



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

November 21, 2019

Board of Commissioners
Garfield County Memorial Hospital
Pomeroy, 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 Garfield County Memorial Hospital for the fiscal years ended December 31, 2017, 2016 and 2015. 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
State Auditor
Olympia, WA

**Garfield County Hospital District No. 1
doing business as
Garfield County Memorial Hospital
and Memory Manor Nursing Home**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016



DINGUS | ZARECOR & ASSOCIATES^{PLLC}
Certified Public Accountants

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Pomeroy, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Garfield County Hospital District No. 1 doing business as Garfield County Memorial Hospital and Memory Manor Nursing Home (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016, and the changes in its financial position and 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 not presented 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 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, 2017. We issued a similar report for the year ended December 31, 2016, dated April 30, 2019, which has not been included with the 2017 financial and compliance report. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
August 13, 2019

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Net Position
December 31, 2017 and 2016

ASSETS	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,152,284	\$ 2,534,571
Receivables:		
Patient accounts	419,258	258,888
Estimated third-party payor settlements	612,846	1,246,067
Taxes	3,613	5,968
Cash and cash equivalents, restricted for HUGS Memorial Fund	73,299	70,855
Inventories	59,786	66,542
Prepaid expenses	1,537	1,512
Total current assets	4,322,623	4,184,403
<i>Noncurrent assets</i>		
Capital assets, net	1,066,699	1,398,589
Total assets	\$ 5,389,322	\$ 5,582,992

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Net Position (continued)
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Accounts payable	\$ 369,500	\$ 167,045
Accrued compensation and related liabilities	185,734	244,157
Accrued vacation	110,993	119,838
Capital leases, current	67,083	71,681
Total current liabilities	733,310	602,721
<i>Capital leases, less current portion</i>	92,950	158,183
Total liabilities	826,260	760,904
<i>Deferred inflows of resources</i>		
Electronic health records incentive revenue	77,888	155,778
<i>Net position</i>		
Net investment in capital assets	906,666	1,168,725
Restricted for HUGS Memorial Fund	73,299	70,855
Unrestricted	3,505,209	3,426,730
Total net position	4,485,174	4,666,310
Total liabilities, deferred inflows of resources, and net position	\$ 5,389,322	\$ 5,582,992

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue	\$ 6,427,947	\$ 7,243,022
Grants	16,534	35,040
Electronic health records incentive	77,891	77,888
Other	22,091	73,819
Total operating revenues	6,544,463	7,429,769
<i>Operating expenses</i>		
Salaries and wages	3,338,102	3,460,478
Employee benefits	917,366	942,856
Professional fees	1,729,122	1,075,796
Supplies	552,584	715,985
Utilities	182,661	196,398
Purchased services	90,201	98,644
Leases and rentals	65,646	63,083
Repairs and maintenance	60,264	70,682
Depreciation and amortization	334,866	349,481
Insurance	87,240	83,737
Other	188,459	278,777
Total operating expenses	7,546,511	7,335,917
<i>Operating income (loss)</i>	(1,002,048)	93,852
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	825,719	823,706
Contributions	(3,657)	1,333
Interest income	9,256	5,620
Interest expense	(10,406)	(14,298)
Total nonoperating revenues, net	820,912	816,361
Change in net position	(181,136)	910,213
<i>Net position, beginning of year</i>	4,666,310	3,756,097
Net position, end of year	\$ 4,485,174	\$ 4,666,310

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 6,900,799	\$ 6,266,847
Receipts from other revenue	22,091	73,819
Receipts from grants	16,534	35,040
Cash paid to or on behalf of employees	(4,264,313)	(4,390,575)
Cash paid to suppliers and contractors	(2,805,414)	(2,443,721)
Net cash used in operating activities	(130,303)	(458,590)
<i>Cash flows from noncapital financing activities</i>		
Property tax for maintenance and operations	828,074	817,738
Contributions received	(3,657)	1,333
Net cash provided by noncapital financing activities	824,417	819,071
<i>Cash flows from capital and related financing activities</i>		
Interest paid	(10,406)	(14,298)
Principal payments on capital leases	(69,831)	(67,908)
Payments for purchase of capital assets	(2,976)	(43,056)
Net cash used in capital and related financing activities	(83,213)	(125,262)
<i>Cash flows from investing activities</i>		
Interest received	9,256	5,620
Net increase in cash and cash equivalents	620,157	240,839
Cash and cash equivalents, beginning of year	2,605,426	2,364,587
Cash and cash equivalents, end of year	\$ 3,225,583	\$ 2,605,426

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 3,152,284	\$ 2,534,571
Cash and cash equivalents, restricted for HUGS Memorial Fund	73,299	70,855
Total cash and cash equivalents	\$ 3,225,583	\$ 2,605,426
<i>Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities</i>		
Operating income (loss)	\$ (1,002,048)	\$ 93,852
<i>Adjustments to reconcile operating income (loss) to net cash used in operating activities</i>		
Depreciation and amortization	334,866	349,481
Provision for uncollectible accounts	(170,287)	(132,853)
(Increase) decrease in current assets:		
Receivables:		
Patient accounts	9,917	774,745
Estimated third-party payor settlements	633,221	(1,225,067)
Inventories	6,756	6,976
Prepaid expenses	(25)	(51)
Increase (decrease) in current liabilities:		
Accounts payable	202,455	131,330
Accrued compensation and related liabilities	(58,423)	1,126
Accrued vacation	(8,845)	12,759
Estimated third-party payor settlements	-	(393,000)
Deferred inflows of resources	(77,890)	(77,888)
Net cash used in operating activities	\$ (130,303)	\$ (458,590)

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements
Years Ended December 31, 2017 and 2016

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity:

Garfield County Hospital District No. 1 doing business as Garfield County Memorial Hospital and Memory Manor Nursing Home (the District), operates a 25-bed critical access hospital and rural health clinic in Pomeroy, Washington. The District provides healthcare services to patients in Garfield County, Washington, and the surrounding areas. The services provided include acute care hospital, emergency room, rural health clinic, long-term care, and the related ancillary procedures (laboratory, imaging services, therapy, etc.) associated with those services.

