Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

Grays Harbor County Public Hospital District No. 1

(Summit Pacific Medical Center)

Grays Harbor County

For the period January 1, 2013 through December 31, 2013

Published September 11, 2014

Report No. 1012520

Washington State Auditor
Troy Kelley

September 11, 2014

Board of Commissioners
Summit Pacific Medical Center
Elma, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Summit Pacific Medical Center's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

Table of Contents

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

Federal Summary

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

The results of our audit of the Summit Pacific Medical Center are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
10.766	Community Facilities Loans and Grants Cluster - Community Facilities Loans and Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Prior Federal Audit Findings

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Summit Pacific Medical Center. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 2012	**Report Ref. No.:** 1010560	**Finding Ref. No.:** 1	**CFDA Number(s):** 10.766
Federal Program Name and Granting Agency: Community Facilities Loans and Grants, U.S. Department of Agriculture		**Pass-Through Agency Name:** NA	

Finding Caption:
Grays Harbor County Public Hospital District No. 1 does not have adequate internal controls to ensure compliance with the federal suspension and debarment requirements.

Background:
The objective of the Community Facilities direct loan, guaranteed loan and grant programs is to provide loan or grant funds for the development of essential community facilities for public use in rural communities. Funds may be used to construct, enlarge, extend or otherwise improve essential community facilities provide essential services primarily to rural residents and rural businesses. In 2010 the District was awarded a $19 million loan from the U.S. Department of Agriculture (USDA) to help fund the replacement hospital construction project. Of this amount, the District spent $257,084 in 2011 and $15,259,734 in 2012 to construct and furnish the new hospital.

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of $25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. The District spent $1.4 million on equipment in 2012. We tested equipment purchases from five vendors totaling $472,145 in 2012. These five vendors were not checked to determine if they had been suspended or debarred prior to making the purchase.

We determined the District did check for suspension and debarment prior to entering into the construction contract.

Status of Corrective Action: (check one)

X Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
In 2010 the Grays Harbor County Public Hospital District No. 1 (the District) was awarded a $19 million loan from the United States Department of Agriculture (USDA) to help fund a replacement hospital. Of this, the District spent $257,084 in 2011 and $15,259,734 in

2012. Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of $25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. The District spent $1.4 million on equipment in 2012. The auditors tested equipment purchases from five vendors totaling $472,145 in 2012. These five vendors were not checked to determine if they had been suspended or debarred prior to making the purchase. The 2012 finding stated the District does not have adequate internal controls to ensure compliance with the federal suspension and debarment requirements. The auditors determined the District did check for suspension and debarment prior to entering into the construction contract. The District does not agree with the draft finding for a variety of reasons.

Discrepancy

During the audit, the auditors were open to the fact that there is some confusion as to what requirements are applicable for federal loans versus federal grants. Therefore, the District consulted with the USDA for guidance. The USDA reviewed the directives and requirements that accompany loans from their agency. For instance, the USDA requires loan recipients to sign an agreement titled, Certification Regarding Debarment, Suspension, and Other Responsibility Matters – Primary Covered Transactions. This certification is required by the regulations implementing Executive Order 12549, Debarment and Suspension, 7 CFR Part 3017, Section 3017.510, outlining Participants' responsibilities.

The signed Certification contains instructions including the following:

1. *A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier [such as a Group Purchasing Organization, or GPO] covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List. [Emphasis added.]*

2. *Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.*

The above guidance indicates a discrepancy between the auditor's opinion of what is required for a USDA loan and what the USDA actually requires.

Contractual Protection

The auditors provided as guidance, Title 2, CFR, Section 180.300, outlining the steps that must be performed to ensure that a participant is not debarred. Those steps are as follows:

a) Checking the EPLS (Excluded Parties List System); or
b) Collecting a certification from that person if allowed by this rule; or

c) Adding a clause or condition to the covered transaction with that person.

The District contractually engaged with vendors and entities to provide services and equipment for the construction of the new hospital facility. Many contracts have clauses that provide legal and financial protection to the District should the other party have been found to misrepresent themselves. The lack of any such clause would not immediately expose the District. The law — either by statute or case law — provides protection from companies that fraudulently misrepresent themselves, such as being found ineligible, suspended, debarred, or otherwise excluded.

Snapshot in Time

Checking the EPLS provides a status of that company at that snapshot in time. The District may engage with a vendor (of $25,000 or more), check the EPLS, note that they are not listed, and continue with the engagement. If the vendor subsequently becomes ineligible, the District may not be immediately aware. Therefore, the hospital industry relies heavily on industry publications, associations, and other trade organizations to be informed about vendors that are later found ineligible. For example, on July 18, the State of Reform released an announcement that Sound Inpatient Physicians will pay $14.5 million to settle a charge that they knowingly inflated claims to Medicare. After receiving this notice, the District immediately checked to ensure it was not affected by this announcement. Checking the EPLS site would not have helped in this situation. In fact, because Sound Inpatient Physicians settled the case, they still will not be found on the EPLS site.

In addition to the EPLS providing just a snapshot in time of a determination, the results are only as accurate as the input. For example, a company or vendor may have numerous names associated with it. If one were to check the EPLS under one name, not knowing that there is another name associated with that company, or a parent holding company or subsidiary, the search would be fruitless. This is not to say that checking the EPLS is pointless. However, it further emphasizes the importance on relying on industry partners or trade associations in the ordinary course of business dealings.

The ordinary course of business dealings in the healthcare industry relies heavily on receiving news from various supporting organizations. If a medical equipment vendor becomes ineligible, the news spreads rapidly throughout the healthcare industry; at which time we would become aware. This goes back to the last sentence of the second bullet point above, "The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings."

Group Purchasing Organization

The District uses a Group Purchasing Organization (GPO, currently Amerinet) to provide cost savings through volume and tiered purchasing. Using a GPO provides stability and protection. In addition, the GPO also routinely checks each vendor against the debarment listing. According to Dale Wright, Senior Vice President of Contracting at Amerinet said, "Amerinet certifies we do not contract with companies who are in violation with accepted governmental contracting policies. On a monthly basis, Amerinet monitors suppliers under contract under contract and certifies, in writing, they are not listed on the government's OIG watch list."

Summary and Corrective Action Plan

The District signed a certification with the USDA. That certification instructed that the knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings. To date, the District has relied on our ordinary course of business dealings to ensure a wise and prudent use of federal and public funds. In building and equiping the new facility, no fewer than 70 vendors were chosen and used. Of those, over 20 exceeded the $25,000 threshold. The auditors tested five vendors and noted none were debarred. The District checked the remaining vendors and noted that none were suspended or debarred — the District's vendor selection process is sound and meets the intent of the audit's requirement to have adequate controls to check for suspension and debarment.

