Office of the Washington State Auditor
Pat McCarthy

October 31, 2019

Board of Commissioners
Quincy Valley Medical Center
Quincy, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Quincy Valley Medical Center 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,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

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

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2018 and 2017

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Grant County Public Hospital District No. 2 doing business as Quincy Valley Medical Center (the District) as of and for the years ended December 31, 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.

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

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 cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matter

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 May 29, 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 June 21, 2018, which has not been included with the 2018 financial and compliance report. The purpose of those reports is solely 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 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
May 29, 2019

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
Statements of Net Position
December 31, 2018 and 2017

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	**$ 71,523**	$ 176,719
Receivables:		
Patient accounts	**531,800**	616,403
Taxes	**26,729**	34,829
Estimated third-party payor settlements	**73,000**	387,000
Electronic health records	**487,496**	487,496
Inventories	**110,117**	115,758
Prepaid expenses	**35,436**	23,977
Total current assets	**1,336,101**	1,842,182
Noncurrent assets		
Cash and cash equivalents limited as to use	**62,075**	61,277
Capital assets, net of accumulated depreciation	**1,375,012**	1,651,722
Total noncurrent assets	**1,437,087**	1,712,999
Total assets	**$ 2,773,188**	$ 3,555,181

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
Statements of Net Position (Continued)
December 31, 2018 and 2017

LIABILITIES AND NET POSITION		**2018**		**2017**
Current liabilities				
Accounts payable	**$**	**272,652**	$	309,561
Registered warrants payable		**4,435,075**		4,437,699
Estimated third-party payor settlements		**31,483**		133,000
Accrued compensation and related liabilities		**215,274**		170,745
Accrued vacation		**131,063**		128,513
Short-term note payable		**-**		48,798
Current maturities of long-term debt		**122,476**		118,495
Current maturities of capital lease obligations		**6,363**		41,146
Total current liabilities		**5,214,386**		5,387,957
Noncurrent liabilities				
Long-term debt, less current maturities		**1,486,044**		1,608,592
Capital lease obligations, less current maturities		**7,069**		14,361
Total noncurrent liabilities		**1,493,113**		1,622,953
Total liabilities		**6,707,499**		7,010,910
Net position				
Invested in capital assets, net of related debt		**(246,940)**		(130,872)
Unrestricted		**(3,687,371)**		(3,324,857)
Total net position		**(3,934,311)**		(3,455,729)
Total liabilities and net position	**$**	**2,773,188**	$	3,555,181

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues		
Net patient service revenue	**$ 5,535,047**	$ 6,544,107
Electronic health records incentive	**-**	487,496
Grants	**55,273**	57,334
Other	**218,802**	124,306
Total operating revenues	**5,809,122**	7,213,243
Operating expenses		
Salaries and wages	**3,086,659**	3,096,930
Employee benefits	**657,059**	675,205
Supplies	**400,432**	440,915
Professional fees	**1,522,868**	1,443,063
Purchased services	**846,442**	1,214,313
Utilities	**119,613**	115,929
Repairs and maintenance	**185,416**	207,088
Rentals and leases	**293,342**	300,106
Depreciation and amortization	**265,834**	321,933
Insurance	**58,534**	60,942
Other	**57,990**	52,717
Total operating expenses	**7,494,189**	7,929,141
Operating loss	**(1,685,067)**	(715,898)
Nonoperating revenues (expenses)		
Taxation for operations	**1,442,163**	1,387,542
Other income	**6,497**	4,458
Interest expense	**(242,175)**	(235,210)
Total nonoperating revenues, net	**1,206,485**	1,156,790
Change in net position	**(478,582)**	440,892
Net position, beginning of year	**(3,455,729)**	(3,896,621)
Net position, end of year	**$ (3,934,311)**	$ (3,455,729)

