



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

June 24, 2019

Board of Commissioners
Cascade Medical Center
Leavenworth, 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 Cascade Medical Center's financial statements for the fiscal year ended December 31, 2017. 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

**Chelan County
Public Hospital District No. 1
doing business as
Cascade Medical Center**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Leavenworth, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Chelan County Public Hospital District No. 1 doing business as Cascade 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 basic 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 Matter – Change in Accounting Principle

As described in Note 1 to the basic financial statements, in 2017 the District adopted new accounting guidance, Governmental Accounting Standards Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 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 financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of changes in the District's total other postemployment benefits (OPEB) liability and related ratios on Page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 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 June 14, 2017, which has not been included with the 2017 financial and compliance report. The purpose of these 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. These 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
July 18, 2018

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Net Position
December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,321,745	\$ 1,725,561
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$417,000 and \$404,000, respectively	2,461,569	2,658,823
Taxes	17,679	17,563
Estimated third-party payor settlements	291,000	44,512
Electronic health records incentive payment	-	198,757
Other	7,739	13,238
Taxes receivable restricted as to use	54,465	53,885
Inventories	205,453	176,958
Prepaid expenses	133,107	114,354
Cash and cash equivalents restricted as to use	642,612	485,593
Total current assets	6,135,369	5,489,244
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	1,790,674	1,940,078
Capital assets, net of accumulated depreciation	12,158,223	13,230,282
Total noncurrent assets	13,948,897	15,170,360
 Total assets	 20,084,266	 20,659,604
<i>Deferred outflows of resources, deferred financing costs</i>	428,165	-
 Total assets and deferred outflows of resources	 \$ 20,512,431	 \$ 20,659,604

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Accounts payable	\$ 302,529	\$ 305,896
Accrued compensation and related liabilities	998,835	902,392
Accrued interest payable	35,098	53,900
Estimated third-party payor settlements	154,506	7,103
Electronic health records incentive payback	741,000	-
Current maturities of long-term debt and capital lease obligations	505,891	493,852
Total current liabilities	2,737,859	1,763,143
<i>Noncurrent liabilities</i>		
Long-term debt and capital lease obligations, less current maturities	13,023,393	12,885,153
Other post employment benefits liability	1,879,463	-
Total noncurrent liabilities	14,902,856	12,885,153
Total liabilities	17,640,715	14,648,296
<i>Deferred inflows of resources, other postemployment benefits liability</i>	87,268	-
<i>Net position</i>		
Net investment in capital assets	(977,994)	(202,623)
Restricted	301,196	299,281
Unrestricted	3,461,246	5,914,650
Total net position	2,784,448	6,011,308
Total liabilities, deferred inflows of resources, and net position	\$ 20,512,431	\$ 20,659,604

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade 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 approximately \$743,000 and \$685,000, respectively	\$ 13,876,993	\$ 13,330,544
Electronic health records incentive (payback)	(741,000)	197,572
Grants	9,814	17,053
Other	128,139	136,280
Total operating revenues	13,273,946	13,681,449
<i>Operating expenses</i>		
Salaries and wages	8,799,375	8,325,367
Employee benefits	1,883,315	1,709,081
Other postemployment benefits	304,057	-
Depreciation and amortization	1,465,474	1,426,222
Supplies	918,625	1,095,985
Professional fees and other purchased services	1,464,254	1,113,779
Utilities	165,648	153,394
Insurance	197,860	201,003
Leases and rentals	73,637	61,487
Repairs and maintenance	251,407	250,103
Other	816,710	772,200
Total operating expenses	16,340,362	15,108,621
<i>Operating loss</i>	(3,066,416)	(1,427,172)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations, and emergency medical services	1,638,086	1,615,992
Taxation for bond principal and interest	587,432	564,769
Investment income	29,119	13,898
Interest expense	(647,241)	(696,577)
Bond issuance costs	(194,888)	-
Gain on disposal of assets	-	3,860
Contributions and other nonoperating revenues	6,725	4,861
Total nonoperating revenues, net	1,419,233	1,506,803
Excess of revenues (expenses) over expenses (revenues) before capital grants and contributions	(1,647,183)	79,631
<i>Capital grants and contributions</i>	82,997	196,474
Change in net position	(1,564,186)	276,105
Effect of accounting change on prior years	(1,662,674)	-
Net position, beginning of year	6,011,308	5,735,203
Net position, end of year	\$ 2,784,448	\$ 6,011,308

