated</i>					
Land improvements	208,696	-	-	-	208,696
Building and improvements	5,072,331	-	-	-	5,072,331
Equipment	4,366,735	23,836	(16,033)	6,895	4,381,433
Total capital assets being depreciated	9,647,762	23,836	(16,033)	6,895	9,662,460
<i>Less accumulated depreciation for</i>					
Land improvements	206,469	637	-	-	207,106
Building and improvements	4,148,216	154,299	-	-	4,302,515
Equipment	3,794,328	166,997	(16,033)	-	3,945,292
Total accumulated depreciation	8,149,013	321,933	(16,033)	-	8,454,913
Total capital assets being depreciated, net	1,498,749	(298,097)	-	6,895	1,207,547
<b>Capital assets, net</b>	<b>\$ 1,944,303</b>	<b>\$ (292,581)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,651,722</b>

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**5. Capital Assets (continued):**

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 444,175	\$ -	\$ -	\$ -	\$ 444,175
Construction in progress	27,495	-	(23,397)	(2,719)	1,379
Total capital assets not being depreciated	471,670	-	(23,397)	(2,719)	445,554
<i>Capital assets being depreciated</i>					
Land improvements	208,696	-	-	-	208,696
Building and improvements	5,058,332	13,999	-	-	5,072,331
Equipment	4,325,015	262,741	(223,740)	2,719	4,366,735
Total capital assets being depreciated	9,592,043	276,740	(223,740)	2,719	9,647,762
<i>Less accumulated depreciation for</i>					
Land improvements	205,833	636	-	-	206,469
Building and improvements	3,990,273	157,943	-	-	4,148,216
Equipment	3,611,632	378,292	(195,596)	-	3,794,328
Total accumulated depreciation	7,807,738	536,871	(195,596)	-	8,149,013
<i>Total capital assets being depreciated, net</i>					
	1,784,305	(260,131)	(28,144)	2,719	1,498,749
<b>Capital assets, net</b>	<b>\$ 2,255,975</b>	<b>\$ (260,131)</b>	<b>\$ (51,541)</b>	<b>\$ -</b>	<b>\$ 1,944,303</b>

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**6. Short-term Debt:**

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
<i>Short-term debt</i>				
Shopko note payable	\$ -	\$ 53,798	\$ (5,000)	\$ 48,798
Total short-term debt	-	53,798	(5,000)	48,798
<b>Total short-term debt</b>	<b>\$ -</b>	<b>\$ 53,798</b>	<b>\$ (5,000)</b>	<b>\$ 48,798</b>

  

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
<i>Short-term debt</i>				
Medicare note payable, 2012	\$ 233,035	\$ -	\$ (233,035)	\$ -
Total short-term debt	233,035	-	(233,035)	-
<b>Total short-term debt</b>	<b>\$ 233,035</b>	<b>\$ -</b>	<b>\$ (233,035)</b>	<b>\$ -</b>

Short-term debt consisted of the following items:

- A note was issued by Medicare originally dated October 29, 2015, in the amount of \$573,753, for the purpose of paying off the December 31, 2012, Medicare cost report settlement. The note was repaid in 2016.
- A note was issued by Shopko originally dated July 19, 2017, in the amount of \$53,798, for the purpose of paying off under-replenished items related to the termination of the 340B retail pharmacy.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**7. Long-term Debt and Capital Lease Obligations:**

A schedule of changes in the District's noncurrent liabilities consisted of the following amounts:

	Balance December 31, 2016			Additions	Reductions	Balance December 31, 2017		Amounts Due Within One Year
<i>Long-term debt</i>								
2001 LTGO Bonds	\$	1,735,910	\$	-	\$ (83,751)	\$	1,652,159	\$ 87,490
WTB Note Payable - Surgery		6,051		-	(6,051)		-	-
EPOWERdoc Note Payable		103,349		-	(28,421)		74,928	31,005
Total long-term debt		1,845,310		-	(118,223)		1,727,087	118,495
<i>Capital lease obligations</i>								
Culver electronic medical records system		73,640		-	(44,203)		29,437	29,437
Avaya telephone system		12,792		-	(7,956)		4,836	4,836
Bedside monitors and telemetry receivers		6,210		-	(5,831)		379	379
Infusion pumps and related software		25,701		-	(4,846)		20,855	6,494
Total capital lease obligations		118,343		-	(62,836)		55,507	41,146
Total noncurrent liabilities	\$	1,963,653	\$	-	\$ (181,059)	\$	1,782,594	\$ 159,641