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 5,832,133**	$ 5,986,976
Receipts from grants	**55,273**	57,334
Other receipts	**218,802**	124,306
Payments to employees	**(3,696,639)**	(3,824,454)
Payments to suppliers and contractors	**(3,516,488)**	(3,906,026)
Net cash used in operating activities	**(1,106,919)**	(1,561,864)
Cash flows from noncapital financing activities		
Taxation for maintenance and operations	**1,450,263**	1,388,479
Interest paid on outstanding registered warrants	**(164,989)**	(147,211)
Noncapital contributions	**4,440**	1,932
Change in registered warrants payable	**(2,624)**	695,632
Principal payments on short-term note payable	**(48,798)**	(5,000)
Net cash provided by noncapital financing activities	**1,238,292**	1,933,832
Cash flows from capital and related financing activities		
Principal paid on long-term debt and capital lease obligations	**(160,642)**	(181,059)
Interest paid on long-term debt and capital lease obligations	**(77,186)**	(87,999)
Purchase of capital assets	**-**	(29,352)
Net cash used in capital and related financing activities	**(237,828)**	(298,410)
Cash flows from investing activities, interest received	**2,057**	2,526
Net increase (decrease) in cash and cash equivalents	**(104,398)**	76,084
Cash and cash equivalents, beginning of year	**237,996**	161,912
Cash and cash equivalents, end of year	**$ 133,598**	$ 237,996

See accompanying notes to basic financial statements.

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	**$ 71,523**	$ 176,719
Cash and cash equivalents limited as to use	**62,075**	61,277
Total cash and cash equivalents	**$ 133,598**	$ 237,996
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	**$ (1,685,067)**	$ (715,898)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	**265,834**	321,933
Provision for bad debts	**673,513**	365,893
Decrease (increase) in assets:		
Receivables:		
Patient accounts receivable, net	**(588,910)**	(637,024)
Estimated third-party payor settlements	**314,000**	(289,000)
Electronic health records	**-**	(487,496)
Inventories	**5,641**	37,591
Prepaid expenses	**(11,459)**	(7,402)
Increase (decrease) in liabilities:		
Accounts payable	**(26,033)**	(101,142)
Estimated third-party payor settlements	**(101,517)**	3,000
Accrued compensation and related liabilities	**44,529**	(45,607)
Accrued vacation	**2,550**	(6,712)
Net cash used in operating activities	**$ (1,106,919)**	$ (1,561,864)

Noncash noncapital financing activities

During the year ended December 31, 2017, the District entered into a financing agreement in the amount of $53,978 to pay off under-replenished items related to the termination of the 340B retail pharmacy program.

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

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

b. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

b. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

b. Summary of Significant Accounting Policies (continued)

Reclassifications – Certain reclassifications of the 2017 amounts have been made in the financial statements in order to conform to the 2018 presentation. These reclassifications had no effect on the previously reported change in net position.

Subsequent events – The District has evaluated subsequent events through May 29, 2019, the date on which the financial statements were available to be issued.

Upcoming accounting standard pronouncements – In June 2017, the Governmental Accounting Standards Board (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. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 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 statement 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.

2. Going Concern:

The District reported a deficit of revenues over expenses of $478,582 and an excess of revenues over expenses of $440,892 for the years ended December 31, 2018 and 2017, respectively, resulting in a total net position deficit of $3,934,311 and $3,455,729 as of December 31, 2018 and 2017, respectively. In addition, current liabilities exceeded current assets by $3,878,285 and $3,545,775 for the years then ended, of which $4,435,075 and $4,437,699 is comprised of registered warrants outstanding, respectively.

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

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

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

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

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

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

3. Bank Deposits and Registered Warrants Outstanding:

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

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

The District had no investments at either December 31, 2018 or 2017.

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

	2018	**2017**
Internally designated by the Board for payment of unclaimed property liability		
Cash and cash equivalents	**$ 12,064**	$ 12,186
Internally designated by the Board for limited tax obligation bonds:		
Cash and cash equivalents	**50,011**	49,091
Total	**$ 62,075**	$ 61,277

At December 31, 2018, the amount of warrants outstanding was $4,435,075, of which all were registered warrants and bore interest of 3.5 percent. At December 31, 2017, the amount of warrants outstanding was $4,437,699, of which all were registered warrants and bore interest of 3.5 percent

4. Patient Accounts Receivable:

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

The District's allowance for uncollectible accounts for self-pay patients has increased significantly from the prior year due to an increase in self-pay patient volumes and a decrease in collections from these patients. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	2018	2017
Patients and their insurance carriers	**$ 1,330,394**	$ 862,515
Medicare	**120,492**	118,344
Medicaid	**84,979**	94,071
Total patient accounts receivable	**1,535,865**	1,074,930
Less allowance for uncollectible accounts	**1,004,065**	458,527
Patient accounts receivable, net	**$ 531,800**	$ 616,403