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 13,975,162	\$ 13,229,053
Other receipts	133,638	200,510
Receipts from grants	9,814	17,053
Receipts from electronic health records incentive	198,757	247,261
Payments to and on behalf of employees	(10,586,247)	(9,923,197)
Payments to suppliers and contractors	(3,938,756)	(3,597,453)
Net cash provided by (used in) operating activities	(207,632)	173,227
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	1,637,970	1,616,745
Contributions	6,725	4,861
Net cash provided by noncapital financing activities	1,644,695	1,621,606
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	586,852	567,005
Capital grants and contributions	82,997	196,474
Purchase of capital assets	(393,415)	(350,859)
Proceeds from issuance of long-term debt	13,169,966	-
Principal paid on long-term debt and capital lease obligations	(13,447,852)	(481,482)
Interest paid on long-term debt and capital lease obligations	(666,043)	(697,700)
Bond issuance costs	(194,888)	-
Net cash used in capital and related financing activities	(862,383)	(766,562)
<i>Cash flows from investing activities, investment income</i>	29,119	13,898
Net increase in cash and cash equivalents	603,799	1,042,169
Cash and cash equivalents, beginning of year	4,151,232	3,109,063
Cash and cash equivalents, end of year	\$ 4,755,031	\$ 4,151,232

See accompanying notes to basic financial statements.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,321,745	\$ 1,725,561
Cash and cash equivalents restricted as to use	642,612	485,593
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	1,790,674	1,940,078
Total cash and cash equivalents	\$ 4,755,031	\$ 4,151,232
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (3,066,416)	\$ (1,427,172)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,465,474	1,426,222
Provision for bad debts	743,426	684,809
Effect of change in accounting on prior years	(1,662,674)	-
Decrease (increase) in assets:		
Patient accounts receivable, net	(546,172)	(802,076)
Estimated third-party payor settlements	(246,488)	20,001
Other receivables	5,499	64,230
Electronic health records incentive payment	198,757	49,689
Inventories	(28,495)	(20,298)
Prepaid expenses	(18,753)	110,405
Increase (decrease) in liabilities:		
Accounts payable	(3,367)	(39,609)
Accrued compensation and related liabilities	96,443	111,251
Estimated third-party payor settlements	147,403	(4,225)
Electronic health records incentive payment	741,000	-
Other postemployment benefits liability	1,879,463	-
Deferred inflows of resources, other postemployment benefits liability	87,268	-
Net cash provided by (used in) operating activities	\$ (207,632)	\$ 173,227

See accompanying notes to basic financial statements.

**Chelan County Public Hospital District No. 1
doing business as Cascade 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

Chelan County Public Hospital District No. 1 doing business as Cascade Medical Center (the District) owns and operates Cascade Medical Center, a nine-bed acute care hospital and rural health clinic. The District provides healthcare services to residents in Chelan County, Washington (the County). Services provided by the District include acute care hospital, emergency room, ambulance, physicians' clinic, and other related ancillary procedures (lab, x-ray, physical therapy, etc.) associated with those services.

The District, governed by a five-member Board of Commissioners (the Board) elected to six-year terms, operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The District is not a component unit of Chelan County, Washington.

Related organization – The Cascade Medical Center Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized in 1992 for the primary purpose of soliciting charitable donations and raising funds on behalf of, and in support to, the District. Although the District does not control the Foundation, the majority of resources or income that the Foundation holds and invests is used for the benefit of the District. The Foundation provided contributions of approximately \$44,000 and \$150,000 to the District in 2017 and 2016, respectively. The Foundation is not material to the District and is therefore not reported as a component unit of the District.