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

Accounting principles generally accepted in the United States require that these financial statements include the primary government and its component units. Component units discussed below are separate organizations that are included in the District's reporting entity because of their significance of their operational or financial relationships with the District.

The Helpers United Giving Support (HUGS) has been formed to assist, promote, and advance the welfare of the District through activities approved by the Board of Commissioners. HUGS is governed by a four-member board appointed by the District Board of Commissioners. Although it is legally separate from the District, the HUGS is reported as if it was part of the primary government because its sole purpose is to raise funds on behalf of the District using the District's 501(c)(3) status and to assist the District in various volunteer and public programs. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the basic financial statements.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and cash equivalents – All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Garfield County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

b. Summary of Significant Accounting Policies (continued):

Cash and cash equivalents (continued) – The County Treasurer invests cash in interest-bearing investments at the direction 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.

Compensated absences – The District's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates each pay period throughout the year with a maximum accumulation of 260 hours. Employees may carry over up to 52 hours, depending on years of service.

The District's employees also earn extended illness benefits (EIB) at a rate of .02 hours per regular hour paid. EIB accruals are available for use in the pay period following successful completion of the probationary period. EIB may be accessed immediately for the use of medically qualifying leave for the employee or for immediate family members. The maximum accrual for EIB is 480 hours. Hours in the EIB bank shall not be paid upon resignation or termination of employment.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

b. Summary of Significant Accounting Policies (continued):

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.

Upcoming accounting standards 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. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

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

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

b. Summary of Significant Accounting Policies (continued):

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

Subsequent events – Subsequent events have been reviewed through August 13, 2019, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be returned to it.

All cash, cash equivalents, and cash investments held by the County Treasurer are insured by the State of Washington Public Deposit Protection Commission (PDPC), as provided by Chapter 39.58 of *The Revised Code of Washington* 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 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. The District has elected to use the County Treasurer to be its treasurer to issue warrants and make investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2017 and 2016, were approximately \$636,278 and \$996,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the District analyzes its past history and identifies trends for each of its patient 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.

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

	2017	2016
Receivables from patients and their insurance carriers	\$ 298,169	\$ 353,673
Receivables from Medicare	325,564	53,554
Receivables from Medicaid	13,482	38,014
Total patient accounts receivable	637,215	445,241
Less allowance for uncollectible accounts	217,957	186,353
Patient accounts receivable, net	\$ 419,258	\$ 258,888

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

4. Property Taxes:

The Garfield 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 assessed as of the same date and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Garfield County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

Taxes are due in two equal amounts by April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

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

The District's tax levies are comprised of the following:

2017			
	Levy Rate	Assessed Value Regular	Total Levy Amount
Regular Levy	0.318650	\$ 615,070,372	\$ 195,992
Special Levy	1.017601	\$ 614,189,506	\$ 625,000
2016			
	Levy Rate	Assessed Value Regular	Total Levy Amount
Regular Levy	0.288876	\$ 646,769,846	\$ 186,836
Special Levy	0.976279	\$ 645,306,815	\$ 630,000

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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Capital Assets:

All capital assets other than land and construction in progress are being depreciated or amortized (in the case of capital leases) using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Amortization from equipment under capital leases is included in depreciation and amortization in the financial statements. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. Useful lives have been estimated as follows:

Land improvements	10 to 28 years
Buildings and improvements	5 to 50 years
Equipment	3 to 28 years

The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost or their estimated fair value at the date of donation. When such assets are disposed of, the related costs and accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues and expenses.

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

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 83,983	\$ -	\$ -	\$ -	\$ 83,983
Total capital assets not being depreciated	83,983	-	-	-	83,983
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,462,273	-	-	-	1,462,273
Land improvements	234,472	-	-	-	234,472
Equipment	3,279,318	2,976	-	-	3,282,294
Total capital assets being depreciated	4,976,063	2,976	-	-	4,979,039
<i>Less accumulated depreciation for</i>					
Buildings and improvements	1,126,061	41,399	-	-	1,167,460
Land improvements	234,472	-	-	-	234,472
Equipment	2,300,924	293,467	-	-	2,594,391
Total accumulated depreciation	3,661,457	334,866	-	-	3,996,323
Total capital assets being depreciated, net	1,314,606	(331,890)	-	-	982,716
Capital assets, net	\$ 1,398,589	\$ (331,890)	\$ -	\$ -	\$ 1,066,699

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Capital Assets (continued):

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 83,983	\$ -	\$ -	\$ -	\$ 83,983
Construction in progress	16,536	-	(16,536)	-	-
Total capital assets not being depreciated	100,519	-	(16,536)	-	83,983
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,462,273	-	-	-	1,462,273
Land improvements	234,472	-	-	-	234,472
Equipment	3,219,726	59,592	-	-	3,279,318
Total capital assets being depreciated	4,916,471	59,592	-	-	4,976,063
<i>Less accumulated depreciation for</i>					
Buildings and improvements	1,082,700	43,361	-	-	1,126,061
Land improvements	234,472	-	-	-	234,472
Equipment	1,994,804	306,120	-	-	2,300,924
Total accumulated depreciation	3,311,976	349,481	-	-	3,661,457
Total capital assets being depreciated, net	1,604,495	(289,889)	-	-	1,314,606
Capital assets, net	\$ 1,705,014	\$ (289,889)	\$ (16,536)	\$ -	\$ 1,398,589

6. Defined Contribution Retirement Plan:

The District contributes to the Garfield County Public Hospital District No. 1 403(b) Plan (the Plan), a defined contribution plan, for its employees who have completed at least three months of service and have reached 21 years of age. The District will match 50 percent of employee contributions up to 5 percent of their gross wages. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Pension expenses for the years ended December 31, 2017 and 2016, were approximately \$53,000 and \$45,000, respectively. Employee contributions were approximately \$125,000 and \$111,000 for the years ended December 31, 2017 and 2016, respectively.

