



Office of the Washington State Auditor
Pat McCarthy

September 26, 2019

Board of Commissioners
Three Rivers Hospital
Brewster, 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 the financial statements of Three Rivers Hospital for the fiscal years ended December 31, 2018 and 2017. The District contracted with the CPA firm for this audit and requested that we accept it 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,

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

Pat McCarthy
State Auditor
Olympia, WA

**Okanogan-Douglas Counties
Public Hospital District No. 1
doing business as
Three Rivers Hospital**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2018 and 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Brewster, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Okanogan-Douglas Counties Public Hospital District No. 1 doing business as Three Rivers Hospital (the District) as of and for the years ended December 31, 2018 and 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.

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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 July 25, 2019, 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, 2018. We issued a similar report for the year ended December 31, 2017, dated May 16, 2018, which has not been included with the 2018 financial 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, and not to provide an opinion on the effectiveness of the District's 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
July 25, 2019

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Statements of Net Position
December 31, 2018 and 2017

ASSETS	2018	2017
<i>Current assets</i>		
Cash and cash equivalents	\$ 694,831	\$ 1,184,229
Receivables:		
Patient accounts	1,856,281	1,880,905
Taxes	115,248	112,316
Electronic health records incentive	612,182	612,182
Estimated third-party payor settlements	171,000	-
Other	79,742	936
Inventories	186,467	202,013
Prepaid expenses	118,242	107,544
Total current assets	3,833,993	4,100,125
<i>Noncurrent assets</i>		
Capital assets, net of accumulated depreciation	2,237,690	2,082,008
Total assets	\$ 6,071,683	\$ 6,182,133

See accompanying notes to basic financial statements.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Statements of Net Position (Continued)
December 31, 2018 and 2017

LIABILITIES AND NET POSITION	2018	2017
<i>Current liabilities</i>		
Accounts payable	\$ 720,699	\$ 571,356
Current maturities of long-term debt	156,894	155,549
Current maturities of capital lease obligations	428,540	361,385
Accrued compensation and related liabilities	285,832	317,415
Accrued leave	382,597	405,496
Estimated third-party payor settlements	261,000	425,000
Total current liabilities	2,235,562	2,236,201
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	476,109	633,080
Capital lease obligations, less current maturities	222,180	388,924
Total noncurrent liabilities	698,289	1,022,004
Total liabilities	2,933,851	3,258,205
<i>Net position</i>		
Invested in capital assets, net of related debt	953,967	543,070
Unrestricted	2,183,865	2,380,858
Total net position	3,137,832	2,923,928
Total liabilities and net position	\$ 6,071,683	\$ 6,182,133

See accompanying notes to basic financial statements.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Operating revenues</i>		
Net patient service revenue	\$ 12,854,374	\$ 13,125,057
Electronic health records incentive payment	-	612,182
Grants	98,839	23,101
Other	24,234	109,588
Total operating revenues	12,977,447	13,869,928
<i>Operating expenses</i>		
Salaries and wages	6,921,507	6,966,702
Employee benefits	1,310,482	1,234,571
Medical and other supplies	1,320,866	1,396,208
Purchased services	3,081,918	2,999,767
Utilities	214,640	203,636
Repairs and maintenance	438,690	396,425
Rentals and leases	188,003	191,226
Depreciation and amortization	465,384	403,077
Insurance	113,449	104,857
Other	350,248	331,642
Total operating expenses	14,405,187	14,228,111
<i>Operating loss</i>	(1,427,740)	(358,183)
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	1,679,889	1,636,448
Contributions	50,396	40,285
Interest expense	(88,641)	(75,969)
Total nonoperating revenues, net	1,641,644	1,600,764
Change in net position	213,904	1,242,581
Net position, beginning of year	2,923,928	1,681,347
Net position, end of year	\$ 3,137,832	\$ 2,923,928