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, liabilities, deferred inflows of resources, and deferred outflows of resources 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 – All cash receipts are deposited directly with the Chelan County Treasurer (County Treasurer) who acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer. The County 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, laundry, and other supplies used in the operation of the District.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense. Prepaid expenses include prepaid insurance and other expenses.

Chelan County Public Hospital District No. 1
doing business as Cascade 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)

Assets restricted or limited as to use – Assets limited as to use consist of amounts restricted for bond principal and interest payments, amounts restricted by donors, and amounts set aside by the Board for designated purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Taxes receivable restricted as to use – Such assets are set aside for repayment of bond principal and interest as required by bond indenture.

Capital assets – Capital assets are defined by the District as assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals that do not increase the useful life of the asset are accounted for as expenses when incurred. Capital assets are recorded at historical cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Capital assets acquired under capital leases are amortized over the shorter of the estimated useful life or the length of the lease.

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, and are excluded from expenses in excess of revenues, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following estimated useful service lives:

Land improvements	10 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

Compensated absences – The District's policy is to permit employees to accumulate earned but unused paid time off (PTO). All PTO is accrued when incurred at varying rates depending on the employee's position and contract. Unused PTO is accumulated and paid to the employee when the employee terminates employment with the District.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* 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 *net investment in capital assets* or *restricted net position*.

Chelan County Public Hospital District No. 1
doing business as Cascade 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)

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, grants, 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 federal and state grants 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, including time 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 purposes 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.

Subsequent events – The District has evaluated subsequent events through July 18, 2018, the date on which the financial statements were available to be issued.

Change in accounting principles – The Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), is effective for years beginning after June 15, 2017 (fiscal year ended December 31, 2018, for the District). The District elected early adoption. The statement establishes accounting and financial reporting standards for the recognition and disclosure requirements for employers with liabilities to an OPEB plan. The District is further required to present as required supplementary information a ten-year schedule of changes in the District’s total OPEB liability and related ratios. Restatement of prior periods is not practical due to undue cost and effort with little benefit. The cumulative effect on prior years was reported as a restatement of beginning net position.

Chelan County Public Hospital District No. 1
doing business as Cascade 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 – 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, 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 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 issuance 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.

Chelan County Public Hospital District No. 1
doing business as Cascade 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 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.

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. Bank Deposits:

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

The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

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.

Amounts held in the Washington State Local Government Investment Pool at December 31, 2017 and 2016, were \$3,477,059 and \$3,313,664, respectively.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

3. 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 not changed significantly from the prior year. 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 these amounts:

	2017	2016
Receivables from patients and their insurance carriers	\$ 1,278,508	\$ 1,604,187
Receivables from Medicare	1,382,347	1,186,594
Receivables from Medicaid	218,007	272,043
Total patient accounts receivable	2,878,862	3,062,824
Less allowance for uncollectible accounts	417,293	404,001
Patient accounts receivable, net	\$ 2,461,569	\$ 2,658,823

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

4. Assets Restricted or Limited as to Use:

The composition of assets limited as to use is set forth in the following table:

	2017	2016
<i>Current assets</i>		
<i>Cash and cash equivalents</i>		
Internally designated by Board, cash and cash equivalents:		
Third-party payor cost settlements	\$ 152,885	\$ 151,588
Memorial fund	57,323	79,228
Emergency medical services	185,673	9,381
Restricted by bond agreement for bond principal and interest payment, cash and cash equivalents	246,731	245,396
Total cash equivalents	642,612	485,593
Taxes receivable restricted for debt service, interest, and emergency medical services	54,465	53,885
Total current assets limited as to use	697,077	539,478
<i>Noncurrent assets</i>		
Internally designated by Board for capital additions and replacements	1,790,674	1,940,078
Total assets limited as to use	\$ 2,487,751	\$ 2,479,556