Forfeitures and the District's liability to the Plan were not material in 2017 and 2016. The Plan is administered by the District. The District has the authority to amend the Plan.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

7. Noncurrent Liabilities:

A schedule of changes in the District's capital lease obligations follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>Capital lease obligations</i>	\$ 229,864	\$ -	\$ (69,831)	\$ 160,033	\$ 67,083

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Capital lease obligations</i>	\$ 297,772	\$ -	\$ (67,908)	\$ 229,864	\$ 71,681

Aggregate annual principal and interest payments over the terms of capital lease obligations are as follows:

Years Ending December 31,	Total Capital Lease Obligations		
	Principal	Interest	Totals
2018	\$ 67,083	\$ 7,032	\$ 74,115
2019	51,584	3,856	55,440
2020	41,366	984	42,350
	\$ 160,033	\$ 11,872	\$ 171,905

Capital lease obligations – Capital lease obligations are due in monthly installments including principal and interest ranging from \$1,925 to \$2,695, including interest at varying rates from 0.015 percent to 5.16 percent through March 2020; collateralized by the related capital items. At December 31, 2017 and 2016, the capitalized cost of the equipment acquired under the capital lease obligations was \$376,518, and accumulated amortization totaled \$141,217 and \$91,689, respectively.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

8. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs did not change significantly from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2017	2016
Patient service revenue		
Medicare	\$ 2,155,410	\$ 3,028,500
Medicaid	1,413,547	1,604,270
Other third-party payors	863,101	1,455,942
Patients	992,743	670,972
	5,424,801	6,759,684
Less:		
Contractual adjustments	(1,183,835)	(646,954)
Charity care	10,402	30,763
Provision for bad debts	170,287	132,853
Net patient service revenue	\$ 6,427,947	\$ 7,243,022

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

- *Medicare* – The District has been designated a critical access hospital and Pomeroy Medical Clinic, a rural health clinic by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Medicaid swing-bed services are reimbursed on a prospectively set rate per day. Medicaid rural health clinic services are paid on a prospectively set rate per visit. Physician services are reimbursed on a fee schedule.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

8. Net Patient Service Revenue (continued):

The District also has 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 Medicare, Medicaid, and other 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 did not change in 2017 or 2016 due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016, were approximately \$14,000 and \$33,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

9. Electronic Health Records Incentive Payment:

The District recognized Medicare electronic health records (EHR) incentive payments during the years ended December 31, 2017 and 2016. EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology.

The District recognized the hospital Medicare incentive payments over five years. The District recognized revenues of approximately \$77,900 in 2017 and 2016. The Medicare EHR reporting period is through December 31 of each year. The program is subject to audit by the Medicare Administrative Contractor.

10. 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; and employee health, dental, 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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

10. Risk Management and Contingencies (continued):

Medical malpractice claims – The District had professional liability insurance coverage with Physicians Insurance. The policies provide protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible per claim.

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.

Self-insurance risk pools – The District has a self-insured workers’ compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust and the Public Hospital District Unemployment Trust, which are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers’ compensation claims, unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$78,000 and \$86,000 in 2017 and 2016, respectively. Payments by the District charged to unemployment expense were approximately \$53,000 and \$55,000 in 2017 and 2016, respectively.

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 known or unasserted at this time.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Concentration of Risks:

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 Garfield County.

The mix of receivables from patients was as follows:

	2017	2016
Medicare	33 %	26 %
Medicaid	13	26
Other third-party payors	17	19
Patients	37	29
	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.

12. Subsequent Event:

The Board of Commissioners approved a contract to implement a new electronic health records and accounting system in fiscal year 2018. Payment for the system is a percentage of the District's collection for as long as the District is utilizing the computer system.



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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
Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Pomeroy, 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 Garfield County Hospital District No. 1 doing business as Garfield County Memorial Hospital and Memory Manor Nursing Home (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated August 13, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2016-001, 2016-002, and 2016-004.

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. We consider the deficiency described in the accompany schedule of findings and responses as item 2016-003 to be a significant deficiency.

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*.

District's Response to the Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
August 13, 2019

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses
Year Ended December 31, 2017

2016-001 Internal Controls over Financial Reporting

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	District board members, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of District management to design, implement, and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. It is also the responsibility of the District to safeguard the District's assets.
<i>Condition</i>	<p>The District lacks an effective review process to ensure amounts reported on the financial statements, schedules, and notes to the financial statements agree to supporting records and are prepared in accordance with Generally Accepted Accounting Principles (GAAP).</p> <p>The District lacks effective oversight of accounting functions such as ensuring bank reconciliations are performed timely, calculation and review of an allowance for doubtful accounts, approval of payroll, posting and review of manual journal entries, reconciliation and review of balance sheet accounts, tracking of third-party payor settlements, and internal controls around charge capture.</p> <p>The District also lacks adequate segregation of duties as follows:</p> <ol style="list-style-type: none"> 1. One person prepares and posts journal entries, prepares the bank reconciliations, and has access to the District's online banking system. 2. Personnel in the business office have both access to cash and the ability to post payments to patient accounts.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Lack of proper internal controls around financial reporting allows for the possibility a material error or fraud can be made and would not be caught in the normal course of performed duties.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2017