See accompanying notes to basic financial statements.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 12,543,998	\$ 13,315,692
Receipts from grants	83,239	23,101
Electronic health records incentive payment	-	151,561
Other receipts	24,234	110,434
Payments to and on behalf of employees	(8,349,677)	(8,162,155)
Payments to suppliers and contractors	(5,553,623)	(5,707,567)
Net cash used in operating activities	(1,251,829)	(268,934)
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	1,676,957	1,626,795
Interest paid on outstanding warrants	(210)	(17,287)
Contributions	50,387	40,285
Payment of registered warrants outstanding in excess of cash	-	(567,634)
Net cash provided by noncapital financing activities	1,727,134	1,082,159
<i>Cash flows from capital and related financing activities</i>		
Principal paid on long-term debt and capital lease obligations	(520,471)	(276,484)
Interest paid on long-term debt and capital lease obligations	(88,431)	(58,682)
Proceeds from issuance of long-term debt	-	600,000
Purchase of capital assets	(355,801)	(42,607)
Net cash provided by (used in) capital and related financing activities	(964,703)	222,227
Net increase (decrease) in cash and cash equivalents	(489,398)	1,035,452
Cash and cash equivalents, beginning of year	1,184,229	148,777
Cash and cash equivalents, end of year	\$ 694,831	\$ 1,184,229

See accompanying notes to basic financial statements.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</i>		
Operating loss	\$ (1,427,740)	\$ (358,183)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation and amortization	465,384	403,077
Provision for bad debts	290,552	869,846
Decrease (increase) in assets:		
Receivables:		
Patient accounts receivable	(265,928)	(1,105,108)
Electronic health records incentive receivable	-	(460,621)
Estimated third-party payor settlements	(171,000)	100,898
Other	(78,806)	846
Inventories	15,546	(9,880)
Prepaid expenses	(10,698)	(10,660)
Increase (decrease) in liabilities:		
Accounts payable	149,343	(63,266)
Accrued compensation and related liabilities	(31,583)	69,947
Accrued leave	(22,899)	(30,829)
Estimated third-party payor settlements	(164,000)	324,999
Net cash used in operating activities	\$ (1,251,829)	\$ (268,934)

Noncash Capital and Related Financing Activities

During 2018, the District financed \$265,256 of equipment through capital lease agreements with U.S. Bank and Leasing Associates of Barrington.

During 2017, the District financed \$317,300 of software through a capital lease agreement with Evident.

See accompanying notes to basic financial statements.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements
Years Ended December 31, 2018 and 2017

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Okanogan-Douglas Counties Public Hospital District No. 1 doing business as Three Rivers Hospital (the District) operates a 25-bed acute care hospital and a physician clinic. The District provides healthcare services to patients in the Brewster, Washington, area. The services provided include acute care hospital, emergency room, physician clinic, and the related ancillary procedures (laboratory, imaging, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from paying federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms.

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 – All cash receipts are deposited into a depository bank account. These funds are transferred to the Okanogan County Treasurer (County Treasurer) twice a week. The County Treasurer acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. 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.

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.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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:

Buildings and improvements	20 to 40 years
Land improvements	15 to 20 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years

Compensated absences – The District’s policy is to permit employees to accumulate earned but unused sick leave up to a maximum of 480 hours. The District had two options available to its employees. Under option A, employees are not paid for the first 16 hours of sick leave taken unless hospitalized. Under this option, accumulated but unused sick leave hours are paid out to employees upon termination of employment provided they have been continuously employed for five years. Under option B, employees are paid for all hours taken; however, accumulated but unused sick leave hours are not paid out to employees upon termination. Option A is no longer available to new employees.

Sick leave benefits under option A are accrued and expensed when earned. Sick leave benefits under option B are expensed when taken.

The District permits employees to accumulate paid vacation benefits based on the average number of hours worked per week and the number of years of service. The maximum amount an employee may accrue during a one-year period is 160 hours. No paid vacation benefits are accrued during the first year of employment. Vacation accrued in one year must be used by the end of the following year. Paid vacation is paid out at the employee’s termination. All paid vacation benefits are accrued and expensed when earned.

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 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.

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.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

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 2018 or 2017.

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.

Inventories – Inventories of medical and other supplies are stated at cost (on the first-in, first-out method) which is considered lower than market price.

Subsequent events – Subsequent events have been reviewed through July 25, 2019, the date on which the financial statements were available to be issued.

Upcoming accounting standard pronouncements – In November 2016, the Governmental Accounting Standards Board (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.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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 liability and an intangible asset representing the lessee’s right to use the leased asset, 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.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District’s year ending December 31, 2020. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

The District has not elected to implement these statements early; however, management is still evaluating the impact, if any, of these statements in the year of adoption.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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's deposits 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 (RCW), 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.