Chelan County Public Hospital District No. 1
doing business as Cascade 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	\$ 522,015	\$ -	\$ -	\$ -	\$ 522,015
<i>Capital assets being depreciated</i>					
Land improvements	977,207	9,000	-	-	986,207
Buildings and improvements	10,158,758	208,587	-	-	10,367,345
Fixed equipment	8,339,951	-	-	-	8,339,951
Major movable equipment	4,404,186	175,828	(94,051)	-	4,485,963
Total capital assets being depreciated	23,880,102	393,415	(94,051)	-	24,179,466
<i>Less accumulated depreciation for</i>					
Land improvements	(495,434)	(69,890)	-	-	(565,324)
Buildings and improvements	(4,088,980)	(512,452)	-	-	(4,601,432)
Fixed equipment	(3,209,241)	(502,615)	-	-	(3,711,856)
Major movable equipment	(3,378,180)	(380,517)	94,051	-	(3,664,646)
Total accumulated depreciation	(11,171,835)	(1,465,474)	94,051	-	(12,543,258)
Total capital assets being depreciated, net	12,708,267	(1,072,059)	-	-	11,636,208
Capital assets, net	\$ 13,230,282	\$ (1,072,059)	\$ -	\$ -	\$ 12,158,223

Chelan County Public Hospital District No. 1
doing business as Cascade 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	\$ 522,015	\$ -	\$ -	\$ -	\$ 522,015
<i>Capital assets being depreciated</i>					
Land improvements	964,170	13,037	-	-	977,207
Buildings and improvements	10,158,758	-	-	-	10,158,758
Fixed equipment	8,339,951	-	-	-	8,339,951
Major movable equipment	4,260,127	341,682	(197,623)	-	4,404,186
Total capital assets being depreciated	23,723,006	354,719	(197,623)	-	23,880,102
<i>Less accumulated depreciation for</i>					
Land improvements	(428,641)	(66,793)	-	-	(495,434)
Buildings and improvements	(3,583,230)	(505,750)	-	-	(4,088,980)
Fixed equipment	(2,704,135)	(505,106)	-	-	(3,209,241)
Major movable equipment	(3,227,230)	(348,573)	197,623	-	(3,378,180)
Total accumulated depreciation	(9,943,236)	(1,426,222)	197,623	-	(11,171,835)
Total capital assets being depreciated, net	13,779,770	(1,071,503)	-	-	12,708,267
Capital assets, net	\$ 14,301,785	\$ (1,071,503)	\$ -	\$ -	\$ 13,230,282

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

6. Long-term Debt and Capital Lease Obligations:

A schedule of changes in long-term debt and capital lease obligations follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>Long-term debt</i>					
Parking lot note	\$ 247,919	\$ -	\$ (4,526)	\$ 243,393	\$ 4,891
2005 UTGO bonds	5,940,000	-	(5,940,000)	-	-
2006 UTGO bonds	1,775,000	-	(1,775,000)	-	-
2017 UTGO bonds	-	7,889,000	(334,000)	7,555,000	331,000
2009 LTGO bonds	5,430,000	-	(5,290,000)	140,000	140,000
2017 LTGO bonds	-	5,475,000	-	5,475,000	30,000
2005 UTGO bond discount	(63,509)	-	63,509	-	-
2006 UTGO bond premium	38,313	-	(38,313)	-	-
2009 LTGO bond discount	(93,044)	-	93,044	-	-
2017 LTGO bond premium	-	117,873	(1,982)	115,891	-
Total long-term debt	13,274,679	13,481,873	(13,227,268)	13,529,284	505,891
<i>Capital lease obligations</i>	104,326	-	(104,326)	-	-
Total long-term debt and capital lease obligations	\$ 13,379,005	\$ 13,481,873	\$ (13,331,594)	\$ 13,529,284	\$ 505,891

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Long-term debt</i>					
Parking lot note	\$ 252,109	\$ -	\$ (4,190)	\$ 247,919	\$ 4,526
2005 UTGO bonds	6,110,000	-	(170,000)	5,940,000	195,000
2006 UTGO bonds	1,825,000	-	(50,000)	1,775,000	55,000
2009 LTGO bonds	5,545,000	-	(115,000)	5,430,000	135,000
2005 UTGO bond discount	(68,077)	-	4,568	(63,509)	-
2006 UTGO bond premium	41,083	-	(2,770)	38,313	-
2009 LTGO bond discount	(97,226)	-	4,182	(93,044)	-
Total long-term debt	13,607,889	-	(333,210)	13,274,679	389,526
<i>Capital lease obligations</i>	252,598	-	(148,272)	104,326	104,326
Total long-term debt and capital lease obligations	\$ 13,860,487	\$ -	\$ (481,482)	\$ 13,379,005	\$ 493,852