2016-001 Internal Controls over Financial Reporting (continued)

<i>Cause</i>	The District has not committed the necessary time or resources to ensure staff understands proper accounting procedures to perform a detailed review of financial statements, schedules, and notes to the financial statements.
<i>Recommendation</i>	<p>We recommend the District:</p> <ol style="list-style-type: none">1. Develop and implement internal control policies and procedures effective at preventing and detecting errors.2. Prepare and review all bank reconciliations in a timely manner.3. Restrict access to cash by those employees who also have access to the underlying patient records.4. Hire and train an individual capable of reviewing journal entries, allowance for doubtful account calculations, and third-party payor settlements. This individual should not have access to also make or prepare these items.
<i>Management's Response</i>	The District has hired a consultant to help improve current processes relating to internal control over financial reporting. The consultant is working to systematically evaluate and improve with staff education, assigning a lead person in-house to gather this information in a timely manner. The District also implemented a new Electronic Health Records system in September 2018, which they feel will help with getting financial data. The District believes this effort will assist in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2017

2016-002 Auditor Proposed Journal Entries

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	District board members, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions.
<i>Condition</i>	There was a material adjusting journal entry related to allowance for doubtful accounts and third-party payor settlements, and prepaid expenses that was identified, proposed, and prepared by the audit team.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The accounting records were significantly misstated at year end. Inaccurate financial reports could affect Board and management decision making.
<i>Cause</i>	The District does not have a system of internal controls to identify all necessary end-of-year adjustments. See also finding 2016-001.
<i>Recommendation</i>	Adequate internal controls should be implemented to properly reconcile all statement of net position accounts and identify all necessary adjustments prior to the audit process.
<i>Management's Response</i>	The District has hired a consultant to help improve current processes relating to auditor proposed journal entries. The consultant is working to systematically evaluate and improve the monthly processes. This process will happen in 2019 and continue going forward. The District believes this effort will assist in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2017

2016-003 Contractual Adjustments by Payor

[] Compliance Finding [X] Significant Deficiency [] Material Weakness

<i>Criteria</i>	In accordance with GAAP, required financial statement disclosures include patient accounts receivable net of allowance for doubtful accounts and patient service revenue net of provision for bad debts.
<i>Condition</i>	The allowance for contractual adjustments was not properly tracked by major payor class. The provision for bad debts and contractual adjustments was not properly recorded on the general ledger.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Required financial statement disclosures are not inherent in the general ledger, nor readily available for financial statement disclosure or analysis by management.
<i>Cause</i>	The allowance for doubtful accounts and contractual adjustments is being recorded as a single amount on the general ledger. The provision for bad debts and contractual adjustments are not accurately recorded by major payor class.
<i>Recommendation</i>	We recommend the District establish a system of calculating and recording the allowance for doubtful accounts and contractual adjustments in the general ledger by major payor class. Additionally, we recommend the District ensure accurate recording of provision for bad debts and contractual adjustments in the general ledger by major payor class.
<i>Management's Response</i>	The District has hired a consultant to help improve current processes relating to contractual adjustments by payor. The consultant is working to systematically evaluate and improve this area and will be implemented moving forward. The District believes this effort will assist in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses (Continued)
Year Ended December 31, 2017

2016-004 Department Statistic Tracking

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	Departments should individually and consistently track and reconcile patient statistics.
<i>Condition</i>	Several departments, including laboratory, physical therapy, and radiology, were unable to provide reliable patient utilization statistics.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Management and the Board of Commissioners are unable to make informed, appropriate strategic decisions if the available patient utilization statistics are unreliable. Further, it is difficult for management and the Board of Commissioners to see if the related revenues and expenses are reasonable without knowing the units of services provided.
<i>Cause</i>	Methods of tracking patient utilization statistics are inconsistently followed within each department.
<i>Recommendation</i>	We recommend the District establish policies and procedures by department to accurately track patient utilization statistics. This will provide existing and future employees guidelines on how to track these statistics, thereby increasing accuracy.
<i>Management's Response</i>	The District has hired a consultant to help improve current processes relating to Department Statistics. The consultant is working to systematically evaluate and improve this area with staff education and assigning a lead person in-house to gather this information in a timely manner. The District also implemented a new Electronic Health Records system in September 2018, which they feel will help with getting accurate statistical data. The District believes this effort will assist in improving in each area in 2019.

**Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017**

Prior Year Number	Description	Current Status
2015-001	Prior period adjustment	Resolved
2016-001	Internal controls over financial reporting	Repeated–2016-001
2016-002	Auditor proposed journal entries	Repeated–2016-002
2016-003	Contractual adjustments by payor	Repeated–2016-003
2016-004	Department statistic tracking	Repeated–2016-004

**Garfield County Hospital District No. 1
doing business as
Garfield County Memorial Hospital
and Memory Manor Nursing Home**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2016 and 2015



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Certified Public Accountants

**Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Pomeroy, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Garfield County Hospital District No. 1 doing business as Garfield County Memorial Hospital and Memory Manor Nursing Home (the District) as of and for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has not presented 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 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 years ended December 31, 2016 and 2015. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 30, 2019

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Net Position
December 31, 2016 and 2015