Despite the adequate internal controls noted, the methods used do not follow the prescriptive steps required by the Washington State Auditor's Office. Therefore, the District will inspect the EPLS site on an annual basis to check the status of vendors if the annual payments to that vendor are expected to exceed the $25,000 threshold using federal loan or grant funds. The District will document the results of this annual search and maintain the results on file.

2013 Corrective Action Completed

The EPLS verification process was completed for the year ending December 31, 2013 on all vendors that the District paid and/or expected to pay in the amount of $25,000 or more. The Washington State Auditor's Office verified the implementation of the District's new EPLS verification process, while they were on-site completing the 2013 audit field work. In addition, there were no findings for the year ending December 31, 2013.

Independent Auditor's 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*

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

Board of Commissioners
Summit Pacific Medical Center
Elma, Washington

We have audited, 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, the financial statements of the Summit Pacific Medical Center, Grays Harbor County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 20, 2014.

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.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

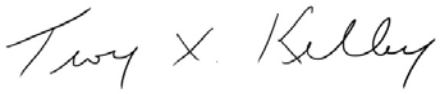
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

August 20, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

Board of Commissioners
Summit Pacific Medical Center
Elma, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Summit Pacific Medical Center, Grays Harbor County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

August 20, 2014

Independent Auditor's Report on Financial Statements

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

Board of Commissioners
Summit Pacific Medical Center
Elma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Summit Pacific Medical Center, Grays Harbor County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

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.

Auditor's 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 auditor's 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 auditor considers internal control relevant to the District'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 District'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 Summit Pacific Medical Center, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

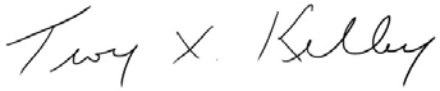
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2014 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. The purpose of that 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.



TROY KELLEY
STATE AUDITOR

August 20, 2014

Financial Section

Summit Pacific Medical Center
Grays Harbor County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – 2013 and 2012
Statement of Cash Flows – 2013 and 2012
Notes to Financial Statements – 2013 and 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

Management's Discussion and Analysis
December 31, 2013

This report is a discussion and analysis of Grays Harbor County Public Hospital District No. 1's financial performance, providing an overview of the District's financial activities for the fiscal year ended on December 31, 2013. Please read it in conjunction with the District's financial statements that follow this analysis.

Grays Harbor County Public Hospital District No. 1 is a governmental entity which owns and operates Summit Pacific Medical Center Hospital and three rural health clinics — Mark Reed Healthcare Clinic, Summit Pacific Healthcare Clinic, and Elma Family Medicine. It is a subdivision of the State of Washington. The Washington legislature voted to allow Public Hospital Districts to be formed within the state. The District was created by a public vote and began operating the hospital in January, 1982. The hospital, which was first licensed in 1956, had previously been owned and operated by the Mark E. Reed Memorial Hospital, a Washington non-profit corporation. A new facility was completed in 2013. Summit Pacific Medical Center opened to the public on Sunday, February 17, 2013. As a result of the new facility opening, the District changed its doing business as name from Mark Reed Health Care District to Summit Pacific Medical Center.

The District owns and operates an acute-care hospital that is licensed for 24 beds, and three rural health clinics. Hospital services include inpatient care, skilled nursing care, observation care, 24-hour emergency department, laboratory, and diagnostic imaging services. In addition, the three rural health clinics provide primary care. A five member Board of Commissioners governs the District. The members of the Board are commissioners who are elected for six year terms. Elections are staggered every two years so that one or two positions are up for election at one time. The Board elects a President and Secretary for two-year terms with the election in the odd years. It also appoints the District's Superintendent, or CEO, to whom the day-to-day operations of the hospital and clinics are delegated.

The District is a municipal governmental entity. As such, it levies taxes from various activities within Grays Harbor County Public Hospital District No. 1, which are collected by the county. The most significant tax revenue is the maintenance and operations tax, which is levied on property held within the District. These and other tax revenues are used to support the operations of the hospital and clinics — providing health care services to residents of the District. Total tax revenues accounted for approximately 4 percent of the District's net revenue in 2013.

On December 18, 2013, Grays Harbor Energy LLC filed an appeal with the Washington State Board of Tax Appeals, disputing $120 million of their total property tax assessment. By law, the Grays Harbor County Assessor must remove this disputed amount from the tax base, which effects junior taxing districts' Maintenance and Operations levies, including the amount for the Public Hospital District. The county cannot assess more than $5.90 per thousand in aggregate and must prorate the various levies in order to get under that amount. Within that $5.90 cap, the District's original levy amount was to be $0.69 per thousand for the 2014 year. After proration, the new levy amount is $0.50 per thousand, which will reduce the Maintenance and Operations tax by an estimated $177,190.

The Government Accounting Standards Board prescribes the financial reporting of the Hospital. This is the format followed by the District. The books were compiled internally and will be audited by the State Auditor's Office of the State of Washington.

Management's Discussion and Analysis (Continued)
December 31, 2013

Financial Highlights

The District's overall business generated total operating revenues of $16,022,971 in 2013 and finished the year with a net income of $135,552 — a margin of just under one percent. This compares to a net income of $596,183 in 2012.

The District moved the hospital operations mid-February 2013, seven miles west from McCleary to Elma. The new location is now closer to a larger population base and patient volumes increased as a result. The combined patient days of acute care and swing bed increased to 1,800 compared to 1,280 during the prior year. Outpatient visits also experienced growth over prior years. There was a 52 percent increase in emergency department visits — the District's largest revenue source — compared to 2012. The District on-boarded an additional primary care provider, so clinic visits increased as well. In reviewing the patient origin data, there was a sharp increase in the patients coming from the Montesano area. Because of the increased volumes, cash and cash equivalents increased from $1.8 million in December 2012 to $2.9 million in December of 2013.

Compared to 2012, the District's total operating revenue increased by $5,923,305 and the total operating expenses increased by $5,931,622. Salaries, wages, and benefits increased $2,025,615 due to increased staffing based on the larger facility and increased patient volumes. The total number of full-time equivalent employees increased from 76 to 104.

The combination of bad debts, charity, and administrative discounts totals 14.9 percent of gross patient revenue. This uncompensated care statistic remains high and is largely a result of Grays Harbor County's uninsured rate[1], which is higher than the statewide average. The Washington State Office of Insurance Commissioner issued a report estimating the number of people under the age of 65 that are uninsured. At the end of 2013, there was an estimated 18 percent uninsured residents in Grays Harbor County. This is compared to the statewide rate of 16 percent. In 2014, the District hired a certified In-Person Assister to reach out to the uninsured residents and enroll them in new coverage that is now available as a result of the Patient Protection and Affordable Care Act.