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

The terms and due dates of the District's long-term debt and other noncurrent liabilities follow:

- *Unlimited Tax General Obligation (UTGO) Bonds, Series 2005* – The District issued unlimited tax general obligation bonds, dated December 6, 2005, with a face amount of \$6,800,000; refunded in 2017 by the Unlimited Tax General Obligation Bonds, Series 2017.
- *Unlimited Tax General Obligation (UTGO) Bonds, Series 2006* – The District issued unlimited tax general obligation bonds, dated November 1, 2006, with a face amount of \$2,000,000; refunded in 2017 by the Unlimited Tax General Obligation Bonds, Series 2017.
- *Unlimited Tax General Obligation (UTGO) Bonds, Series 2017* – The District issued unlimited tax general obligation bonds, dated August 15, 2017 with a face amount of \$7,889,000. The bonds were issued to advance refund the District's Unlimited Tax General Obligation Bonds dated December 6, 2005 and November 1, 2006. The new debt issue will reduce debt service payments by \$1,219,004 with an economic gain of \$1,112,107 as of December 31, 2017. The proceeds from this debt issuance were used to purchase State and Local Government Securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

The UTGO Bonds are general obligations of the District and are secured by an irrevocable pledge by the District to levy and collect taxes each year sufficient to pay the bond principal and interest payments when due. Through 2030, annual principal installments ranging from \$331,000 to \$884,000 are required, plus semiannual interest payments payable June 1 and December 1, at 2.68 percent. Scheduled maturities on and after June 1, 2027, are subject to redemption at the option of the District, in whole or in part, at par plus accrued interest to the date fixed for redemption.

- *Limited Tax General Obligation (LTGO) Bonds, Series 2009* – The District issued limited tax general obligation bonds, dated April 1, 2009, with a face amount of \$5,850,000. Partially refunded in 2017 by the Limited Tax General Obligation Bonds, Series 2017. The \$140,000 unfunded portion of the bond principal is payable on December 1, 2018. Bond interest is payable semiannually, at an interest rate of 4.2 percent.
- *Limited Tax General Obligation (LTGO) Bonds, Series 2017* – The District issued limited tax general obligation bonds, dated November 16, 2017, with a face amount of \$5,475,000. The bonds were issued at a premium, with net proceeds of \$5,590,981. Bonds were issued to advance refund the District's LTGO bonds dated April 1, 2009. The new debt issue will reduce debt service payments by \$1,519,396 with an economic gain of \$909,877 as of December 31, 2017. The proceeds from this debt issuance were used to purchase State and Local Government Securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

As of December 31, 2017, the LTGO bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a maintenance and operations tax upon the taxable property of the District. Interest is payable June 1 and December 1, at rates that range from 2.00 percent to 4.00 percent. The bonds mature in principal installments of \$30,000 in 2018 ranging to \$380,000 in 2038.

- *Note payable* – Parking lot note payable dated October 31, 2009, in the original amount of \$274,300. The debt service is payable in varying monthly principal installments through 2038, plus interest at a rate of 7.75 percent.
- *Capital lease obligations* – The District's obligations in the original amount of \$731,258 were repaid in 2017.