ASSETS	2016	2015
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,534,571	\$ 2,294,027
Receivables:		
Patient accounts	258,888	900,780
Estimated third-party payor settlements	1,246,067	21,000
Taxes	5,968	-
Cash and cash equivalents, restricted for "HUGS" Memorial Fund	70,855	70,560
Inventories	66,542	73,518
Prepaid expenses	1,512	1,461
Total current assets	4,184,403	3,361,346
<i>Noncurrent assets</i>		
Capital assets, net	1,398,589	1,705,014
Total assets	\$ 5,582,992	\$ 5,066,360

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Net Position (continued)
December 31, 2016 and 2015

LIABILITIES, DEFFERED INFLOWS OF RESOURCES, AND NET POSITION	2016	2015
<i>Current liabilities</i>		
Accounts payable	\$ 167,045	\$ 35,715
Accrued compensation and related liabilities	244,157	243,031
Accrued vacation	119,838	107,079
Estimated third-party payor settlements	-	393,000
Capital leases, current	71,681	69,332
Total current liabilities	602,721	848,157
<i>Capital leases, less current portion</i>	158,183	228,440
Total liabilities	760,904	1,076,597
<i>Deferred inflows of resources</i>		
Electronic health records incentive revenue	155,778	233,666
<i>Net position</i>		
Net investment in capital assets	1,168,725	1,407,242
Restricted expendable net position	70,855	70,560
Unrestricted	3,426,730	2,278,295
Total net position	4,666,310	3,756,097
Total liabilities and net position	\$ 5,582,992	\$ 5,066,360

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Operating revenues</i>		
Net patient revenue	\$ 7,243,022	\$ 6,260,545
Grant revenue	35,040	24,265
Electronic health records incentive payment	77,888	77,888
Other	73,819	30,315
Total operating revenues	7,429,769	6,393,013
<i>Operating expenses</i>		
Salaries and wages	3,460,478	3,456,237
Employee benefits	942,856	853,176
Professional fees	1,075,796	546,984
Supplies	715,985	520,119
Utilities	196,398	177,955
Purchased services	98,644	69,943
Leases and rentals	63,083	53,099
Repairs and maintenance	70,682	68,813
Depreciation and amortization	349,481	338,392
Insurance	83,737	78,139
Other	278,777	253,511
Total operating expenses	7,335,917	6,416,368
<i>Operating income (loss)</i>	93,852	(23,355)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	823,706	919,187
Contributions	1,333	1,713
Interest income	5,620	2,207
Interest expense	(14,298)	(8,079)
Total nonoperating revenues, net	816,361	915,028
Change in net position	910,213	891,673
Net position, beginning of year, as restated	3,756,097	2,864,424
Net position, end of year	\$ 4,666,310	\$ 3,756,097

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 6,266,847	\$ 5,440,774
Receipts from other revenue	73,819	135,486
Receipts from grants	35,040	24,265
Cash paid to or on behalf of employees	(4,390,575)	(4,269,639)
Cash paid to suppliers and contractors	(2,443,721)	(1,939,588)
Net cash used in operating activities	(458,590)	(608,702)
<i>Cash flows from noncapital financing activities</i>		
Property tax for maintenance and operations	817,738	919,187
Contributions received	1,333	1,713
Net cash provided by noncapital financing activities	819,071	920,900
<i>Cash flows from capital and related financing activities</i>		
Interest paid	(14,298)	(8,079)
Principal payments on capital leases	(67,908)	(125,341)
Payments for purchase of capital assets	(43,056)	-
Net cash used in capital and related financing activities	(125,262)	(133,420)
<i>Cash flows from investing activities</i>		
Interest received	5,620	2,207
Net increase in cash and cash equivalents	240,839	180,985
Cash and cash equivalents, beginning of year	2,364,587	2,183,602
Cash and cash equivalents, end of year	\$ 2,605,426	\$ 2,364,587

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 2,534,571	\$ 2,294,027
Cash and cash equivalents, restricted for "HUGS" Memorial Fund	70,855	70,560
Total cash and cash equivalents	\$ 2,605,426	\$ 2,364,587
<i>Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities</i>		
Operating income (loss)	\$ 93,852	\$ (23,355)
<i>Adjustments to reconcile operating income (loss) to net cash used in operating activities</i>		
Depreciation and amortization	349,481	338,392
Provision for uncollectible accounts	(132,853)	(458,085)
Decrease (increase) in current assets:		
Receivables:		
Patient accounts	774,745	719,703
Estimated third-party payor settlements	(1,225,067)	(21,000)
Other	-	105,171
Inventories	6,976	36,971
Prepaid expenses	(51)	(35)
Increase (decrease) in current liabilities:		
Accounts payable	131,330	(174,384)
Accrued compensation and related liabilities	1,126	(33,577)
Accrued vacation	12,759	39,774
Estimated third-party payor settlements	(393,000)	(1,060,389)
Deferred inflows of resources	(77,888)	(77,888)
Net cash used in operating activities	\$ (458,590)	\$ (608,702)

Noncash Financing Activities

During the year ended December 31, 2015, the District entered into capital lease obligations of approximately \$243,000.

See accompanying notes to basic financial statements.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements
Years Ended December 31, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity:

Garfield County Hospital District No. 1 doing business as Garfield County Memorial Hospital and Memory Manor Nursing Home (the District), operates a 25-bed critical access hospital and rural health clinic in Pomeroy, Washington. The District provides healthcare services to patients in Garfield County, Washington, and the surrounding areas. The services provided include acute care hospital, emergency room, rural health clinic, long-term care, and the related ancillary procedures (laboratory, imaging services, therapy, etc.) associated with those services.

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

Accounting principles generally accepted in the United States require that these financial statements include the primary government and its component units. Component units discussed below are separate organizations that are included in the District's reporting entity because of their significance of their operational or financial relationships with the District.