	Balance December 31, 2015			Additions	Reductions	Balance December 31, 2016		Amounts Due Within One Year
<i>Long-term debt</i>								
2001 LTGO Bonds	\$	1,816,015	\$	-	\$ (80,105)	\$	1,735,910	\$ 83,682
WTB Note Payable - Surgery		77,629		-	(71,578)		6,051	6,051
WTB Note Payable - EMR		96,585		-	(96,585)		-	-
EPOWERdoc Note Payable		-		124,019	(20,670)		103,349	31,005
Total long-term debt		1,990,229		124,019	(268,938)		1,845,310	120,738
<i>Capital lease obligations</i>								
Culver electronic medical records system		107,940		-	(34,300)		73,640	37,058
Avaya telephone system		20,338		-	(7,546)		12,792	7,956
Bedside monitors and telemetry receivers		-		10,270	(4,060)		6,210	5,305
Infusion pumps and related software		-		30,005	(4,304)		25,701	5,451
Total capital lease obligations		128,278		40,275	(50,210)		118,343	55,770
Total noncurrent liabilities	\$	2,118,507	\$	164,294	\$ (319,148)	\$	1,963,653	\$ 176,508

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**7. Long-term Debt and Capital Lease Obligations (continued):**

*Long-term debt –*

The terms and due dates of the District's long-term debt are as follows:

- Limited tax general obligation bonds, dated December 3, 2001, in the original amount of \$2,634,725, held by the United States Department of Agriculture; for the purpose of refinancing an interim loan used for construction, bond refinancing, and capital purchases, as well as additional financing for capital additions. Payments of \$80,465 are due semiannually on June 1 and December 1, including interest at a fixed rate of 4.5 percent per annum which matures in 2031.
- Washington Trust Bank note, in the original amount of \$600,000, dated January 26, 2007, for the purpose of remodeling existing hospital space in order to add a surgery unit and make other hospital improvements. The note was paid off during the year ended December 31, 2017.
- Washington Trust Bank note, dated December 2, 2010, in the original amount of \$375,478, for the purpose of purchasing an electronic medical records system, hardware, software, and other related equipment. The note was paid off during the year ended December 31, 2016.
- Note payable with EPOWERdoc, Inc., dated March 30, 2016, in the original amount of \$124,019, for the purpose of purchasing additional electronic medical records system hardware, software, and other related equipment; monthly payments of \$2,584, including interest payments at 8 percent.

*Capital lease obligations –*

Capital lease obligations to various lenders in the original amount of \$213,002 due in monthly payments between \$479 and \$3,456, including interest from 5 percent to 10.2 percent, through February 2021.

The lease obligations are reflected in the District's assets and liabilities. The assets acquired under capital leases had a capitalized cost of \$182,284 and accumulated amortization of \$120,649 and \$70,354, as of December 31, 2017 and 2016, respectively.

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

Years Ending December 31,	Long-term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 118,495	\$ 73,440	\$ 191,935	\$ 41,146	\$ 3,674	\$ 44,820
2019	122,476	69,459	191,935	6,363	897	7,260
2020	108,366	65,482	173,848	6,875	385	7,260
2021	99,977	60,953	160,930	1,123	12	1,135
2022	104,527	56,403	160,930	-	-	-
2023 - 2027	598,309	206,341	804,650	-	-	-
2028 - 2031	574,937	59,346	634,283	-	-	-
	<b>\$ 1,727,087</b>	<b>\$ 591,424</b>	<b>\$ 2,318,511</b>	<b>\$ 55,507</b>	<b>\$ 4,968</b>	<b>\$ 60,475</b>

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**8. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated, or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly from the prior year. The District has not changed its charity care and uninsured discount policies during 2017.

The District has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The District is paid on a cost reimbursement method for substantially all hospital and rural health clinic services provided to Medicare beneficiaries. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare Administrative Contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost based reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and review thereof by the Washington State Health Care Authority. Rural health clinic services are paid on a prospectively set rate per visit.
- *Other Commercial Payors* – The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$147,000 and \$42,000 for the years ended December 31, 2017 and 2016, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates. Such revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**8. Net Patient Service Revenue (continued):**

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016 were \$154,000 and \$103,000, respectively.

**9. Property Taxes:**

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. The 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 a vote of the residents of the District.

For 2017, the District's regular tax levy was approximately \$0.40 per \$1,000 on a total assessed valuation of \$3,446,450,078, for a total regular levy of \$1,386,710. For 2016, the District's regular tax levy was approximately \$0.42 per \$1,000 on a total assessed valuation of \$3,265,881,791, for a total regular levy of \$1,357,771.

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

**10. Electronic Health Records Incentive:**

The District recognized a receivable of \$487,496 as a result of Washington State Health Care Authority's audit of the Medicaid Incentive Program. The electronic health records (EHR) incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.