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

	UTGO Bonds Payable	
	Principal	Interest
2018	\$ 331,000	\$ 202,474
2019	369,000	193,603
2020	400,000	183,714
2021	435,000	172,994
2022	475,000	161,336
2023-2027	3,074,000	591,208
2028-2030	2,471,000	135,608
	\$ 7,555,000	\$ 1,640,937
	Other Long-Term Debt	
	Principal	Interest
2018	\$ 174,891	\$ 237,462
2019	195,213	222,081
2020	200,631	215,963
2021	206,084	209,660
2022	211,572	203,172
2023-2027	1,206,679	876,640
2028-2032	1,476,329	605,897
2033-2037	1,785,244	293,270
2038	401,750	15,211
	\$ 5,858,393	\$ 2,879,355

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. 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 that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly from the prior year. The District made changes to its charity care and financial assistance policy in 2016 to comply with new federal and state requirements. The sliding scale income requirements and discounts provided under the updated policy did not change significantly. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,652,306	\$ 8,113,400
Medicaid	954,456	1,305,956
Other third-party payors	4,328,666	3,884,372
Patients	987,768	850,576
	14,923,196	14,154,304
Less:		
Charity care	302,777	138,951
Provision for bad debts	743,426	684,809
Net patient service revenue	\$ 13,876,993	\$ 13,330,544

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

- *Medicare* – The District is licensed as a critical access hospital and the clinic as a rural health clinic by Medicare and is reimbursed for most inpatient, outpatient, and clinic services at cost with final settlement determined after submission of annual cost reports by the District subject to audits thereof by the Medicare administrative contractor.
- *Medicaid* – Most inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed 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 (HCA). Rural health clinic services are paid on a prospectively set rate per visit.

The District has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedule, and prospectively determined daily rates.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. Net Patient Service Revenue (continued):

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 decreased by approximately \$-0- and \$17,000 for the years ended December 31, 2017 and 2016, respectively, due to differences between original estimates and final settlements.

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 were \$257,000 and \$143,000 for the years ended December 31, 2017 and 2016, respectively.

8. Electronic Health Records Incentive Payments:

The District recognized the first of its four Medicaid incentive payments in the year that certified Electronic Health Record (EHR) technology was adopted, implemented, or upgraded or when such technology was meaningfully used under the Medicare EHR incentive program. The subsequent three payments are issued when meaningful use is demonstrated under Medicare. Medicaid incentive payments of \$15,166 and \$198,757 were recognized as revenue in 2017 and 2016, respectively.

In 2017, Medicaid began an audit of its incentive payments to hospitals. It was determined during this audit that the District was overpaid by approximately \$756,000. The District has accrued a liability for \$741,000, the amount due to Medicaid less the fourth payment due to the District from Medicaid. The overpayment was a result of a miscalculation by the State of Washington during calculation of the determination of the Medicaid incentive payments.

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. Property taxes are considered delinquent after October 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. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2017, the District's regular tax levy was approximately \$0.234 per \$1,000 on a total assessed valuation of \$2,316,603,741, for a total regular levy of \$542,248. The District's Emergency Medical Services (EMS) tax levy was \$0.470 per \$1,000 on a total assessed valuation of \$2,316,603,741, for a total EMS tax levy of \$1,086,688. The District's bond levy was approximately \$0.257 per \$1,000 on a total assessed valuation of \$2,290,409,931, for a total bond levy of \$588,846.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

9. Property Taxes (continued):

For 2016, the District's regular tax levy was approximately \$0.238 per \$1,000 on a total assessed valuation of \$2,240,327,341, for a total regular levy of \$533,167. The District's Emergency Medical Services (EMS) tax levy was \$0.477 per \$1,000 on a total assessed valuation of \$2,240,327,341, for a total EMS tax levy of \$1,068,448. The District's bond levy was approximately \$0.256 per \$1,000 on a total assessed valuation of \$2,218,627,006, for a total bond levy of \$566,865.

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. Retirement Plans:

The District sponsors the Cascade Medical Center 403(b) Retirement Plan. The plan is a deferred compensation retirement plan administered by the District. After employees have completed one year of employment, the District makes a contribution match to the 403(b) plan of up to 3 percent of the employees' gross pay. Employees are 100 percent vested in the contributions they make and they become fully vested in employer contributions after two years (50 percent per year). Employees make contributions to the 403(b). District contributions and interest forfeited by employees who leave employment before two years of service are used to reduce the District's current period contribution requirement. Employee contributions to the 403(b) plan were approximately \$406,000 and \$382,000 for the years ended December 31, 2017 and 2016, respectively. Employer pension contributions were approximately \$146,000 and \$108,000 for the years ended December 31, 2017 and 2016, respectively. Benefit terms including contribution requirements are established by and may be amended by the District.