The District's financial statements consist of three statements – a "Statement of Net Position", a "Statement of Revenues, Expenses, and Changes in Fund Net Position"; and a "Statement of Cash Flows". These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purpose by contributors, grantors, or enabling legislation.

[1] Emergency Department (ED) visits tend to be a significant contributor to uncompensated care. The significant growth in ED volumes was also a source for the bad debt and charity care.

Statement of Revenues and Expense and Change in Net Position:

Net patient service revenue for 2013 was $15,554,058 compared to $9,950,693 in 2012.

Statement of Cash Flows:

Cash and Cash Equivalents at end of the year 2013 were $2,886,036 and $1,802,449 at the end of 2012.

The District's Net Position:
The District's Net Position is the difference between its assets and liabilities reported in the Statement of Net Position. The total Net Position at the end of 2013 was $4,878,234 compared to $4,742,682 at the end of 2012. During the year ending December 31, 2011 the District began construction of the new nearly 40,0000 square foot facility in Elma, WA, which was financed by two limited tax general obligation bonds and a revenue bond (see Note 8 included in the notes of the financial statements). The funds from these three bonds were used to fund the construction of the new capitalized building, as well as equipment that was purchased for the facility (see Note 7 included in the notes of the financial statement). The increase of capital assets and long term debt over the past three years is a direct result of the new facility, and related equipment, being purchased with bond funds and capitalized.

Condensed financial information for the years ended December 31, 2013, 2012 and 2011 are as follows:
Table 1: Assets, Liabilities, and Net Position.

	2013	2012	2011
Assets:			
Current assets	$ 6,936,228	$ 4,408,068	$ 3,546,060
Capital assets, net	20,653,641	18,549,585	3,734,272
Other non-current assets	--	8,089	13,277
Total Assets	**27,589,869**	**22,965,742**	**7,293,609**
Liabilities:			
Other current and non-current liabilities	3,233,711	2,181,193	2,074,074
Long-term debt outstanding	19,477,924	16,041,867	1,073,036
Total Liabilities	**22,711,635**	**18,223,060**	**3,147,110**
Net Position:			
Unrestricted	4,878,234	4,742,682	4,146,499
Total Net Position	**4,878,234**	**4,742,682**	**4,146,499**
Total Liabilities and Net Position	**$ 27,589,869**	**$ 22,965,742**	**$ 7,293,609**

Management's Discussion and Analysis (Continued)
December 31, 2013

	2013	2012	2011
Operating revenues:			
Net patient service revenue	$ 15,554,058	$ 9,650,693	$ 9,055,481
Other operating revenue	468,913	448,973	257,938
Total operating revenue	**16,022,971**	**10,099,666**	**9,313,419**
Operating expense:			
Salaries and benefits	8,369,053	6,343,438	6,043,629
Depreciation and amortization	1,446,336	211,084	307,840
Supplies	2,039,403	604,043	597,107
Other operating expense	4,424,873	3,189,478	2,653,248
Total operating expense	**16,279,665**	**10,348,043**	**9,601,824**
Income (Loss) from operations	(256,694)	(248,377)	(288,405)
Non-operating gains (expenses)			
Property and other taxes	737,374	803,695	740,257
Interest income	2,178	1,898	5,511
Income on sale of equipment	5,575	--	(77,164)
Timber sales	--	--	85,835
Loss on disposal of assets	(1,467)	(9,044)	--
Interest expense	(646,305)	(60,959)	
Misc. unclaimed property refund	--	1,755	--
Noncapital grants and contributions	267,263	93,205	43,422
Rental income	14,431	14,010	14,402
Misc. income recorded	13,197	--	--
Total non-operating revenues	**392,246**	**844,560**	**812,263**
Increase in net assets, excess of revenues and gains over expenses	**135,552**	**596,183**	**523,858**
Capital grants and contributions	--	--	--
Increase in net position	135,552	596,183	523,858
Net position - Beginning of year	4,742,682	4,146,499	3,622,641
Restricted fund contributions			--
Net position - End of year	**$ 4,878,234**	**$ 4,742,682**	**$ 4,146,499**

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions about this report, or for additional information, please contact the Chief Financial Officer, by phone at 360-346-2244 or by writing to: Grays Harbor County Public Hospital District No. 1, 600 E. Main Street, Elma, WA 98541.

Grays Harbor County Public Hospital District No. 1

Statement of Net Position
December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$ 2,886,036	$ 1,802,449
Receivables:		
Patient accounts - Less allowance for uncollectible amounts and contractual adjustments of $6,813,208 in 2013 and $3,606,956 in 2012	2,839,988	2,411,745
Taxes	61,822	62,536
Other	981,929	16,701
Prepaid expenses	25,704	7,942
Inventories	140,749	106,695
Total current assets	**6,936,228**	**4,408,068**
Non current cash and cash equivalents:		
Internally designated for capital acquisitions and future expenditures	--	--
Capital assets:		
Land	1,623,605	738,846
Construction in progress	--	17,312,989
Depreciable capital assets - Net of accumulated depreciation	19,030,036	497,750
Total capital assets - Net of accumulated depreciation	**20,653,641**	**18,549,585**
Other assets:		
Debt issuance costs	--	8,089
TOTAL ASSETS	**$ 27,589,869**	**$ 22,965,742**

Grays Harbor County Public Hospital District No. 1

Statement of Net Position
December 31, 2013 and 2012

Liabilities and Net Position	2013	2012
Current liabilities:		
Warrants payable	$ 425	$ 10,746
Accounts payable	306,623	287,887
Employee compensation and related liabilities	642,171	346,122
Accrued vacation	318,080	286,274
Third-party settlement payable	574,180	903,417
Other current liabilities	309,307	21,605
Current maturities of long-term debt	1,082,925	290,000
Current maturities of capital lease obligations	--	35,142
Total current liabilities	**3,233,711**	**2,181,193**
Non current liabilities:		
Long-term debt - Less current maturities	19,477,924	16,041,867
Total non current liabilities	**19,477,924**	**16,041,867**
Total liabilities	**22,711,635**	**18,223,060**
Net position:		
Invested in capital assets - Net of related debt	267,792	2,650,576
Restricted	--	--
Unrestricted	4,610,442	2,092,106
Total net position	**4,878,234**	**4,742,682**
TOTAL LIABILITIES AND NET POSITION	**$27,589,869**	**$22,965,742**

The accompanying notes are an integral part of this financial statement.