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 prior years. 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.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

3. Patient Accounts Receivable (continued):

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

	2018	2017
Receivables from patients and their insurance carriers	\$ 1,632,774	\$ 2,280,425
Receivables from Medicare	682,730	332,402
Receivables from Medicaid	378,777	370,078
Total patient accounts receivable	2,694,281	2,982,905
Less allowance for uncollectible accounts	838,000	1,102,000
Patient accounts receivable, net	\$ 1,856,281	\$ 1,880,905

4. Property Taxes:

The Okanogan and Douglas County Treasurers act as agents to collect property taxes levied in the counties 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 Okanogan and Douglas County Assessors 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 Treasurers.

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 must be authorized by the vote of the people.

For 2018, the District's regular tax levies for Okanogan County and Douglas County were \$0.74 per \$1,000 on a total assessed valuation of \$1,951,061,727 for a total regular levy of \$1,449,727, and \$0.74 per \$1,000 on a total assessed valuation of \$264,274,611, for a total regular levy of \$196,368, respectively.

For 2017, the District's regular tax levies for Okanogan County and Douglas County were \$0.75 per \$1,000 on a total assessed valuation of \$1,886,586,911 for a total regular levy of \$1,414,940, and \$0.75 per \$1,000 on a total assessed valuation of \$256,065,479, for a total regular levy of \$192,049, respectively.

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.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Capital Assets:

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

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 10,750	\$ -	\$ -	\$ -	\$ 10,750
Construction in progress	331,533	484,576	(11,601)	(410,994)	393,514
Total capital assets not being depreciated	342,283	484,576	(11,601)	(410,994)	404,264
<i>Capital assets being depreciated</i>					
Buildings and improvements	3,702,772	-	-	-	3,702,772
Land improvements	272,450	-	-	-	272,450
Fixed equipment	1,431,395	-	(94,692)	-	1,336,703
Movable equipment	5,389,186	148,091	(455,392)	410,994	5,492,879
Total capital assets being depreciated	10,795,803	148,091	(550,084)	410,994	10,804,804
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(3,164,210)	(97,978)	-	-	(3,262,188)
Land improvements	(272,450)	-	-	-	(272,450)
Fixed equipment	(1,357,463)	(8,562)	94,692	-	(1,271,333)
Movable equipment	(4,261,955)	(358,844)	455,392	-	(4,165,407)
Total accumulated depreciation	(9,056,078)	(465,384)	550,084	-	(8,971,378)
<i>Total capital assets being depreciated, net</i>	1,739,725	(317,293)	-	410,994	1,833,426
Capital assets, net	\$ 2,082,008	\$ 167,283	\$ (11,601)	\$ -	\$ 2,237,690

At December 31, 2018, construction in progress consisted of the following:

- Costs associated with the setup of the new emergency department area. The estimated cost to complete is \$138,000, with an estimated completion by April 2019.
- Costs associated with the setup of the new virtual server. The estimated cost to complete is \$142,000, with an estimated completion date of June 2020.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Capital Assets (continued):

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 10,750	\$ -	\$ -	\$ -	\$ 10,750
Construction in progress	8,623	322,910	-	-	331,533
Total capital assets not being depreciated	19,373	322,910	-	-	342,283
<i>Capital assets being depreciated</i>					
Buildings and improvements	3,703,130	-	(358)	-	3,702,772
Land improvements	272,450	-	-	-	272,450
Fixed equipment	1,432,191	-	(796)	-	1,431,395
Movable equipment	5,446,351	36,997	(94,162)	-	5,389,186
Total capital assets being depreciated	10,854,122	36,997	(95,316)	-	10,795,803
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(3,066,590)	(97,978)	358	-	(3,164,210)
Land improvements	(272,289)	(161)	-	-	(272,450)
Fixed equipment	(1,347,894)	(10,365)	796	-	(1,357,463)
Movable equipment	(4,061,544)	(294,573)	94,162	-	(4,261,955)
Total accumulated depreciation	(8,748,317)	(403,077)	95,316	-	(9,056,078)
<i>Total capital assets being depreciated, net</i>	2,105,805	(366,080)	-	-	1,739,725
Capital assets, net	\$ 2,125,178	\$ (43,170)	\$ -	\$ -	\$ 2,082,008