5. Capital Assets:

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

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
Capital assets not being depreciated					
Land	$ 444,175	$ -	$ -	$ -	**$ 444,175**
Total capital assets not being depreciated	444,175	-	-	-	**444,175**
Capital assets being depreciated					
Land improvements	208,696	-	-	-	**208,696**
Building and improvements	5,072,331	-	-	-	**5,072,331**
Equipment	4,381,433	-	(18,237)	-	**4,363,196**
Total capital assets being depreciated	9,662,460	-	(18,237)	-	**9,644,223**
Less accumulated depreciation for					
Land improvements	207,106	636	-	-	**207,742**
Building and improvements	4,302,515	152,707	-	-	**4,455,222**
Equipment	3,945,292	112,491	(7,361)	-	**4,050,422**
Total accumulated depreciation	8,454,913	265,834	(7,361)	-	**8,713,386**
Total capital assets being depreciated, net	1,207,547	(265,834)	(10,876)	-	**930,837**
Capital assets, net	**$ 1,651,722**	**$ (265,834)**	**$ (10,876)**	**$ -**	**$ 1,375,012**

5. Capital Assets (continued):

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

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

6. Short-term Debt:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018
Short-term debt				
Shopko note payable	$ 48,978	$ -	$ (48,978)	$ -
Total short-term debt	48,978	-	(48,978)	-
Total short-term debt	**$ 48,978**	**$ -**	**$ (48,978)**	**$ -**

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
Short-term debt				
Shopko note payable	$ -	$ 53,978	$ (5,000)	$ 48,978
Total short-term debt	-	53,978	(5,000)	48,978
Total short-term debt	**$ -**	**$ 53,978**	**$ (5,000)**	**$ 48,978**

Short-term debt consisted of the following item:

- A note was issued by Shopko originally dated July 19, 2017, in the amount of $53,798, for the purpose of paying off under-replenished items related to the termination of the 340B retail pharmacy. The note was repaid in 2018.

7. Long-term Debt and Capital Lease Obligations:

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

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due Within One Year
Long-term debt					
2001 LTGO Bonds	$ 1,652,159	$ -	$ (87,562)	$ 1,564,597	$ 91,471
EPOWERdoc Note Payable	74,928	-	(31,005)	43,923	31,005
Total long-term debt	1,727,087	-	(118,567)	1,608,520	122,476
Capital lease obligations					
Culver electronic medical records system	29,437	-	(29,437)	-	-
Avaya telephone system	4,836	-	(4,836)	-	-
Bedside monitors and telemetry receivers	379	-	(379)	-	-
Infusion pumps and related software	20,855	-	(7,423)	13,432	6,363
Total capital lease obligations	55,507	-	(42,075)	13,432	6,363
Total noncurrent liabilities	**$ 1,782,594**	**$ -**	**$ (160,642)**	**$ 1,621,952**	**$ 128,839**

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

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

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

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

Capital lease obligations – A capital lease obligation to Med One Capital Funding, LLC, in the original amount of $30,080 due in monthly payments of $605, including interest of 7.76 percent, through February 2021. Capital lease obligations to various lenders were paid off during the year ended December 31, 2018.

The lease obligations are reflected in the District's assets and liabilities. The assets acquired under capital leases had a capitalized cost of $28,138 and $182,284 and accumulated amortization of $18,250 and $120,649 as of December 31, 2018 and 2017, respectively.

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

Years Ending	Long-term Debt			Capital Lease Obligations		
December 31,	Principal	Interest	Total	Principal	Interest	Total
2019	$ 122,476	$ 69,459	**$ 191,935**	$ 6,363	$ 897	**$ 7,260**
2020	108,366	65,482	**173,848**	6,875	385	**7,260**
2021	99,977	60,953	**160,930**	194	12	**206**
2022	104,527	56,403	**160,930**	-	-	**-**
2023	109,283	51,647	**160,930**	-	-	**-**
2024 - 2028	625,463	179,187	**804,650**	-	-	**-**
2029 - 2031	438,428	34,853	**473,281**	-	-	**-**
	$ 1,608,520	**$ 517,984**	**$ 2,126,504**	**$ 13,432**	**$ 1,294**	**$ 14,726**

8. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated, or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have increased significantly from the prior year due an increase in self-pay patient volumes and a decrease in collections from these patients. The District has not changed its charity care and uninsured discount policies during 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	**$ 1,405,607**	$ 2,058,021
Medicaid	**1,515,139**	1,487,779
Other third-party payors	**2,708,873**	2,923,609
Patients	**770,591**	602,861
	6,400,210	7,072,270
Less:		
Charity care	**191,650**	162,270
Provision for bad debts	**673,513**	365,893
Net patient service revenue	**$ 5,535,047**	$ 6,544,107

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

- *Medicare* – The District is paid on a cost reimbursement method for substantially all hospital and rural health clinic services provided to Medicare beneficiaries. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare Administrative Contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.