The Helpers United Giving Support (HUGS) has been formed to assist, promote, and advance the welfare of the District through activities approved by the Board of Commissioners. HUGS is governed by a four-member board appointed by the District Board of Commissioners. Although it is legally separate from the District, the HUGS is reported as if it was part of the primary government because its sole purpose is to raise funds on behalf of the District using the District's 501(c)(3) status and to assist the District in various volunteer and public programs. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the basic financial statements.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and cash equivalents – All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Garfield County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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

b. Summary of Significant Accounting Policies (continued):

The County Treasurer invests cash in interest-bearing investments at the direction 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.

Compensated absences – The District's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates each pay period throughout the year with a maximum accumulation of 260 hours. Employees may carry over up to 52 hours, depending on years of service.

The District's employees also earn extended illness benefits (EIB) at a rate of .02 hours per regular hour paid. EIB accruals are available for use in the pay period following successful completion of the probationary period. EIB may be accessed immediately for the use of medically qualifying leave for the employee or for immediate family members. The maximum accrual for EIB is 480 hours. Hours in the EIB bank shall not be paid upon resignation or termination of employment.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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

b. Summary of Significant Accounting Policies (continued):

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.

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

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

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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

b. Summary of Significant Accounting Policies (continued):

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

Subsequent events – Subsequent events have been reviewed through April 30, 2019, the date on which the financial statements were available to be issued.

2. Restatement:

The District has restated its 2014 net position to correctly expense supplies in the proper year. As a result, the District's 2015 beginning of year unrestricted net position has been restated to reflect this change. The impact of the restatement is as follows:

Net position at December 31, 2014, as previously reported	\$	3,054,361
Adjustment to accrued expenses		(189,937)
Net position at January 1, 2015, as restated	\$	2,864,424

3. Bank Deposits and Investments:

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

All cash, cash equivalents, and cash investments held by the County Treasurer are insured by the State of Washington Public Deposit Protection Commission (PDPC), as provided by Chapter 39.58 of *The Revised Code of Washington* 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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

3. Bank Deposits and Investments (continued):

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. The District has elected to use the County Treasurer to be its treasurer to issue warrants and make investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2016 and 2015, were approximately \$996,000 and \$1,035,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the District analyzes its past history and identifies trends for each of its patient 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 decreased due to increased efficiencies in collections. 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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

4. Patient Accounts Receivable (continued):

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

	2016	2015
Receivables from patients and their insurance carriers	\$ 353,673	\$ 515,239
Receivables from Medicare	53,554	536,895
Receivables from Medicaid	38,014	131,054
Total patient accounts receivable	445,241	1,183,188
Less allowance for uncollectible accounts	186,353	282,408
Patient accounts receivable, net	\$ 258,888	\$ 900,780

5. Property Taxes:

The Garfield 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 assessed as of the same date and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Garfield County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

Taxes are due in two equal amounts by April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

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

The District's tax levies are comprised of the following:

2016			
	Levy Rate	Assessed Value Regular	Total Levy Amount
Regular Levy	0.288876	\$ 646,769,846	\$ 186,836
Special Levy	0.976279	\$ 645,306,815	\$ 630,000
2015			
	Levy Rate	Assessed Value Regular	Total Levy Amount
Regular Levy	0.305282	\$ 605,891,375	\$ 184,968
Special Levy	1.206794	\$ 604,908,366	\$ 730,000

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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Capital Assets:

All capital assets other than land and construction in progress are being depreciated or amortized (in the case of capital leases) using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Amortization from equipment under capital leases is included in depreciation and amortization in the financial statements. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. Useful lives have been estimated as follows:

Land improvements	10 to 28 years
Buildings and improvements	5 to 50 years
Equipment	3 to 28 years

The District capitalizes assets whose costs exceed \$5,000, and with an estimated useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost or their estimated fair value at the date of donation. When such assets are disposed of, the related costs and accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues and expenses.

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

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 83,983	\$ -	\$ -	\$ -	\$ 83,983
Construction in progress	16,536	-	(16,536)	-	-
Total capital assets not being depreciated	100,519	-	(16,536)	-	83,983
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,462,273	-	-	-	1,462,273
Land improvements	234,472	-	-	-	234,472
Equipment	3,219,726	59,592	-	-	3,279,318
Total capital assets being depreciated	4,916,471	59,592	-	-	4,976,063
<i>Less accumulated depreciation for</i>					
Buildings and improvements	1,082,700	43,361	-	-	1,126,061
Land improvements	234,472	-	-	-	234,472
Equipment	1,994,804	306,120	-	-	2,300,924
Total accumulated depreciation	3,311,976	349,481	-	-	3,661,457
Total capital assets being depreciated, net	1,604,495	(289,889)	-	-	1,314,606
Capital assets, net	\$ 1,705,014	\$ (289,889)	\$ (16,536)	\$ -	\$ 1,398,589

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Capital Assets (continued):

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 83,983	\$ -	\$ -	\$ -	\$ 83,983
Construction in progress	16,536	-	-	-	16,536
Total capital assets not being depreciated	100,519	-	-	-	100,519
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,462,273	-	-	-	1,462,273
Land improvements	234,472	-	-	-	234,472
Equipment	2,977,046	242,680	-	-	3,219,726
Total capital assets being depreciated	4,673,791	242,680	-	-	4,916,471
<i>Less accumulated depreciation for</i>					
Buildings and improvements	1,036,306	46,394	-	-	1,082,700
Land improvements	234,472	-	-	-	234,472
Equipment	1,702,806	291,998	-	-	1,994,804
Total accumulated depreciation	2,973,584	338,392	-	-	3,311,976
Total capital assets being depreciated, net	1,700,207	(95,712)	-	-	1,604,495
Capital assets, net	\$ 1,800,726	\$ (95,712)	\$ -	\$ -	\$ 1,705,014

7. Defined Contribution Retirement Plan:

The District contributes to the Garfield County Public Hospital District No. 1 403(b) Plan (the Plan), a defined contribution plan, for its employees who have completed at least three months of service and have reached 21 years of age. The District will match 50 percent of employee contributions up to 5 percent of their gross wages. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Pension expenses for the years ended December 31, 2016 and 2015, were approximately \$45,000 and \$35,000, respectively. Employee contributions were approximately \$111,000 and \$83,000 for the years ended December 31, 2016 and 2015, respectively.