Grays Harbor County Public Hospital District No. 1

Statements of Revenues, Expenses, and Changes in Fund Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Patient service revenues:		
Daily hospital care	$ 2,911,964	$ 1,507,628
Ancillary services	35,726,940	23,356,539
Total patient service revenues	**38,638,904**	**24,864,167**
Revenue deductions and allowances including provisions for bad debts	(23,084,846)	(15,213,474)
Net patient service revenues	**15,554,058**	**9,650,693**
Other operating revenues	468,913	448,973
Total operating revenues	**16,022,971**	**10,099,666**
Operating expenses:		
Salaries and wages	6,887,204	5,214,660
Employee benefits	1,481,849	1,128,778
Supplies	2,039,403	604,043
Professional fees	2,072,340	1,180,265
Purchased services - Utilities	318,494	101,261
Purchased services - Other	1,350,361	1,383,978
Insurance	170,366	137,489
Other	395,301	267,905
Rent	118,010	118,580
Depreciation and amortization	1,446,337	211,084
Total operating expenses	**16,279,665**	**10,348,043**
Operating income (loss)	**(256,694)**	**(248,377)**
Non operating revenues (expenses)- Net	392,246	844,560
Excess of revenues over expenses	**135,552**	**596,183**
Net position - Beginning of year	4,742,682	4,146,499
Disbursements from restricted net assets	--	--
Net Position - End of year	**$ 4,878,234**	**$ 4,742,682**

The accompanying notes are an integral part of this financial statement.

Grays Harbor County Public Hospital District No. 1

Statement of Cash Flows
Years Ending December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 14,796,578	$ 10,602,176
Receipts from other operating activities	(496,315)	487,560
Payments to employees	(8,041,198)	(6,201,864)
Payment to suppliers, contractors, and others	(6,219,974)	(4,082,427)
Net cash (used in) provided by operating activities	**39,091**	**805,445**
Cash flows from noncapital financing activities:		
Property and other taxes	738,088	803,419
Cash received from noncapital, grants contributions and non operating revenues	300,466	108,970
Net cash provided by noncapital financing activities	**1,038,554**	**912,389**
Cash flows from capital and related financing activities:		
Proceeds from the issuance of long-term debt	4,542,350	15,258,831
Principal payments on long-term debt	(313,368)	(580,000)
Principal payments on capital lease obligations	(35,142)	(132,550)
Interest paid	(646,305)	(60,959)
Payments for purchase of capital assets	(3,543,771)	(15,030,253)
Net cash used in capital and related financing activities	**3,764**	**(544,931)**
Cash flows from investing activities:		
Interest income	2,178	1,898
Net (decrease) increase in cash and cash equivalents	**1,083,587**	**1,174,801**
Cash and cash equivalents - Beginning of year	1,802,449	627,648
Cash and cash equivalents - End of year	**2,886,036**	**1,802,449**
Cash and cash equivalents:		
Current assets	2,886,036	1,802,449
Noncurrent cash and cash equivalents	- -	- -
Total cash and cash equivalents	**$ 2,886,036**	**$ 1,802,449**

Statement of Cash Flows (Continued)
Years Ending December 31, 2013 and 2012

	2013	2012
Reconciliation from income from operations to net cash provided by operating activities:		
Operating income (loss)	**$ (256,694)**	**$ (248,377)**
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,446,337	211,084
Bad debt expense	3,967,631	1,364,040
Change in operating assets and liabilities:		
Patient accounts receivable - Net	(4,395,874)	(1,085,879)
Prepaid expenses	(17,762)	(2,992)
Other receivables	(965,228)	38,587
Inventories	(34,054)	(687)
Warrants payable	(10,321)	(1,432)
Accounts payable	18,736	(98,129)
Employee compensation and related liabilities	296,049	117,228
Accrued vacation	31,806	24,346
Third-party (settlement) payable	(329,237)	673,322
Other current liabilities	287,702	(185,666)
Total adjustments	**295,785**	**1,053,822**
Net cash (used in) provided by operating activities	**$39,091**	**$805,445**

The accompanying notes are an integral part of this financial statement.

Note 1 Summary of Significant Accounting Policies

Nature of Operations

The accounting policies of Grays Harbor County Public Hospital District No.1 (The District), doing business as, Summit Pacific Medical Center, conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to proprietary funds of governments. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies. No policies result in material departures from GAAP.

Reporting Entity

The District owns and operates an acute care hospital, that is licensed for 24-beds, and three Medicare certified rural health clinics. The District provides healthcare services to patients in the eastern Grays Harbor County, Washington market. The services provided include acute care hospital, skilled nursing care, emergency room, outpatient clinics, and the related ancillary procedures (lab, x-ray, etc.) associated with those services.

The District operates under the laws of the State of Washington for Washington municipal corporations. The District was created in 1982, by the County of Grays Harbor to operate, control and manage all matters concerning the District's health care functions. The District is governed by an elected five-member board. The District has no significant component units. As organized, the District is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in the Accounting and Reporting Manual for Hospitals.

The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Related Organization

Summit Pacific Medical Foundation (the Foundation), formed in 1950, is a separate tax-exempt Washington corporation. The Foundation is not considered a component unit of the District for financial statement purposes. Donations of approximately $267,300 and $81,000 were contributed to the District by the Foundation for the year ended December 31, 2013 and 2012, respectively.

Use of Estimates

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

The District considers critical accounting estimates to be those that require more significant judgments and include the valuation of accounts receivable, including contractual adjustments, an allowance for doubtful accounts, and estimated third-party settlements.

Note 1 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The District considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash and cash equivalents.

Patient Accounts Receivable

Receivables arising from patient service revenues are reduced by an allowance for uncollectible accounts and contractual adjustments, based on experience, third-party contractual arrangements, and any unusual circumstances which may affect the ability of patients to meet their obligations. Accounts deemed uncollectible are charged against this allowance (Note 4).

Inventories

Inventories are stated at cost on the first-in, first-out (FIFO) method, which approximates the market value. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Noncurrent Cash and Cash Equivalents

Noncurrent cash and cash equivalents include grant funds held by the facility under agreements and designated by the Board of Commissioners for future purposes, over which the Board retains control and may at its discretion subsequently use for other purposes. For the year ending December 31, 2013 and 2012, respectively, the District did not have any Noncurrent Cash or Cash Equivalents

Net Position

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

Note 1 Summary of Significant Accounting Policies (Continued)

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. However, for the year ending December 31, 2013 and 2012, respectively, there were no restricted resources.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the classifications used in the 2013 financial statements, with no effect on previously reported change in net position.