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Long-term Debt and Capital Lease Obligations:

Schedules of changes in the District's long-term debt and capital lease obligations follow:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amount Due Within One Year
<i>Bonds and note payable</i>					
GE Government Finance, Inc.	\$ 188,629	\$ -	\$ (35,626)	\$ 153,003	\$ 36,894
Coastal Community Bank Bond	600,000	-	(120,000)	480,000	120,000
Total bonds and notes payable	788,629	-	(155,626)	633,003	156,894
<i>Capital lease obligations</i>	750,309	265,256	(364,845)	650,720	428,540
Total noncurrent liabilities	\$ 1,538,938	\$ 265,256	\$ (520,471)	\$ 1,283,723	\$ 585,434

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amount Due Within One Year
<i>Bonds and note payable</i>					
GE Government Finance, Inc.	\$ 222,956	\$ -	\$ (34,327)	\$ 188,629	\$ 35,549
Coastal Community Bank Bond	-	600,000	-	600,000	120,000
Total bonds and notes payable	222,956	600,000	(34,327)	788,629	155,549
<i>Capital lease obligations</i>	675,166	317,300	(242,157)	750,309	361,385
Total noncurrent liabilities	\$ 898,122	\$ 917,300	\$ (276,484)	\$ 1,538,938	\$ 516,934

GE Government Finance, Inc. note payable – The District entered into a \$225,202 loan agreement with GE Government Finance, Inc., for patient monitoring equipment due in monthly installments of \$3,496. The loan carries a 3.72 percent interest rate through November 2022.

Coastal Community Bank Bonds – The District entered into Limited Tax General Obligation Bonds dated October 27, 2017, in the original amount of \$600,000, payable annually on November 30, in \$120,000 installments starting in 2017 and ending in 2022, plus interest at 5.00 percent due semiannually on May 31 and November 30.

The District issued the 2017 bonds to help fund the relocation of the emergency room and the clinic.

The District may call and redeem these bonds prior to their stated dates of maturity at any time. All limited tax general obligation 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 within the District.

Capital lease obligations – The District has multiple capital lease obligations with varying rates of imputed interest from 4.33 percent to 20.97 percent. At December 31, 2018, the capitalized cost and accumulated amortization of the assets were \$2,020,293 and \$808,215, respectively. At December 31, 2017, the capitalized cost and accumulated amortization of the assets were \$1,737,781 and \$569,008, respectively.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

Scheduled principal and interest repayments are as follows:

Years Ending December 31,	Bonds and Note Payable			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 156,894	\$ 29,038	\$ 185,932	\$ 428,540	\$ 23,671	\$ 452,211
2020	158,291	21,641	179,932	150,601	11,470	162,071
2021	159,739	14,193	173,932	33,360	2,994	36,354
2022	158,079	6,672	164,751	23,774	1,414	25,188
2023	-	-	-	14,445	249	14,694
	\$ 633,003	\$ 71,544	\$ 704,547	\$ 650,720	\$ 39,798	\$ 690,518

7. Line of Credit:

Coastal Community Bank line of credit – On August 10, 2018, the District signed a \$1,000,000 line of credit agreement with Coastal Community Bank to meet current cash flow needs in anticipation of 2018-2019 tax levy collections. The available credit was reduced to \$750,000 on December 1, 2018. Interest accrues on the outstanding principal based on a variable interest rate set by the current Prime Rate as published in *The Wall Street Journal*. All outstanding principal plus all accrued unpaid interest is due on June 30, 2019. No draws on this line of credit have been made as of December 31, 2018.

On October 27, 2017, the District signed a \$600,000 line of credit agreement with Coastal Community Bank to meet current cash flow needs in anticipation of 2017-2018 tax levy collections. All outstanding principal plus all accrued unpaid interest was due on May 20, 2018. No draws on this line of credit were made.

8. Operating Leases:

The District is committed under noncancellable operating leases for pharmaceutical and laboratory equipment. Future minimum operating lease commitments are as follows:

Years Ending December 31,	Total
2019	\$ 49,578
2020	49,578
2021	12,395
Total future minimum lease payments	\$ 111,551

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

9. 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 decreased from the prior year due to the District using a third party to collect from uninsured patients, new state laws requiring people on work visas to pay all their bad debt before leaving, and higher collections of uninsured patients. The District has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017. 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.