- *Medicaid* – The majority of Medicaid beneficiaries are covered through health maintenance organizations operated by commercial insurance companies. The District is reimbursed for inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses for the District.

8. Net Patient Service Revenue (continued):

- *Other Commercial Payors* **–** The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately $102,000 and $147,000 for the years ended December 31, 2018 and 2017, respectively, due to differences between original estimates and preliminary settlements and/or revised estimates. Such revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2018 and 2017 were $186,000 and $156,000, respectively.

9. Property Taxes:

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

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

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

For 2018, the District’s regular tax levy was approximately $0.36 per $1,000 on a total assessed valuation of $4,069,600,819, for a total regular levy of $1,459,009. For 2017, the District’s regular tax levy was approximately $0.40 per $1,000 on a total assessed valuation of $3,446,450,078, for a total regular levy of $1,386,710.

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

10. Electronic Health Records Incentive:

In 2017, the District recognized a receivable of $487,496 as a result of Washington State Health Care Authority's audit of the Medicaid Incentive Program. The electronic health records (EHR) incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

11. Defined Contribution Plans:

The District provides employees with the Quincy Valley Hospital 403(b) Retirement Plan (the Plan), a deferred compensation pension plan, for its benefit-eligible employees. The Plan is administered by Lincoln National Life Insurance Company. Benefit terms, including contribution requirements, for the Plan are established and amended by the District. The District is not required to contribute to the Plan; however, the District may make a voluntary contribution to participating employees up to two percent of the eligible employee's annual compensation. After one year of service, an employee vests ten percent of the employer's contribution, and after five years of service, an employee vests 100 percent of the employer contribution. The District has not elected to make voluntary contributions as of December 31, 2018 and 2017, respectively. The District makes contributions up to $5,000 annually to highly compensated employees. Total employer contributions for these employees for the years ended December 31, 2018 and 2017, totaled approximately $15,000 and $5,192, respectively. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employees are immediately vested in their own contributions and earnings on those contributions. For the years ended December 31, 2018 and 2017, employee contributions totaled approximately $56,000 and $45,000, respectively.

The District had no liability to the Plan at December 31, 2018 or 2017.

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

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

12. Commitments:

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

Years Ending December 31,		
2019	$	136,524
2020		22,000
	$	**158,524**

12. Commitments (continued):

Purchase commitment – The District entered into a lease agreement in February 2019 for an upgrade to diagnostic digital imaging equipment for $2,673 per month for 60 months. The machine was received and installed in March 2019.

13. Risk Management and Contingencies:

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

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

Medical malpractice claims – The District purchases malpractice liability insurance through Coverys Specialty Insurance Company. The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carrier only if the District purchases claims-made insurance in that year or the District purchases “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The current malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $5,000,000. There is no deductible associated with the current malpractice policy.

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

13. Risk Management and Contingencies (continued):

Rural health clinic Medicaid managed care reimbursement – Effective January 1, 2009, the state of Washington (the State) changed its methodology for calculating the Medicaid reimbursement rates paid on eligible rural health clinic fee-for-service and managed care encounters. Included in the estimate prepared by management are assumptions regarding allowable encounters and the fee-for-service equivalents for those encounters. These estimates are subject to change based on the State's final reconciliation and settlement of years 2014 through 2017. The difference between the final settlements and the amounts estimated by management could be material; any difference will be recorded when the final settlement becomes known. Effective January 1, 2018, the clinic elected to be paid its encounter rate, therefore, no further settlements are expected.

14. Concentration of Risk:

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

The mix of receivables from patients was as follows:

	2018	2017
Medicare	**10 %**	14 %
Medicaid	**8**	14
Other third-party payors	**27**	41
Patients	**55**	31
	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.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Grant County Public Hospital District No. 2 doing business as Quincy Valley Medical Center (the District) as of and for the year ended December 31, 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 May 29, 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
May 29, 2019

Grant County Public Hospital District No. 2
doing business as Quincy Valley Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018

2017-001: Allowance for Uncollectible Accounts and Contractual Adjustments – Resolved