The District also sponsors the Cascade Medical Center Lincoln Retirement 457(b) Governmental Deferred Compensation Plan. The plan is a deferred compensation retirement plan administered by the District. Employees make contributions to the 457(b) plans. Employees are 100 percent vested in the contributions they make. Employee contributions to the 457(b) plan were approximately \$73,000 and \$60,000 for the years ended December 31, 2017 and 2016, respectively. Benefit terms including contribution requirements are established by and may be amended by 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 Fire Fighters' Retirement System Plan 2 by the Washington State Legislature. The District's pension liability under this rule change has not yet been determined.

11. Other Postemployment Benefits (OPEB):

Plan description – The District provides healthcare programs for employees through the Public Employees Benefits Board (PEBB). Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the PEBB. The PEBB was created within the Washington State Health Care Authority (HCA) to administer medical, dental, and life insurance plans for public employees and retirees. The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee. No assets are accumulated in a qualifying trust. The District can cease providing healthcare through the PEBB with a 60-day notice.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Other Postemployment Benefits (OPEB) (continued):

Plan description (continued) – The other postemployment benefits liability would be eliminated at this time without any cash obligation.

Benefits provided – The District’s retirees may elect coverage through state health and dental insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The healthcare premiums for active employees, which are paid by the District during the employees’ working careers, subsidize the health and dental plans of retirees.

The subsidies provided by PEBB include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy

The explicit subsidies are monthly amounts paid for post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$150 or 50 percent of the monthly premiums. As of January 1, 2019, the subsidy will be increased to \$168 per month. The retirees and spouses currently pay the premiums minus \$150 when the premium is over \$300 per month and pay half the premium when the premium is lower than \$300.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees covered by the benefit terms – At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active plan members	93
Total Members	93

Total OPEB liability – The District’s total OPEB liability of \$1,879,463 was measured as of December 31, 2016, and was determined by an actuarial valuation as of December 31, 2016.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Other Postemployment Benefits (OPEB) (continued):

Actuarial assumptions and other inputs – The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation – 3.0 percent

Salary increases – 3.75 percent average, including inflation

Healthcare cost trend rates – As follows:

<u>Year</u>	<u>Pre-65</u>	<u>Post-65</u>
2017	6.70%	6.80%
2018	6.70%	7.40%
2019	7.00%	7.40%
2020	5.50%	5.40%
2025	5.90%	5.60%
2035	6.60%	5.80%
2045	6.20%	5.70%
2055	5.90%	6.00%
2065	5.60%	5.60%
2075	4.80%	5.00%
2085	4.80%	4.90%
2095+	4.80%	4.90%

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in twenty years.

Mortality rates were based on the 2017 actuarial valuation for Washington State Public Employees' Retirement System (PERS) (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using Projection Scale BB).

The actuarial assumptions used in the December 31, 2016, valuation were based on results of an actuarial experience study for the period January 1, 2016 through December 31, 2016.

Changes in the Total OPEB Liability:

	Total OPEB Liability 2017
Balance, at beginning of year	<u>\$ 1,662,674</u>
Service cost	244,526
Interest	68,087
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(95,824)
Benefit payments	<u>-</u>
Net changes	216,789
Balance, at end of year	<u><u>\$ 1,879,463</u></u>

Changes of assumptions and other inputs reflect changes in the discount rate from 3.57 percent to 3.78 percent.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Other Postemployment Benefits (OPEB) (continued):

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the District, as well as what the District's liability would be if it were calculated using a discount rate that is one percentage point lower (2.78 percent) or one percentage point higher (4.78 percent) than the current discount rate:

	1% Decrease 2.78%	Discount Rate 3.78%	1% Increase 4.78%
Total OPEB liability	\$ 2,390,705	\$ 1,879,463	\$ 1,491,924