Subsequent Events

Subsequent events have been reviewed through the report date, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, The Financial Reporting Entity: Omnibus. This statement, which is effective for financial statements for periods beginning after June 15, 2012, provides, among other things, additional guidance to primary governments that are business-type activities reporting financial information in a single column. New guidance, which includes reporting a blended component unit, allows users to better distinguish between the primary government and its component unit by requiring condensed combining information in the notes to the financial statements. The District adopted GASB Statement No. 61 during 2013, with no affect on the District's financial statements.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement, which is effective for financial statements for periods beginning after December 15, 2011, supersedes GASB Statement No. 20. The District adopted GASB Statement No. 62 during 2012, and its provisions were applied retroactively for all periods presented. Adoption of GASB Statement No. 62 did not materially affect the District's financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In June 2012, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net assets applicable to future periods) and deferred inflows of resources (acquisition of net assets applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The District adopted the provisions of the statement in 2012 on a retroactive basis by reclassifying certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the District's financial statements.

In March 2011, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB Statement No. 65, which is effective for financial statements for periods beginning after December 15, 2012, amends or supersedes accounting and financial reporting guidance for certain items previously reported as assets or liabilities. The District implemented GASB Statement No. 65 in 2013 which requires debt issuance costs to be expensed as incurred. The District's remaining debt issuance costs at December 31, 2012 amounted to $8,089. This amount was fully expensed as amortization during the year ending December 31, 2013, as the amount was deemed immaterial, to the financial statements, and did not warrant restatement of the prior year's financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital asset acquisitions and expenditures exceeding $5,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged to operations as incurred, betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is classified in Non Operating Revenues-Net on the Statement of Revenues, Expenses, and Changes in Fund Net Position. Depreciation and amortization have been computed on the straight-line method over the estimated useful service lives of the assets.

The estimated lives associated with the District's assets are as follows:

Land improvements	5 to 10 years
Buildings and improvements	2 to 40 years
Major moveable equipment	3 to 20 years

Note 1 Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs

Debt issuance costs are legal, accounting, underwriting fees, printing costs and other expenses associated with the issuance of the limited tax general obligation bonds such costs used to be amortized over the term of the bonds.

Leases

The District accounts for its lease agreements as capital or operating leases in accordance with the criteria established by Financial Accounting Standards Board Statement No. 13, Accounting for Leases (Note 8).

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Effective January 1, 2009, the District implemented a paid time off (PTO) policy and converted all employees into the plan. The District records PTO as an expense and current liability when earned as it is deemed a short term liability. In addition to the PTO policy, there is also an extended illness benefit, which employees can use in the event that the employee, or one of their immediate family members, suffers an extended illness or injury. However, there is no liability for extended illness benefit due to the fact that the District does not have a policy requiring payout of this benefit when an employee separates from service to the District.

Grants and Contributions

From time to time, the District receives grants from the Federal Government and the State of Washington as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues in the year received.

Note 1 Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

The District's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principle activity. Non-exchange revenues, including grants, property taxes and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Patient Service Revenues

Revenues from patient services are reported on the accrual basis in the period in which services are provided at established rates whether or not collection in full is anticipated. Contractual adjustments, the results of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual allowances include differences between established rates and amounts estimated by management as reimbursable under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual allowances.

Budgets

The budget is prepared on an annual basis for approval by the Board of Commissioners. The budget is based on historical information, forecasted service volumes and an estimated percentage increase or decrease over the prior year for inflationary purposes.

Community Care

The District provides care to patients who meet certain criteria under its community care policy without charge or at amounts less than established rates. The District maintains records to identify and monitor the level of community care provided. These records include the amount of charges foregone for services and supplies furnished under its community care policy. Charges associated with community care of $1,108,849 and $947,249 were provided for the years ended December 31, 2013 and 2012, respectively.

Note 2 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 community 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. Net patient service revenue, recognized in the period, is comprised of the following:

	Years Ended December 31,	
	2013	2012
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	$ 8,194,685	$ 4,570,576
Medicaid	2,406,619	1,961,661
Other third-party payors	6,124,746	3,922,658
Patients	2,002,790	1,507,087
Total Patient Service Revenue	**18,728,840**	**11,961,982**
Less:		
Community care	1,108,849	947,249
Provision for bad debts	2,065,933	1,364,040
Net patient service revenue	**$15,554,058**	**$ 9,650,693**

Note 2 Net Patient Service Revenue (continued)

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenues charged and reimbursement under each of the various programs are included in revenue deductions and allowances. Gross revenues billed under the programs totaled approximately $24,927,000 and $16,086,000 for 2013 and 2012, respectively.

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 by Medicare and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. 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. The District is reimbursed for physician services on a fee schedule. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare intermediary. Medicare has reviewed cost reports through 2012.

- Medicaid – Reimbursement for most inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the State of Washington. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and review thereof by the Washington State Department of Social and Health Services. The District is reimbursed for physician services on a fee schedule. Medicaid hospital cost reports have been reviewed and tentatively settled for years through 2012.

- Other Commercial Payors – 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, fee schedule, and prospectively determined daily rate.

Note 2 Net Patient Service Revenue (continued)

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.

Bad debt expense, and the allowance for bad debt, is included in the revenue deductions and allowances provision in the amount of $3,967,631 and $1,364,040 for 2013 and 2012, respectively. The cost to the District associated with these bad debts for 2013 and 2012 are estimated to be approximately $1,759,454 and $593,233, respectively.

The District's three physician clinics are certified as rural health clinics and are reimbursed by Medicare on a cost basis as defined and limited by the Medicare program. Medicaid reimburses for these services based on a prospectively established rate per visit, which is based on historical cost.

Note 3 Custodial Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District's deposits are covered up to Federal Deposit Insurance Corporation (FDIC) limit, which at times the District's accounts exceed. In addition, the District has funds invested in the Washington State Local Government Investment Pool, which is administered by the Washington Public Deposit Protection Commission (PDPC), which broadly diversifies the District's deposit sources.

The District had investments of $248,566 and $648,012 in the Washington State Local Government Investment Pool at December 31, 2013 and 2012, respectively.