Forfeitures and the District's liability to the Plan were not material in 2016 and 2015. The Plan is administered by the District. The District has the authority to amend the Plan.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

8. Noncurrent Liabilities:

A schedule of changes in the District's capital lease obligations follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Capital lease obligations</i>	\$ 297,772	\$ -	\$ (67,908)	\$ 229,864	\$ 71,681

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
<i>Capital lease obligations</i>	\$ 180,433	\$ 242,680	\$ (125,341)	\$ 297,772	\$ 69,332

Aggregate annual principal and interest payments over the terms of capital lease obligations are as follows:

Years Ending December 31,	Total Capital Lease Obligations		
	Principal	Interest	Totals
2017	\$ 71,681	\$ 10,526	\$ 82,207
2018	74,069	6,572	80,641
2019	52,102	3,338	55,440
2020	32,012	715	32,727
	\$ 229,864	\$ 21,151	\$ 251,015

Capital Lease Obligations – Capital lease obligations are due in monthly installments including principal and interest ranging from \$1,925 to \$2,695, including interest at varying rates from 0.015 percent to 5.16 percent through March 2020; collateralized by the related capital items. At December 31, 2016 and December 31, 2015, the capitalized cost of the equipment acquired under the capital lease obligations was \$376,518, and accumulated amortization totaled \$91,689 and \$42,519, respectively.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

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 that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs decreased from the prior year due to increased efficiencies in collections. The District has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015. 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:

	2016	2015
Patient service revenue		
Medicare	\$ 3,028,500	\$ 2,624,328
Medicaid	1,604,270	1,492,876
Other third-party payors	1,455,942	1,095,650
Patients	670,972	1,061,135
	6,759,684	6,273,989
Less:		
Contractual adjustments	(646,954)	(447,554)
Charity care	30,763	2,913
Provision for bad debts	132,853	458,085
Net patient service revenue	\$ 7,243,022	\$ 6,260,545

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

- *Medicare* – The District has been designated a critical access hospital and Pomeroy Medical Clinic, a rural health clinic by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Medicaid swing-bed services are reimbursed on a prospectively set rate per day. Medicaid rural health clinic services are paid on a prospectively set rate per visit. Physician services are reimbursed on a fee schedule.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

9. Net Patient Service Revenue (continued):

The District also has 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 Medicare, Medicaid, and other 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 did not change in 2016 and increased by approximately \$4,000 in 2015 due to differences between original estimates and final settlements or revised estimates.

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, 2016 and 2015, were approximately \$33,000 and \$3,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2016 and 2015.

10. Electronic Health Records Incentive Payment:

The District recognized Medicare electronic health records (EHR) incentive payments during the years ended December 31, 2016 and 2015. EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology.

The District recognized the hospital Medicare incentive payments over five years. The District recognized revenues of \$77,888 in 2016 and 2015. The Medicare EHR reporting period is through December 31 of each year. The program is subject to audit by the Medicare Administrative Contractor.

11. 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; and employee health, dental, 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.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

11. Risk Management and Contingencies (continued):

Medical malpractice claims – The District had professional liability insurance coverage with Washington Casualty Company. On July 1, 2016, the District switched their professional liability insurance coverage to Physicians Insurance. The policies provide protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible per claim.

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.

Self-insurance risk pools – The District has a self-insured workers’ compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust and the Public Hospital District Unemployment Trust, which are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers’ compensation claims, unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$86,000 and \$88,000 in 2016 and 2015, respectively. Payments by the District charged to unemployment expense were approximately \$55,000 and \$54,000 in 2016 and 2015, respectively.

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 known or unasserted at this time.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

12. Concentration of Risks:

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 Garfield County.

The mix of receivables from patients was as follows:

	2016	2015
Medicare	26 %	28 %
Medicaid	26	29
Other third-party payors	19	17
Patients	29	26
	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.

13. Subsequent Events:

The Board of Directors approved a contract to implement a new electronic health records and accounting system in fiscal year 2018. Payment for the system is a percentage of the District's collection for as long as the District is utilizing the computer system.



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
Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Pomeroy, 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 Garfield County Hospital District No. 1 doing business as Garfield County Memorial Hospital and Memory Manor Nursing Home (the District) as of and for the years ended December 31, 2016 and 2015, 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 April 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2015-001, 2016-001, and 2016-002.

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. We consider the deficiencies described in the accompany schedule of findings and responses as items 2016-003 and 2016-004 to be significant deficiencies.

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*.