**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**11. Defined Contribution Plans:**

The District provides employees with the Quincy Valley Hospital 403(b) Retirement Plan (the Plan), a deferred compensation pension plan, for its benefit-eligible employees. The Plan is administered by Lincoln National Life Insurance Company. Benefit terms, including contribution requirements, for the Plan are established and amended by the District. The District is not required to contribute to the Plan; however, the District may make a voluntary contribution to participating employees up to two percent of the eligible employee's annual compensation. After one year of service, an employee vests ten percent of the employer's contribution, and after five years of service, an employee vests 100 percent of the employer contribution. The District has not elected to make voluntary contributions as of December 31, 2017 and 2016, respectively. The District makes contributions up to \$5,000 annually to highly compensated employees. Total employer contributions for these employees for the years ended December 31, 2017 and 2016, totaled approximately \$5,192 and \$15,962, respectively. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employees are immediately vested in their own contributions and earnings on those contributions. For the years ended December 31, 2017 and 2016, employee contributions totaled approximately \$45,000 for each year.

The District had no liability to the Plan at December 31, 2017 or 2016.

As of May 2018, the District began the steps to open up a 457 retirement plan. This plan will be similar in terms and requirements to the Plan and will cover the employees of the District.

In 2017, emergency medical technicians were granted retroactive eligibility from July 1, 2005, forward to participate in the Washington Law Enforcement Officers' and Firefighters' Retirement System Plan 2 by the Washington State Legislature. The District's pension liability under this rule change has not yet been determined.

**12. Commitments:**

The District leases copiers and a CT imaging trailer for medical services. The following is a schedule of future minimum lease payments required under operating lease agreements:

<b>Years Ending December 31,</b>		
2018	\$	173,232
2019		136,524
2020		22,000
	<b>\$</b>	<b>331,756</b>

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**13. Risk Management and Contingencies:**

***Risk management*** – The District 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 illnesses; natural disasters; medical malpractice; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Industry regulations*** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

***Medical malpractice claims*** – The District purchases malpractice liability insurance through Washington Casualty Company. 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 current policies. 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 carrier 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 current malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. There is no deductible associated with the current malpractice policy.

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

***Rural health clinic Medicaid managed care reimbursement*** – Effective January 1, 2009, the state of Washington (the State) changed its methodology for calculating the Medicaid reimbursement rates paid on eligible rural health clinic fee-for-service and managed care encounters. Included in the estimate prepared by management are assumptions regarding allowable encounters and the fee-for-service equivalents for those encounters. These estimates are subject to change based on the State’s final reconciliation and settlement of years 2014 through 2017. The difference between the final settlements and the amounts estimated by management could be material; any difference will be recorded when the final settlement becomes known.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**14. Concentration of Risk:**

***Patient accounts receivable*** – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Grant County.

The mix of receivables from patients was as follows:

	<b>2017</b>	<b>2016</b>
Medicare	<b>14 %</b>	25 %
Medicaid	<b>14</b>	20
Other third-party payors	<b>41</b>	38
Patients	<b>31</b>	17
	<b>100 %</b>	100 %

***Physicians*** – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

INDEPENDENT AUDITORS' 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*

Board of Commissioners  
Grant County Public Hospital District No. 2  
doing business as Quincy Valley Medical Center  
Quincy, Washington

We have audited, in accordance with the 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 Grant County Public Hospital District No. 2 doing business as Quincy Valley Medical Center (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 21, 2018.

**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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, which we consider to be a material weakness.  
(2017-001)

## **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 its 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*.

## **The District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 entity'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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
June 21, 2018

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2017**

**2017-001 Auditor Detected Adjusting Journal Entries**

<i>Criteria</i>	<input type="checkbox"/> Compliance Finding <input type="checkbox"/> Significant Deficiency <input checked="" type="checkbox"/> Material Weakness  No significant or material adjusting journal entries should be detected by auditors during the audit process.
<i>Condition</i>	There was a material adjusting journal entry proposed related to the allowance for uncollectible accounts and contractual adjustments (Allowance).
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	Financial reports may be inaccurate and could affect management and Board decision making.
<i>Cause</i>	The Allowance was prepared at year end; however, the system reports used to update it were not accurate.
<i>Recommendation</i>	We recommend the District review the allowance estimation process to ensure the system reports used in its creation are accurate.
<i>Management's Response</i>	The District asserts that an overstatement of allowance for uncollectible accounts and contractual adjustments occurred when a report from the newly-installed accounting system was used causing some errors in the allowance calculation. This was unintentional and should not be a recurring issue, given that we will be sending adjustments to a third party for confirmation in future periods.

**Grant County Public Hospital District No. 2**  
**doing business as Quincy Valley Medical Center**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2017**

The audit for the year ended December 31, 2016, reported five findings and four of the five were resolved during the current year.

**2016-001:** Auditor Preparation of the District's Audited Financial Statements – Resolved

**2016-002:** Improper Accruals – Resolved

**2016-003:** Allowance for Uncollectible Accounts and Contractual Adjustments – Repeated as 2017-001

**2016-004:** Third-Party Settlements – Resolved

**2016-005:** Capital Lease Obligations – Resolved