Note 4 Patient Accounts Receivable

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful 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 includes 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 has not materially changed its community care or uninsured discount policies during 2013 or 2012. The District does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Note 4 Patient Accounts Receivable (Continued)

The District grants credit without collateral to its patients, most of whom are local residents and maybe insured under third-party payor agreements. No single patient comprises more than 5% of the total receivable at year-end. The mix of patient receivables at December 31 is as follows:

	2013	2012
Receivable from patients and their insurance	$5,692,474	$2,915,940
Receivable from Medicare	2,390,028	1,237,148
Receivable from Medicaid	1,570,694	1,865,613
Total patient accounts receivable	**9,653,196**	**6,018,701**
Less allowance for uncollectible amounts	(6,813,208)	(3,606,956)
Net patient accounts receivable	**$2,839,988**	**$2,411,745**

Effective December 1, 2011 the District began outsourcing the billing, credit & collections functions to Cardon Outreach, in an effort to improve collection timing and to ultimately reduce our bad debt write off amounts. Effective April 1, 2013 the assets of Cardon Outreach were sold to Integra Imaging, LLC.

Note 5 Electronic Health Records Incentive

The state has two electronic health records (EHR) incentive payment programs for Medicaid — one for providers and one for the hospital. The District recognized $63,750 and $148,750 in Medicaid incentive payments during the year ending December 31, 2013 and 2012, respectively. These funds were recognized as other operating revenues.

The hospital incentive payment from Medicaid will be applied for once the hospital achieves the meaningful use criteria. The criteria will be met when an EHR software system is acquired for the inpatient unit. To date, the hospital is able to achieve 93 percent of the meaningful use criteria via the electronic T-System in the emergency department.

In addition to the two Medicaid incentive payment programs, there is a Medicare incentive payment program. The District will receive and recognize the Medicare incentive payment when the District has successfully demonstrated meaningful use, which is expected to be completed by the October 2015 deadline.

Note 6 Taxes

During the year end December 31, 2013 and 2012, the District received approximately 4% and 7%, respectively, of its financial support from property and other taxes. The funds were used as follows:

	2013	2012
Tax income recorded as non operating revenue (expenses)	$ 737,374	$ 803,695

Property taxes are levied by the District and collected by the Grays Harbor County Treasurer. The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31; however, the Grays Harbor County Assessor's office did not finalize the assessed values until December of 2013 and 2012. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer, for the tax amount collected during the previous month.

Although, originally the District could levy up to $0.75 per $1,000 of assessed valuation for general district purposes it is no longer advised; the levy rate is restricted by the provisions of the Eyman initiatives.

For 2013, the District's regular tax levy was approximately $.583 per $1,000 on a total assessed valuation of $1,062,592,433 for a total levy of $618,966. The District received $619,055 in regular levy taxes and $118,319 in timber and other tax categories in 2013.

For 2012, the District's regular tax levy was approximately $0.615 per $1,000 on a total assessed valuation of $1,133,393,578 for a total regular levy of $696,546. The District received $608,765 in regular tax levy taxes and $194,930 in timber and other tax categories in 2012. Included in these amounts, the District also collected and paid a tax refund levy in 2012 in the amount of $82,280.

Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as non operating revenues - net. No allowance for doubtful taxes receivable is considered necessary.

Note 7 Capital Assets

Capital asset additions, transfers from construction in progress, retirements, and balances for the year ended December 31, 2013, are as follows:

	Balance January 1, 2013	Additions/ (Transfers)	Retirements	Balance December 31, 2013
Non depreciable capital assets:				
Land	$ 738,846	$ 884,759	$ --	$ 1,623,605
Construction in progress	17,312,989	(17,312,989)	--	--
Total non depreciable capital assets	**18,051,835**	**(16,428,230)**	**--**	**1,623,605**
Depreciable capital assets:				
Land improvements	65,147	- -	--	65,147
Buildings and improvements	1,120,168	17,009,839	11,353	18,118,654
Equipment	1,701,083	2,962,162	1,065,264	3,597,981
Total depreciable capital assets	**2,886,398**	**19,972,001**	**1,076,617**	**21,781,782**
Total capital assets before depreciation	**20,938,233**	**3,543,771**	**1,076,617**	**23,405,387**
Less accumulated depreciation for:				
Land improvements	40,153	4,464	--	44,617
Buildings and improvements	818,018	949,154	11,355	1,755,817
Equipment	1,530,477	484,630	1,063,795	951,312
Total accumulated depreciation	**2,388,648**	**1,438,248**	**1,075,150**	**2,751,746**
Net capital assets	**$ 18,549,585**	**$ 2,105,523**	**$ 1,467**	**$ 20,653,641**

Note 7 Capital Assets (Continued)

Capital asset additions, transfers from construction in progress, retirements, and balances for the year ended December 31, 2012, are as follows:

	Balance January 1, 2012	Additions/ Transfers	Retirements	Balance December 31, 2012
Non depreciable capital assets:				
Land	$ 738,846	$ --	$ --	$ 738,846
Construction in progress	2,293,513	15,019,476	--	17,312,989
Total non depreciable capital assets	**3,032,359**	**15,019,476**	--	**18,051,835**
Depreciable capital assets:				
Land improvements	65,147	- -	--	65,147
Buildings and improvements	1,120,168	- -	--	1,120,168
Equipment	2,082,948	10,777	392,642	1,701,083
Total depreciable capital assets	**3,268,263**	**10,777**	**392,642**	**2,886,398**
Total capital assets before depreciation	**6,300,622**	**15,030,253**	**392,642**	**20,938,233**
Less accumulated depreciation for:				
Land improvements	35,688	4,465	--	40,153
Buildings and improvements	783,150	34,868	--	818,018
Equipment	1,747,512	166,563	383,598	1,530,477
Total accumulated depreciation	**2,566,350**	**205,896**	**383,598**	**2,388,648**
Net capital assets	**$ 3,734,272**	**$ 14,824,357**	**$ 9,044**	**$ 18,549,585**

Note 8 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities

A schedule of changes in the District's noncurrent liabilities for the year ended December 31, 2013, is as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Amounts Due Within One Year
Bonds and notes payable:					
LTGO Bonds - 2001	$ 340,000	--	$ 165,000	$ 175,000	$ 175,000
LTGO Bonds - 2004	125,000	--	125,000	--	--
Note Payable - Land	350,000	--	--	350,000	350,000
LTGO Bond - 2011	9,505,500	--	10,814	9,494,686	186,665
Revenue Bond - 2011	6,011,367	3,494,133	12,534	9,492,966	186,732
LTGO Bond - 2012	--	1,048,217	20	1,048,197	184,528
Total long-term debt	**16,331,867**	**4,542,350**	**313,368**	**20,560,849**	**1,082,925**
Capital leases payable:					
CT Scan	35,142	--	35,142	--	--
Total long-term debt, capital leases payable, and other noncurrent liabilities	**$ 16,367,009**	**$4,542,350**	**$ 348,510**	**$ 20,560,849**	**$ 1,082,925**

Note 8 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (Continued)