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 1,425,212	\$ 1,879,463	\$ 2,511,831

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the year ended December 31, 2017, the District recognized OPEB expense of \$304,057. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions and other inputs	\$ -	\$ 87,268

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as follows:

Years ending December 31,	
2018	\$ (8,556)
2019	(8,556)
2020	(8,556)
2021	(8,556)
2022	(8,556)
Thereafter	(44,488)

Chelan County Public Hospital District No. 1
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

12. Risk Management and Contingencies:

Medical malpractice coverage – The District maintains professional liability coverage with Washington Casualty Company (WCC). The policy provides coverage on a “claims-made” basis, whereby only malpractice claims reported to the insurance carrier during the policy year are covered. If there are unreported incidents which result in a malpractice claim in a subsequent 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 if 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 policy provides \$1,000,000 per claim of primary and comprehensive coverage with a \$5,000,000 annual aggregate limit, plus \$2,000,000 of excess coverage with a \$2,000,000 annual aggregate limit. There is not a deductible on these policies, nor are there any significant coinsurance clauses.

No liability has been accrued for future coverage of incidents that may have occurred in 2017 or in prior years. It is possible that claims may exceed coverage available in any given year.

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, 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.

Rural health clinic Medicaid 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 2014, 2015, 2016, and 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.

Risk transfer pools – The District has a self-insured unemployment plan for its employees and participates in the Public Hospital District Unemployment Compensation Fund, a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. During 2017 and 2016 the District recognized \$32,269 and \$39,682, respectively, of dividends from the Public Hospital Unemployment Compensation Fund, which was offset against unemployment expense. Unemployment expense, net of dividends received, were approximately \$6,000 and \$8,000 in 2017 and 2016, respectively.

Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

12. Risk Management and Contingencies (continued):

Other risks – 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.

13. Concentrations 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 mix of receivables from patients and third-party payors follows:

	2017	2016
Medicare	46 %	35 %
Medicaid	11	13
Other third-party payors	23	30
Patients	20	22
	100 %	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.

Collective bargaining unit – The District has two agreements with labor unions. Effective October 1, 2016, the District renewed the collective bargaining agreement with the Washington State Nurses Association (WSNA). The contract is effective through September 30, 2019. As of December 31, 2017 and 2016, approximately 13 percent and 11 percent, respectively, of the District's employees were represented by this union under the collective bargaining agreement. Effective October 1, 2017, the District signed a collective bargaining agreement with the International Association of Fire Fighters for the District's paramedics. The contract is effective through March 31, 2021. As of December 31, 2017, approximately 10 percent of the District's employees were represented by this union under the collective bargaining agreement. Prior to October 1, 2017, the District had a collective bargaining agreement with Teamsters for these employees. As of December 31, 2016, approximately 8 percent of the District's employees were represented by this union under the collective bargaining agreement.

REQUIRED SUPPLEMENTARY INFORMATION

Chelan County Public Hospital No. 1
doing business as Cascade Medical Center
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended December 31, 2017

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 244,526
Interest on total OPEB liability	68,087
Changes in benefit terms	-
Effect of economic/demographic gains or (losses)	-
Effect of assumptions changes or other inputs	(95,824)
Expected benefit payments	<u>-</u>
Net change in total OPEB liability	216,789
Total OPEB liability - beginning	<u>1,662,674</u>
Total OPEB liability - ending	<u><u>\$ 1,879,463</u></u>
 Covered-employee payroll	 <u><u>\$ 7,171,084</u></u>
 Total OPEB liability as a percentage of covered-employee payroll	 <u><u>26%</u></u>

Notes to Schedule:

Changes in benefits terms – There are no changes in benefits terms.

Changes in assumptions – Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period.

*GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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
Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Leavenworth, 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 Chelan County Public Hospital District No. 1 doing business as Cascade 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 July 18, 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. 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 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*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
July 18, 2018

**Chelan County Public Hospital District No. 1
doing business as Cascade Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017**

The audit for the year ended December 31, 2016, reported no audit findings, nor were there any unresolved prior year audit findings from periods ended December 31, 2015, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2017.