	2018	2017
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 5,431,361	\$ 5,098,819
Medicaid	3,207,980	3,627,456
Other third-party payors	3,776,696	4,194,683
Patients	1,346,455	1,990,628
Supplemental payment programs	138,916	137,608
	13,901,408	15,049,194
Less:		
Charity care	756,482	1,054,291
Provision for bad debts	290,552	869,846
Net patient service revenue	\$ 12,854,374	\$ 13,125,057

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 hospital has been designated a critical access hospital and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

9. Net Patient Service Revenue (continued):

- *Medicaid* – Medicaid beneficiaries receive coverage through either the Washington State Health Care Authority (HCA) or Medicaid managed care organizations (MCOs). The District is reimbursed for MCO covered inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses of the District. The District is reimbursed by the HCA for inpatient and outpatient services 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 by HCA. Rural health clinic services are paid on a prospectively set rate per visit.

10. Electronic Health Records (EHR) Incentive Payment:

In 2017, the District recognized revenue and a receivable of \$612,182, as the Washington State Health Care Authority's audit of the Medicaid Incentive Program determined the District was underpaid. In 2018, there were no EHR incentive payments due to or from the District. 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.

11. Retirement Plans:

The District provides pension benefits through the Okanogan-Douglas County Hospital Retirement Plan (the Plan), a defined contribution plan for all employees upon completion of three months of employment under Section 401(k) of the Internal Revenue Code (IRC). This plan is administered by Randall & Hurley, Inc. In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the District to the plan plus investment earnings. Employees are eligible to participate after sixty days of service if they agree to contribute 5 percent of their compensation to the Plan. The District contributes a 3 percent match to the Plan on behalf of employees who contribute 5 percent of their compensation to the Plan. The contributions are vested at 20 percent after two years of service with graduated increases until vesting reaches 100 percent after six years of service. Benefit terms, including contribution requirements for the Plan, are established and may be amended by the District.

District contributions and interest that are not yet vested under the graduated schedule are forfeited by employees who leave employment before six years of service and are used to reduce the District's current period contribution requirement. Forfeitures were approximately \$48,000 and \$-0- for 2018 and 2017, respectively. The District made the required contributions of approximately \$163,000 and \$162,000 for 2018 and 2017, respectively. The District's employees contributed approximately \$259,000 and \$262,000 for 2018 and 2017, respectively.

The District also provides the Deferred Compensation Plan of Okanogan-Douglas County Hospital, a deferred compensation plan, to all employees, under Section 457(b) of the IRC. This plan is administered by Randall & Hurley, Inc. The deferred compensation plan is funded solely from employee contributions, which are deposited into a trust fund. The District's employees contributed approximately \$77,000 and \$80,000 for 2018 and 2017, respectively. Benefit terms, including contribution requirements for the plan, are established and may be amended by the District.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. 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.

Medical malpractice claims – The District purchases malpractice liability insurance through Physicians Insurance. The Physicians Insurance 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.

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.

Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

13. 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 Okanogan and Douglas Counties.

The mix of receivables from patients was as follows:

	2018	2017
Medicare	24 %	14 %
Medicaid	22	20
Other third-party payors	21	29
Patients	33	37
	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 – Effective November 2015, the District renewed a collective bargaining agreement (the agreement) with United Food and Commercial Workers Union Local No. 21. The agreement was in effect until October 31, 2018, and annually thereafter unless either party serves notice on the other to amend or terminate the agreement by giving written notice to the other party not less than ninety days in advance of the expiration date. The agreement covered 18 percent and 25 percent of the District’s employees as of December 31, 2018 and 2017, respectively.

14. Subsequent Event:

The District entered into a lease in February 2019 for operating room equipment totaling approximately \$300,000.



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
Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Brewster, 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 Okanogan-Douglas Counties Public Hospital District No. 1 doing business as Three Rivers Hospital (the District) as of and for the year ended December 31, 2018, 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 25, 2019.

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
July 25, 2019

**Okanogan-Douglas Counties Public Hospital District No. 1
doing business as Three Rivers Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018**

The audit for the year ended December 31, 2017, reported no audit findings, nor were there any unresolved prior year findings from years ended December 31, 2016, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2018.