A schedule of changes in the District's noncurrent liabilities for the year ended December 31, 2012, is as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Amounts Due Within One Year
Bonds and notes payable:					
LTGO Bonds - 2001	$ 500,000	--	$ 160,000	$ 340,000	$ 165,000
LTGO Bonds - 2004	245,000	--	120,000	125,000	125,000
Note Payable - Land	650,000	--	300,000	350,000	--
LTGO bond - 2011	258,036	9,247,464	--	9,505,500	--
Revenue Bond - 2011	--	6,011,367	--	6,011,367	--
Total long-term debt	**1,653,036**	**15,258,831**	**580,000**	**16,331,867**	**290,000**
Capital leases payable:					
CT Scan	167,692	--	132,550	35,142	35,142
Total long-term debt, capital leases payable, and other noncurrent liabilities	**$ 1,820,728**	**$15,258,831**	**$ 712,550**	**$ 16,367,009**	**$ 325,142**

The terms and due dates of the District's long-term debt, including capital lease obligations, at December 31, 2013 and 2012, follows:

Long-Term Debt

Limited Tax General Obligation Bonds (LTGO Bonds – 2001), dated April 16, 2001, payable in varying principal installments on December 1 of $150,000 in 2011 to $175,000 in 2014, plus semiannual interest at rates from 4.75% to 5.45% payable June 1 and December 1 of each year. This bond is due in full on December 1, 2014.

Note 8 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (Continued)

Limited Tax General Obligation Bonds (LTGO Bonds -2004), dated February 24, 2004, payable in varying principal installments on December 1 of $120,000 in 2011 to $125,000 in 2013, plus semiannual interest at rates from 3.00% to 4.00% payable June 1 and December 1 of each year. This bond was paid in full during 2013.

Note payable to Grays Harbor County (Note Payable – Land), dated October 29, 2010, payable in three installments of $250,000 on October 29, 2010; $300,000 on October 31, 2012; and $350,000 on October 31, 2014, for purchase of land for the new facility.

Limited Tax General Obligation Bond (LTGO Bond -2011) dated October 28, 2011, is payable in 2 annual varying interest only payments followed by 56 $275,660 semiannual principal and interest payments, beginning October of 2012. The interest rate on the bond is locked in at 3.75% and is due in full by October 28, 2041. The initial two interest payment amounts will be determined at the time the required interest payment is due, based on the timing and amount of each individual draw on this bond. The maximum amount available on this bond is $9,505,500. The District drew the full amount available on this bond to construct the replacement facility in Elma, WA which was completed in early 2013.

Revenue Bond (Revenue Bond - 2011), dated October 28, 2011, due in 2 annual varying interest only payments followed by 56 $275,660 semi-annual principal and interest payments, beginning October of 2012. The interest rate on the bond is locked in at 3.75% and is due in full by October 28, 2041. The initial two interest payment amounts will be determined at the time the required interest payment is due, based on the timing and amount of each individual draw on this bond. The maximum amount available on this bond is $9,505,500. The District drew the full amount available on this bond to construct the replacement facility in Elma, WA, which was completed in early 2013.

Notes to Financial Statements

Note 8 Long-Term Debt, Capital Leases Payable, and Other Noncurrent Liabilities (Continued)

Limited Tax General Obligation Bond (LTGO-Bond 2012) dated October 1, 2012 is payable in one annual varying interest payment followed by 22, $118,396 semi-annual payments, beginning October 1, 2013, the interest rate on the bond is locked in at a rate of 3.375%. This bond is backed by the regular annual tax levy. The maximum amount available on this bond is $2,160,500 and as of December 31, 2013 the District had drawn only $1,048,217. However, the District anticipates using the full loan amount available, and the funds will be used towards the replacement facility.

Capital Leases Payable

Lease obligation to Shared Imaging (CT Scan), due in varying monthly installments of $2,000 from November 2007 to January 2008, $18,900 from February 2008 through November 2008, and $11,900 from December 2008 through April 2013, including interest at 9.91%. This lease also requires the District to pay $8,588 each month towards sales tax and maintenance fees on this piece of equipment. The lease obligation was fulfilled in 2013 and the District released the collateralized equipment back to the Shared Imaging.

Scheduled principal and interest payments on long-term debt as follows:

	Bonds & Notes Payable		
Years Ending December 31	Principal	Interest	Total
2014	$ 1,082,926	$ 791,044	$ 1,873,970
2015	$ 579,937	$ 759,495	$ 1,339,432
2016	$ 601,234	$ 738,198	$ 1,339,432
2017	$ 623,315	$ 716,117	$ 1,339,432
2018	$ 646,208	$ 693,224	$ 1,339,432
2019-2023	$ 3,605,050	$ 3,092,110	$ 6,697,160
2024-2028	$ 3,281,449	$ 2,441,060	$ 5,722,509
2029-2033	$ 3,705,250	$ 1,807,950	$ 5,513,200
2034-2038	$ 4,461,631	$ 1,051,569	$ 5,513,200
2039-2043	$ 3,086,131	$ 204,887	$ 3,291,018
TOTAL	$21,673,133	$12,295,652	$33,968,785

Note 9 Pension Plan

The District maintains a defined contribution pension plan under the Internal Revenue Code Section 401(a) Money Purchase Plan. The administrator of the plan is Principal Financial Group. Effective January 1, 2010 all new hires plus all employees under fifty years of age cannot participate in the Money Purchase Plan, they must participate in social security under the Federal Insurance Contributions Act (FICA). Employees fifty and older on January 1, 2010 had the option to continue in the Money Purchase Plan or to participate in social security. Under the terms of the plan, the employee contributes 3.85% and the District contributes 3.65%. This plan includes a 414(h) pick-up contribution feature which requires eligible employees after three years of service to contribute an additional 3.50% and the District increases its contribution an additional 5.00%. Pension plan expense was $36,867 and $41,500 for the years ended December 31, 2013 and 2012, respectively. Participants of this plan who could no longer participate were able to leave their funds in the plan.