District's Response to the Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 30, 2019

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses
Years Ended December 31, 2016 and 2015

2015-001 Prior Period Adjustment

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	Expenses should be recorded in the year in which they relate.
<i>Condition</i>	A journal entry to record supply expense related to 2014 was recorded in 2015.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	Supplies expense and accounts payable were materially overstated and understated, respectively.
<i>Cause</i>	2014 year end balances were not properly reconciled and recorded on the general ledger.
<i>Recommendation</i>	We recommend that the District ensure all expenses are recorded in the proper period.
<i>Management's Response</i>	We have hired a consultant to help improve our current processes relating to prior period adjustments. The consultant is working to systematically evaluate and improve a review of expenses and invoices prior to audit. Adjustment to years as-needed will potentially eliminate a repeat. We believe this effort will assist us in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses (Continued)
Years Ended December 31, 2016 and 2015

2016-001 Internal Controls over Financial Reporting

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	District board members, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of District management to design, implement, and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial report.
<i>Condition</i>	<p>The District lacks an effective review process to ensure amounts reported on the financial statements, schedules, and notes to the financial statements agree to supporting records and are prepared in accordance with Generally Accepted Accounting Principles (GAAP)</p> <p>The District lacks effective oversight of accounting functions such as ensuring bank reconciliations are performed timely; calculation and review of an allowance for doubtful accounts; approval of payroll; posting and review of manual journal entries; reconciliation and review of balance sheet accounts; tracking of third-party payor settlements; and internal controls around charge capture.</p> <p>The District also lacks adequate segregation of duties in recording patient accounts receivable. The same staff enter patient charges and have the ability to post adjustments.</p>
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Lack of proper internal controls around financial reporting allows for the possibility that a material error or fraud would be made and not caught in the normal course of performed duties.
<i>Cause</i>	The District has not committed the necessary time and resources to ensure staff understand proper accounting procedures to be able to perform a detailed review of financial statements, schedules, and notes to the financial statements.
<i>Recommendation</i>	We recommend that the District develop and implement policies and procedures in order to create a system of internal controls that is effective at preventing and detecting errors.
<i>Management's Response</i>	We have hired a consultant to help improve our current processes relating to internal control over financial reporting. The consultant is working to systematically evaluate and improve with staff education and assigning a lead person in-house to gather this information in a timely manner. We also implemented a new Electronic Health Records system in September of 2018, which we feel will help with getting financial data. We believe this effort will assist us in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Schedule of Findings and Responses (Continued)
Years Ended December 31, 2016 and 2015

2016-002 Auditor Proposed Journal Entries

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	District board members, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions.
<i>Condition</i>	There was a material adjusting journal entry related to allowance for doubtful accounts that was identified, proposed, and prepared by the audit team. There were also significant journal entries related to accounts payable, accrued payroll, and property that were identified, proposed, and prepared by the audit team.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The accounting records were significantly misstated at year end. Inaccurate financial reports could affect Board and management decision making.
<i>Cause</i>	The District does not have a system of internal controls to identify all necessary end-of-year adjustments.
<i>Recommendation</i>	Adequate internal controls should be implemented to properly reconcile all statement of net position accounts and identify all necessary adjustments prior to the audit process.
<i>Management's Response</i>	We have hired a consultant to help improve our current processes relating to auditor proposed journal entries. The consultant is working to systematically evaluate and improve the monthly processes. This process will happen with 2019 and continue going forward. We believe this effort will assist us in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Schedule of Findings and Responses (Continued)
Years Ended December 31, 2016 and 2015

2016-003 Contractual Adjustments by Payor

[] Compliance Finding [X] Significant Deficiency [] Material Weakness

<i>Criteria</i>	In accordance with Generally Accepted Accounting Principles (GAAP), required financial statement disclosures include patient accounts receivable net of allowance for doubtful accounts and patient service revenue net of provision for bad debts.
<i>Condition</i>	The allowance for contractual adjustments was not properly tracked by major payor class in 2015 or 2016. The provision for bad debts and contractual adjustments were not properly recorded on the general ledger in 2015 or 2016.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Required financial statement disclosures are not inherent in the general ledger, nor readily available for financial statement disclosure or analysis by management.
<i>Cause</i>	The allowance for doubtful accounts and contractual adjustments is being recorded as single amount on the general ledger. The provision for bad debts and contractual adjustments are not accurately recorded by major payor class.
<i>Recommendation</i>	We recommend the District establish a system of calculating and recording the allowance for doubtful accounts and contractual adjustments in the general ledger by major payor class. Additionally, we recommend the District ensure accurate recording of provision for bad debts and contractual adjustments in the general ledger by major payor class.
<i>Management's Response</i>	We have hired a consultant to help improve our current processes relating to contractual adjustments by payor. The consultant is working to systematically evaluate and improve this area and will be implemented moving forward. We believe this effort will assist us in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
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Schedule of Findings and Responses (Continued)
Years Ended December 31, 2016 and 2015

2016-004 Department Statistic Tracking

[] Compliance Finding [X] Significant Deficiency [] Material Weakness

<i>Criteria</i>	Departments should individually and consistently track and reconcile patient statistics.
<i>Condition</i>	Several departments, including laboratory, physical therapy, and radiology, were unable to provide reliable patient utilization statistics for 2015 or 2016.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Management and the Board of Commissioners are unable to make informed, appropriate strategic decisions if no reliable patient utilization statistics are available.
<i>Cause</i>	Methods of tracking patient utilization statistics are not being consistently followed within each department.
<i>Recommendation</i>	We recommend the District establish policies and procedures by department to accurately track patient utilization statistics. This will provide existing and future employees guidelines on how to track these statistics, increasing accuracy.
<i>Management's Response</i>	We have hired a consultant to help improve our current processes relating to Department Statistics – The consultant is working to systematically evaluate and improve this area with staff education and assigning a lead person in-house to gather this information in a timely manner. We also implemented a new Electronic Health Records system in September of 2018, which we feel will help with getting accurate statistical data. We believe this effort will assist us in improving in each area in 2019.

Garfield County Hospital District No. 1
doing business as Garfield County Memorial Hospital
and Memory Manor Nursing Home
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2016

Prior Year Number	Description	Current Status
2014-001	The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.	Repeated-2016-001