Note 10 Deferred Compensation Plans

457(b) Plan

The District offers employees the option to participate in a deferred compensation plan under Section 457(b). The plan is administered by Principal Financial Group. The plan is available to those employees that are benefit eligible. Through December 31, 2012, the plan only allowed for employee deferrals to be contributed. However, effective January 1, 2013, the District amended the plan to allow a discretionary employer matching contribution. Eligible participants can contribute to the plan 100% of their compensation up to the maximum annual IRS limit. Participants are fully vested in their salary deferrals as well as the District's discretionary employer matching contribution. Participant contributions to the plan during the years ending December 31, 2013 and 2012 were $145,563 and $149,517, respectively. The District accrued employer matching contributions to the plan of $37,528 for the year ending December 31, 2013, which was subsequently paid in March 2014.

iSERP Plan

The District offers an Individual Secured Executive Reward program (iSERP) for the executives and providers as a way to recruit and retain key positions that are essential to the organization. Participants contribute to this plan on an after-tax basis. The plan is administered by New York Life, and became effective on July 1, 2012. Employees of the District who are participating in both the iSERP and 457(b) plans are only eligible to receive the iSERP matching contribution. The District's match is calculated as follows:

Years of Service	District Match for CEO & Providers	District Match for Executive Team and Others appointed by E-Team (except CEO)
0 - 4.9 Years	100% of employee deferrals up to 2.25% of the employees prior year Box 1 W-2 wages	100% of employee deferrals up to 1.5% of the employees prior year Box 1 W-2 wages
5 - 9.9 Years	100% of employee deferrals up to 3.75% of the employees prior year Box 1 W-2 wages	100% of employee deferrals up to 2.5% of the employees prior year Box 1 W-2 wages
10+ Years	100% of employee deferrals up to 4.5% of the employees prior year Box 1 W-2 wages	100% of employee deferrals up to 3.0% of the employees prior year Box 1 W-2 wages

The District accrued employer matching contributions to the iSERP Plan of $24,129 and $40,938 for the year ended December 31, 2013 and 2012, respectively. These contributions were subsequently paid in the following year.

Note 11 Risk Management and Contingent Liability

Medical Malpractice Claims

The District is one of a number of Washington hospitals who are members of the Washington Casualty Company (WCC). WCC is a wholly owned subsidiary of FinCor Holdings, Inc.

WCC policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The current malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $ 5,000,000. There are no significant deductible or coinsurance clauses. 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.

The District is also exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years

Note 11 Risk Management and Contingent Liability (Continued)

Industry Regulations

The health care 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 health care 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 health care providers. Violations of these laws and regulations could result in expulsion from government health care 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.

Health Care Reform

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States of America's health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal health care reform legislation does not affect the 2013 financial statements.

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.

Note 11 Risk Management and Contingent Liability (Continued)

Medicaid

As a result of the Washington State budget situation, Medicaid reimbursement for the District may be significantly reduced in the future. The potential Medicaid reductions do not affect the 2013 financial statements.

Workers Compensation

The District has a self-insured workers' compensation plan through the Public Hospital District Workers' Compensation Trust which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers' compensation expense were approximately $121,000 and $89,000 in 2013 and 2012, respectively.

Unemployment Insurance

The District has a self-insured unemployment plan through the Public Hospital District Unemployment Compensation Trust which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to unemployment insurance expense were approximately $73,000 and $51,500 in 2013 and 2012, respectively.

Related Party Transactions

The District leases medical office space for one of the rural health clinics from Blue Lady, LLC. Blue Lady, LLC is 50% owned by one of the District's providers. The lease agreement requires monthly payments in the amount of $4,987.50. A total of $59,850 was paid to Blue Lady, LLC during the years ending 2013 and 2012. The initial lease agreement for this space expires on February 28, 2014. Subsequent to year end a new lease agreement was entered to, which commenced on March 1, 2014 through February 28, 2017. The payment terms in the new lease agreement remained the same.

Note 12 Concentration of Risk

Receivables

The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Eastern Grays Harbor County.

The mixes of receivables from patients at the years ending were as follows:

	2013	2012
Medicare	25%	21%
Medicaid	16%	31%
Other third-party payors	19%	30%
Patients	40%	18%
Total	**100%**	**100%**

Physicians

The District is dependent on local physicians, nurse practitioners, and physician assistants practicing in its service area to provide healthcare and utilize hospital services. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

Note 13 Non Operating Revenues (Expenses)

Total non operating revenues (expenses) for the years ended 2013 and 2012 were as follows:

	2013	2012
Property and other taxes	$737,374	$803,695
Interest income	2,178	1,898
Income on sale of equipment	5,575	--
Loss on disposal of assets	(1,467)	(9,044)
Interest	(646,305)	(60,959)
Misc unclaimed property refund	--	1,755
Rental income	14,431	14,010
Noncapital grants and contributions	267,263	93,205
Misc income recorded	13,197	--
Total non operating revenues (expenses)	**$392,246**	**$844,560**

MCAG NO. 0501

Grays Harbor County Public Hospital District No. 1

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award I.D. Number	Expenditures			Foot Note Ref.
				From Pass-Through Awards	From Direct Awards	Total Amount	
U.S. Department of Agriculture	Community Facilities loans and grants	10.766	N/A	$ -	$ 4,646,891	$ 4,646,891	1,2,3,5
State of Washington Department of Health	Small Rural Hospital Improvement Grant Program	93.301	contract N19838	$ -	$ 9,000	$ 9,000	1,2,4,5
Total Federal Awards Expended:					$ 4,655,891	$ 4,655,891	

GRAYS HARBOR COUNTY, WASHINGTON

Grays Harbor County Public Hospital District No. 1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The expenditure amount shown represents only the federal loan or grant portion of the program costs. Entire program costs, including the District's contribution, are more than shown. The total expenditures of federal awards, based on the basis of accounting noted above, were $4,655,891 for fiscal year ending 2013.

The $4,655,891 of 2013 expenditures also includes $1,573,859 worth of 2012 related expenditures that were not accrued for in the fiscal year 2012 due to the District reporting on the cash basis of accounting for the fiscal year ending 2012.

NOTE 3 - FEDERAL LOANS

(a) The District was approved by the USDA Rural Housing Service to receive a Limited Tax General Obligation bond loan totaling $9,505,500 to pay part of the costs for a replacement hospital and rural health clinic facility.

(b) The District was approved by the USDA Rural Housing Service to receive a Revenue bond loan totaling $9,505,500 to pay part of the costs for a replacement hospital and rural health clinic facility.

(c) The District was approved by the USDA Rural Housing Service to receive a subsequent Limited Tax General Obligation bond loan totaling $2,160,500 to pay part of the costs for a replacement hospital and rural health clinic facility.

The amount listed for each loan includes the proceeds received during the year and the outstanding loan balance from prior years. Both the current and prior year loans are also reported on the District's notes to the financial statements (Note 8).

NOTE 4 - FEDERAL GRANTS

(a) The District applied and was awarded by the Department of Health for a Statewide Health Improvement Program grant in the amount of $9,000.

The amount listed for each grant is recorded as other operating income on the Statements of Revenues, Expenses, and Changes in Fund Net Position.

NOTE 5 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for this project were ***not*** funded by ARRA. Rather, the funds used were direct loan financing.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office

Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov