



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

**Financial Statements Audit Report**  
**Pacific County Public Hospital**  
**District 2**  
**(Willapa Harbor Hospital)**

**For the period January 1, 2015 through December 31, 2016**

**Published February 26, 2018**

**Report No. 1020863**





## Office of the Washington State Auditor

**Pat McCarthy**

February 26, 2018

Board of Commissioners  
Willapa Harbor Hospital  
South Bend, Washington

### **Report on Financial Statements**

Please find attached our report on Willapa Harbor Hospital's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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**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**

**Willapa Harbor Hospital  
Pacific County  
January 1, 2015 through December 31, 2016**

Board of Commissioners  
Willapa Harbor Hospital  
South Bend, 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 Willapa Harbor Hospital, Pacific County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 21, 2018. The District has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

**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 audits 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 audits, 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.



Pat McCarthy

State Auditor

Olympia, WA

February 21, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Willapa Harbor Hospital Pacific County January 1, 2015 through December 31, 2016**

Board of Commissioners  
Willapa Harbor Hospital  
South Bend, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Willapa Harbor Hospital, Pacific County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

#### **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 opinions 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 opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willapa Harbor Hospital, as of December 31, 2016 and 2015, 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 and required supplementary information listed on page 9 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 audits 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.

Management has omitted the management's discussion and analysis, information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.



Pat McCarthy  
State Auditor  
Olympia, WA

February 21, 2018



## FINANCIAL SECTION

**Willapa Harbor Hospital  
Pacific County  
January 1, 2015 through December 31, 2016**

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016 and 2015  
Statement of Revenues, Expenses and Changes in Net Position – 2016 and 2015  
Statement of Cash Flows – 2016 and 2015  
Notes to Financial Statements – 2016 and 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Changes in the Net Pension Liability– 2016 and 2015  
Schedule of Employer Contributions – 2016 and 2015  
Schedule of Investment Returns – 2016 and 2015

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,757,417	\$ 860,486
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$585,000 and \$541,000, respectively	1,939,851	1,789,688
Estimated third-party payor settlements	-	379,573
Taxes	52,229	51,006
Taxes restricted for debt service	33,003	34,225
Other	54,831	-
Inventories	160,114	158,157
Prepaid expenses	45,685	61,121
Total current assets	4,043,130	3,334,256
<i>Noncurrent assets</i>		
Cash and cash equivalents designated for capital acquisitions	130,000	130,000
Cash and cash equivalents restricted for debt service and capital acquisitions	1,487,308	1,425,375
Capital assets, net of accumulated depreciation	3,214,085	3,628,958
Total noncurrent assets	4,831,393	5,184,333
Total assets	8,874,523	8,518,589
<i>Deferred outflows of resources</i>		
Pension plan	274,855	7,155
Deferred charge on debt refunding	26,875	32,296
Total deferred outflows of resources	301,730	39,451
<b>Total assets and deferred outflows of resources</b>	<b>\$ 9,176,253</b>	<b>\$ 8,558,040</b>

*See accompanying notes to basic financial statements.*

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Statements of Net Position (Continued)**  
**December 31, 2016 and 2015**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 362,582	\$ 548,538
Current maturities of capital lease obligations	135,140	208,297
Accounts payable	115,766	107,235
Accrued compensation and related liabilities	1,439,598	1,270,079
Accrued interest payable	4,872	5,604
Estimated third-party payor settlements	82,905	119,943
Total current liabilities	2,140,863	2,259,696
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	1,522,895	1,879,936
Capital lease obligations, less current maturities	375,369	349,306
Net pension liability	3,097,975	2,588,844
Total noncurrent liabilities	4,996,239	4,818,086
Total liabilities	7,137,102	7,077,782
<i>Deferred inflows of resources, pension plan</i>	43,232	50,399
<i>Net position</i>		
Net investment in capital assets	840,102	669,573
Restricted for debt service	1,520,311	1,459,600
Unrestricted	(364,494)	(699,314)
Total net position	1,995,919	1,429,859
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 9,176,253</b>	<b>\$ 8,558,040</b>

*See accompanying notes to basic financial statements.*

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$475,000 and \$530,000, respectively	\$ 18,580,425	\$ 16,804,282
Grants	30,259	32,918
Other	178,045	128,758
<b>Total operating revenues</b>	<b>18,788,729</b>	<b>16,965,958</b>
<i>Operating expenses</i>		
Salaries and wages	10,625,019	9,980,716
Employee benefits	3,261,161	3,196,298
Professional fees	1,005,782	1,023,796
Supplies	1,269,135	1,359,973
Purchased services	1,227,374	1,188,075
Utilities	284,251	290,405
Repairs and maintenance	106,392	102,887
Depreciation and amortization	929,877	891,828
Insurance	109,742	114,334
Leases and rentals	108,624	85,722
Other	511,777	469,723
<b>Total operating expenses</b>	<b>19,439,134</b>	<b>18,703,757</b>
<i>Operating loss</i>	<b>(650,405)</b>	<b>(1,737,799)</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	843,549	849,190
Taxation for bond principal and interest	455,854	440,277
Contributions	6,163	2,613
Interest income	13,816	5,197
Interest expense	(102,917)	(114,382)
<b>Total nonoperating revenues (expenses), net</b>	<b>1,216,465</b>	<b>1,182,895</b>
<i>Change in net position</i>	<b>566,060</b>	<b>(554,904)</b>
<i>Net position, beginning of year</i>	<b>1,429,859</b>	<b>1,984,763</b>
<b>Net position, end of year</b>	<b>\$ 1,995,919</b>	<b>\$ 1,429,859</b>

See accompanying notes to basic financial statements.

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 18,772,797	\$ 16,469,391
Receipts from operating grants	30,259	32,918
Receipts from other revenue	123,214	128,758
Payments to and on behalf of employees	(13,482,397)	(12,606,527)
Payments to suppliers and contractors	(4,601,067)	(4,656,873)
Net cash provided by (used in) operating activities	<b>842,806</b>	<b>(632,333)</b>
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	842,326	849,993
Noncapital contributions	6,163	2,613
Net cash provided by noncapital financing activities	<b>848,489</b>	<b>852,606</b>
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	457,076	444,031
Purchase of capital assets	(346,284)	(365,354)
Principal paid on capital lease obligations	(215,814)	(188,986)
Principal paid on long-term debt	(548,538)	(568,049)
Interest paid on long-term debt	(92,687)	(103,420)
Net cash used in capital and related financing activities	<b>(746,247)</b>	<b>(781,778)</b>
<i>Cash flows from investing activities, interest received</i>	<b>13,816</b>	<b>5,197</b>
<i>Net increase (decrease) in cash and cash equivalents</i>	<b>958,864</b>	<b>(556,308)</b>
<i>Cash and cash equivalents, beginning of year</i>	<b>2,415,861</b>	<b>2,972,169</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,374,725</b>	<b>\$ 2,415,861</b>

*See accompanying notes to basic financial statements.*

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 1,757,417	\$ 860,486
Noncurrent assets:		
Designated for capital acquisitions	130,000	130,000
Restricted for debt service and capital acquisitions	1,487,308	1,425,375
<b>Total cash and cash equivalents</b>	<b>\$ 3,374,725</b>	<b>\$ 2,415,861</b>
<b><i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i></b>		
Operating loss	\$ (650,405)	\$ (1,737,799)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Provision for bad debts	475,348	530,241
Depreciation and amortization	929,877	891,828
Decrease (increase) in:		
Patient accounts receivable	(625,511)	(453,898)
Estimated third-party payor settlements	379,573	(379,573)
Other receivables	(54,831)	-
Inventories	(1,957)	30,906
Prepaid expenses	15,436	(21,827)
Deferred outflows of resources, pension plan	(267,700)	(7,155)
Increase (decrease) in:		
Accounts payable	8,531	(31,037)
Accrued compensation and related liabilities	169,519	132,282
Estimated third-party payor settlements	(37,038)	(31,661)
Net pension liability	509,131	394,961
Deferred inflows of resources, pension plan	(7,167)	50,399
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 842,806</b>	<b>\$ (632,333)</b>

***Noncash Capital and Related Financial Activity***

During the years ended December 31, 2016 and 2015, the District entered into capital lease obligations of \$168,720 and \$331,000, respectively, for equipment.

*See accompanying notes to basic financial statements.*

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity, Related Organization, and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Pacific County Public Hospital District No. 2 (the District) owns and operates Willapa Harbor Hospital, Pacific Family Health Center, and South Bend Walk-in Clinic, a critical access hospital, rural health clinic, and physicians' clinic, in South Bend, Washington.

The District provides healthcare services to patients in north Pacific County. The services provided include an acute care hospital, inpatient and outpatient surgery, emergency room, primary care physician, and the related ancillary procedures (laboratory, imaging, therapy, etc.).

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The District is a municipal corporation governed by an elected five-member board of commissioners.

**b. Related Organization:**

Willapa Independent Senior Housing doing business as Alder House (the Corporation), formed in 1994, is a separate tax-exempt Washington corporation. The Corporation is not considered an entity that must be consolidated with the District for financial statement purposes. The Corporation owns and operates an assisted living facility for the elderly. The Corporation is governed by a five-member board of which three are community members, one is a District commissioner, and one is the District's administrator. The District has agreed to lease land adjacent to its facilities for \$100 per month for 52 years.

**c. Summary of Significant Accounting Policies:**

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

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

***Cash and cash equivalents*** – All cash receipts are deposited directly to the District's depository accounts with the Pacific County Treasurer. Periodically, such cash is transferred to the operating accounts and the warrants are issued by the County Treasurer against these accounts. For purposes of the statement of cash flows, the District considers all cash and cash investments with original maturity dates of fewer than 90 days as cash and cash equivalents.

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

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**1. Reporting Entity, Related Organization, and Summary of Significant Accounting Policies (continued):**

**c. Summary of Significant Accounting Policies (continued)**

*Assets limited as to use* – Assets limited as to use include assets set aside by the Board of Commissioners for specific purposes over which the Board retains control and could subsequently use for other purposes.

*Compensated absences* – The District’s employees earn annual leave (vacation, sick leave, and holiday) at varying rates depending on the number of hours worked and years of service. Employees accrue annual leave from the date of hire but may not utilize it until they have completed a ninety-day probationary period. Annual leave earned, but not used, is paid upon termination. The related liability is accrued during the period in which it is earned.

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

*Operating revenues and expenses* – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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

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

*Reclassifications* – Certain reclassifications of the 2015 amounts have been made in the financial statements in order to conform to the 2016 presentation. These presentations had no effect on the previously reported change in net position.

*Subsequent events* – The District has evaluated subsequent events through May 31, 2017, the date on which the financial statements were available to be issued



**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**2. Deposits and Investments:**

The *Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. All final decisions regarding the purchase and sale of investment securities remain with the District's Board. The District maintains an investment policy designed to maximize return and limit the following types of risk:

***Custodial credit risk*** – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation, or by collateral held in multiple financial institution collateral pools administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

***Credit risk*** – The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a policy specifically requiring or limiting types of investments.

***Concentration of credit risk*** – The risk of the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a specific policy limiting the amount it may invest in any one issuer or multiple issuers.

***Interest rate risk*** – The risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Amounts invested in the Washington State Local Government Investment Pool as of December 31, 2016 and 2015, were approximately \$3,076,000 and \$2,416,000, respectively.

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**3. Patient Accounts Receivable:**

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

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	<b>2016</b>	<b>2015</b>
Patients and their insurance carriers	\$ 1,745,866	\$ 1,603,741
Medicare	738,669	682,106
Medicaid	39,908	44,740
Total patient accounts receivable	<b>2,524,443</b>	2,330,587
Less allowance for uncollectible accounts	<b>584,592</b>	540,899
<b>Patient accounts receivable, net</b>	<b>\$ 1,939,851</b>	<b>\$ 1,789,688</b>

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Capital Assets:**

The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least three years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives have been estimated as follows:

Land improvements	8-25 years
Buildings	5-40 years
Fixed and major movable equipment	3-25 years

Capital assets additions, retirements, transfers, and balances are as follows:

	Balance December 31,					Balance December 31,
	2015	Additions	Retirements	Transfers		2016
<i>Capital assets not being depreciated</i>						
Land	\$ 34,261	\$ -	\$ -	\$ -	\$	34,261
Construction in progress	404,963	72,665	-	(477,628)		-
Total capital assets not being depreciated	439,224	72,665	-	(477,628)		34,261
<i>Capital assets being depreciated</i>						
Land improvements	202,422	13,388	(15,000)	-		200,810
Buildings	6,663,572	-	(12,327)	475,828		7,127,073
Fixed equipment	553,778	15,983	-	-		569,761
Major movable equipment	5,004,959	412,968	(1,152,231)	1,800		4,267,496
Total capital assets being depreciated	12,424,731	442,339	(1,179,558)	477,628		12,165,140
<i>Less accumulated depreciation for</i>						
Land improvements	180,353	13,970	(15,000)	-		179,323
Buildings	4,739,194	278,354	(12,327)	-		5,005,221
Fixed equipment	431,693	17,954	-	-		449,647
Major movable equipment	3,883,757	619,599	(1,152,231)	-		3,351,125
Total accumulated depreciation	9,234,997	929,877	(1,179,558)	-		8,985,316
Total capital assets being depreciated, net	3,189,734	(487,538)	-	477,628		3,179,824
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 3,628,958</b>	<b>\$ (414,873)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$</b>	<b>3,214,085</b>

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Capital Assets (continued):**

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 34,261	\$ -	\$ -	\$ -	\$ 34,261
Construction in progress	3,556	450,378	-	(48,971)	404,963
<b>Total capital assets not being depreciated</b>	<b>37,817</b>	<b>450,378</b>	<b>-</b>	<b>(48,971)</b>	<b>439,224</b>
<i>Capital assets being depreciated</i>					
Land improvements	202,422	-	-	-	202,422
Buildings	6,641,281	22,291	-	-	6,663,572
Fixed equipment	471,956	81,822	-	-	553,778
Major movable equipment	4,814,125	141,863	-	48,971	5,004,959
<b>Total capital assets being depreciated</b>	<b>12,129,784</b>	<b>245,976</b>	<b>-</b>	<b>48,971</b>	<b>12,424,731</b>
<i>Less accumulated depreciation for</i>					
Land improvements	174,342	6,011	-	-	180,353
Buildings	4,484,439	254,755	-	-	4,739,194
Fixed equipment	416,872	14,821	-	-	431,693
Major movable equipment	3,267,516	616,241	-	-	3,883,757
<b>Total accumulated depreciation</b>	<b>8,343,169</b>	<b>891,828</b>	<b>-</b>	<b>-</b>	<b>9,234,997</b>
<b>Total capital assets being depreciated, net</b>	<b>3,786,615</b>	<b>(645,852)</b>	<b>-</b>	<b>48,971</b>	<b>3,189,734</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 3,824,432</b>	<b>\$ (195,474)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,628,958</b>

**Pacific County Public Hospital District No. 2  
doing business as Willapa Harbor Hospital  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**5. Defined Benefit Retirement Plan:**

*Plan description* – The Pacific County Public Hospital District No. 2 – Willapa Harbor Retirement Plan (the Plan) was a single employer defined benefit pension plan. The Plan is administered by Principal Financial Group. Actuarial valuations for the Plan are performed annually. Benefit provisions were established and can be amended by the Board of Commissioners.

The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

*Benefits provided* – Effective December 31, 2006, no new participants could enter the Plan. Prior to December 31, 2006, all full-time employees of the District age 21 or older with more than six months of eligible service were eligible to participate in the Plan on the first day of the month which coincides with, or next following, their first day of employment.

Pension provisions include death benefits for the surviving spouse. The Plan does not provide a monthly income for disabled participants; however, under certain conditions, employees who become disabled may be eligible to receive their full retirement at age 55 even though they were unable to work up to the retirement age. Benefits vest at 100% after six years of service.

Employees covered by the Plan as of June 30, 2016 and 2015, were as follows:

	2016	2015
Active plan members	14	15
Inactive plan members entitled to but not yet receiving benefits	8	8
Inactive plan members or beneficiaries currently receiving benefits	23	22
	<b>45</b>	<b>45</b>

*Contributions* – The Plan has not been terminated or settled as defined by generally accepted accounting principles because the Plan participants have received neither lump-sum nor annuity contracts in exchange for their rights to receive pension benefits. Since the Plan has been frozen, there is no annual required contribution, but the unfunded portion (the District’s liability) is actuarially calculated each year.

No contributions were required (required contribution rate of zero) during the plan years ended June 30, 2016 and 2015. Further, no contributions were made to the Plan by the District in the 2016 or 2015 plan years. The Board of Commissioners established, and has the authority to amend the District’s obligation to contribute, but statutory requirements make the District liable for the unfunded portion of the Plan.

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Defined Benefit Retirement Plan (continued):**

*Net Pension Liability* – The District’s net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability in the June 30, 2016 and 2015, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases, including inflation	3.0%
Investment rate of return, net of plan investment expenses, including inflation	6.5%

The actuarial assumptions used in the June 30, 2016 and 2015, valuations was based on the results of an actuarial studies for the periods July 1, 2014 through June 30, 2015 and July 1, 2015 through June 30, 2016. In addition, mortality rates were based on the RP-2000 Combined Healthy Unisex Tables for Males and Females.

The Plan used the *Individual Entry Age Normal Cost Method*. This method determines the contribution levels for the Plan. Contribution levels comprise two components:

- Normal Cost
- Amortization Payments

The normal cost is the ongoing annual cost assigned to the coming plan year by the funding method. Under the *Individual Entry Age Normal Cost Method*, the cost assigned to each individual active participant is the level percentage of compensation needed each year from the participant’s plan entry date through the participant’s entire expected career in order to fund all future benefits. The sum of these individual costs equals the normal cost. If the active participant group characteristics remain nearly the same from year to year, the normal cost amount can be expected to remain approximately level from year to year.

Amortization payments are calculated as the amounts needed to fund the unfunded actuarial accrued liability, together with interest, in equal annual installments over a rolling amortization period equal to the average expected remaining service period for active plan participants.

The unfunded actuarial accrued liability is determined on the valuation date by calculating the individual entry age normal accrued liability at that date and subtracting the actuarial value of assets, but no less than zero.

The target allocation and best estimates of arithmetic real rates of return for each major asset class at June 30, 2016, are summarized as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Equity	68%	6.5%
Fixed income	30%	6.5%
Guaranteed interest	2%	6.5%
<b>Total</b>	<b>100%</b>	

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Defined Benefit Retirement Plan (continued):**

**Discount rate** – Assuming employees continue to contribute 4% of pay and the District contributes the lesser of the actuarially determined contribution and \$300,000 per year beginning with the June 30, 2017, plan year, the Plan’s projected fiduciary net position is insufficient to make all projected future benefit payments of current plan participants. Projected benefit payments expected to be paid after funds become insufficient were discounted based on the Fidelity General Obligation AA-20-year Bond index.

**Changes in the District’s Net Pension Liability** – Changes in the District’s net pension liability for the years ended June 30, 2016 and 2015, are as follows:

	<b>2016</b>	<b>2015</b>
<b>Change in total pension liability</b>		
Total pension liability at beginning of year	\$ 6,158,062	\$ 5,953,700
Service cost at beginning of year	41,957	46,568
Interest	392,992	380,567
Differences between expected and actual experience	106,845	17,233
Change in assumptions	(11,978)	-
Benefit payments, including refunds of employee contributions	(256,315)	(240,006)
<b>Total pension liability at end of year</b>	<b>6,431,563</b>	<b>6,158,062</b>
<b>Change in plan fiduciary net position</b>		
Plan fiduciary net position at beginning of year	3,569,218	3,481,859
Contributions - employees	51,391	54,382
Net investment income	(21,035)	282,654
Benefit payments, including refunds of employee contributions	(256,315)	(240,006)
Administrative expenses	(9,671)	(9,671)
<b>Plan fiduciary net position at end of year</b>	<b>3,333,588</b>	<b>3,569,218</b>
<b>Net pension liability</b>	<b>\$ 3,097,975</b>	<b>\$ 2,588,844</b>
<b>Plan fiduciary net position as % of total pension liability</b>	<b>51.83%</b>	<b>57.96%</b>
<b>Net pension liability as % of covered payroll</b>		
Covered-employee payroll	\$ 1,284,776	\$ 1,359,550
Net pension liability as % of covered payroll	241.13%	190.42%

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Defined Benefit Retirement Plan (continued):**

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents the net pension liability calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>Discount Rate</b>	<b>Net Pension Liability</b>
1% decrease	5.50%	\$ 3,745,791
Current discount rate	6.50%	\$ 3,097,975
1% increase	7.50%	\$ 2,543,804

*Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources* – The District recognized pension expense of \$264,264 and \$162,769 for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ (43,232)
Changes in assumptions and other inputs	244,855	-
The District's contributions subsequent to the measurement date	30,000	-
<b>Total</b>	<b>\$ 274,855</b>	<b>\$ (43,232)</b>

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ (50,399)
Changes in assumptions and other inputs	7,155	-
<b>Total</b>	<b>\$ 7,155</b>	<b>\$ (50,399)</b>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Years ending December 31,</b>		
2017	\$	79,526
2018		36,499
2019		36,500
2020		49,098
<b>Total</b>	<b>\$</b>	<b>201,623</b>



**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**6. Defined Contribution Retirement Plan:**

The District contributes to the Willapa Harbor Hospital 403(b) Savings and Retirement Plan (the 403(b) Plan), a deferred compensation retirement plan. This employer-sponsored 403(b) Plan is administered by American Funds. Benefit terms, inclusion contribution requirements, for the 403(b) Plan are established and amended by the District. The District has approved for all employees who are members a 1% contribution on all eligible compensation. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2016 and 2015, employee contributions to the 403(b) plan were approximately \$569,000 and \$544,000, and the District's contributions to the 403(b) Plan were approximately \$284,000 and \$262,000, respectively.

All contributions to the 403(b) Plan are immediately 100% vested.

**7. Long-term Debt and Capital Lease Obligations:**

A schedule of changes in the District's noncurrent liabilities is as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Long-term debt</i>					
2012 unlimited tax general obligation bonds	\$ 2,210,000	\$ -	\$ (345,000)	\$ 1,865,000	\$ 355,000
2011 limited tax general obligation bonds	196,572	-	(196,572)	-	-
Note payable	55,953	-	(6,966)	48,987	7,582
Unamortized bond discount	(34,051)	-	5,541	(28,510)	-
<i>Capital lease obligations</i>	557,603	168,720	(215,814)	510,509	135,140
<b>Total noncurrent liabilities</b>	<b>\$ 2,986,077</b>	<b>\$ 168,720</b>	<b>\$ (758,811)</b>	<b>\$ 2,395,986</b>	<b>\$ 497,722</b>

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
<i>Long-term debt</i>					
2012 unlimited tax general obligation bonds	\$ 2,545,000	\$ -	\$ (335,000)	\$ 2,210,000	\$ 345,000
2011 limited tax general obligation bonds	423,220	-	(226,648)	196,572	196,572
Note payable	62,354	-	(6,401)	55,953	6,966
Unamortized bond discount	(39,592)	-	5,541	(34,051)	-
<i>Capital lease obligations</i>	415,589	331,000	(188,986)	557,603	208,297
<b>Total noncurrent liabilities</b>	<b>\$ 3,406,571</b>	<b>\$ 331,000</b>	<b>\$ (751,494)</b>	<b>\$ 2,986,077</b>	<b>\$ 756,835</b>

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

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

- Unlimited Tax General Obligation (UTGO) Bonds dated February 2, 2014, in the original amount of \$3,535,000. The bonds are due in varying principal installments from \$355,000 to \$390,000, plus interest varying from 2% to 3% through November 2021. The District issued the bonds to refund a portion of the outstanding 2001 UTGO Bonds; all previously issued to pay costs of capital improvements and to finance expansion of the District's facilities. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due.

The UTGO Bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a tax upon the taxable property within the District.

- Limited Tax General Obligation (LTGO) Bonds dated December 1, 2011, in the original amount of \$1,079,995. The bonds were paid in full in 2016.
- Note payable to Dr. Hing dated May 10, 2002, in the original amount of \$110,000, payable in monthly installments of \$955, including interest at 8.5% through April 2022, secured by property.
- Capital lease obligation payable to Toshiba America Medical Credit dated January 2012, payments of \$10,165 due monthly, including interest at 3.78% through December 2016, secured by a CT unit. At December 31, 2016, the capitalized cost and accumulated amortization of the related equipment were \$556,668 and \$547,390, respectively.
- Capital lease obligation payable to BioMerieux dated July 2014, payments of \$768 due monthly, including interest at 6% through August 2019, secured by a microbiology analyzer. At December 31, 2016, the capitalized cost and accumulated amortization of the related equipment were \$39,749 and \$13,390, respectively.
- Capital lease obligation payable to Kingsbridge dated September 2014, payments of \$3,151 due monthly, including interest at 6.13% through September 2019, secured by a telemetry unit. At December 31, 2016, the capitalized cost and accumulated amortization of the related equipment were \$162,454 and \$59,137, respectively.
- Capital lease obligation payable to Kansas State Bank dated December 2015, payments of \$36,871 due bi-annually, including interest at 4.92% through December 2020, secured by an x-ray machine. At December 31, 2016, the capitalized cost and accumulated amortization of the related addition were \$475,829 and \$23,791, respectively.
- Capital lease obligation payable to Everbank dated July 2017, payments of \$3,145 due monthly, including interest at 4.5% through September 2021, secured by a mammography machine. At December 31, 2016, the capitalized cost and accumulated amortization of the related equipment were \$167,820 and \$8,749, respectively.

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

UTGO Bond debt is due as follows:

<b>Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2017	\$ 355,000	\$ 46,838	\$ 401,838
2018	365,000	39,738	404,738
2019	375,000	31,525	406,525
2020	380,000	22,150	402,150
2021	390,000	11,700	401,700
	<b>\$ 1,865,000</b>	<b>\$ 151,951</b>	<b>\$ 2,016,951</b>

Capital lease obligations are due as follows:

<b>Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2017	\$ 135,140	\$ 23,377	\$ 158,517
2018	142,314	16,203	158,517
2019	133,871	8,768	142,639
2020	71,598	3,018	74,616
2021	27,586	524	28,110
	<b>\$ 510,509</b>	<b>\$ 51,890</b>	<b>\$ 562,399</b>

Note payable is due as follows:

<b>Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2017	\$ 7,582	\$ 3,873	\$ 11,455
2018	8,252	3,203	11,455
2019	8,982	2,473	11,455
2020	9,776	1,679	11,455
2021	10,640	815	11,455
2022	3,755	67	3,822
	<b>\$ 48,987</b>	<b>\$ 12,110</b>	<b>\$ 61,097</b>

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

Aggregate annual principal and interest payments over the terms of long-term debt and capital lease obligations are due as follows:

<b>Years Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2017	\$ 497,722	\$ 74,088	\$ 571,810
2018	515,566	59,144	574,710
2019	517,853	42,766	560,619
2020	461,374	26,847	488,221
2021	428,226	13,039	441,265
2022	3,755	67	3,822
	<b>\$ 2,424,496</b>	<b>\$ 215,951</b>	<b>\$ 2,640,447</b>

**8. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during 2016 or 2015. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual allowances and discounts):		
Medicare	\$ 11,181,306	\$ 10,330,079
Medicaid	3,284,637	2,817,372
Other third-party payors	4,204,019	3,704,721
Patients	771,597	858,688
	<b>19,441,559</b>	<b>17,710,860</b>
Less:		
Charity care	385,786	376,337
Provision for bad debts	475,348	530,241
	<b>\$ 18,580,425</b>	<b>\$ 16,804,282</b>

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$27,000, and increased by approximately \$153,000, in the years ended December 31, 2016 and 2015, respectively, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2016 and 2015, were approximately \$260,000 and \$287,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2016 or 2015.

**9. Property Taxes:**

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior July 1. Assessed values are established by the County Assessor at 100% 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.

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**9. Property Taxes (continued):**

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

The District's levies are comprised of the following:

	<b>2016</b>		
	<b>Levy Rate</b>	<b>Assessed Value</b>	<b>Total Levy Amount</b>
Unlimited tax general obligation bond levy	0.395012	\$ 639,443,865	\$ 252,588
M&O levy	0.730896	650,156,794	475,197

	<b>2015</b>		
	<b>Levy Rate</b>	<b>Assessed Value</b>	<b>Total Levy Amount</b>
Unlimited tax general obligation bond levy	0.428836	\$ 609,759,908	\$ 261,487
M&O levy	0.750000	624,392,000	468,294

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made. The District also received additional tax funding from timber and other taxes totaling approximately \$572,000 and \$558,000, in 2016 and 2015, respectively.

**10. Contingencies:**

**Risk management** – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; 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 three preceding years.

**Medical malpractice claims** – The District has its professional liability insurance coverage with Washington Casualty Company. The policy provides protection on a “claims made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover “prior acts.” Current coverage is for \$1,000,000 per claim, subject to a \$5,000,000 annual limit, plus an additional \$1,000,000 of annual excess coverage. There is no deductible on this policy.

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

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**10. Contingencies (continued):**

**Risk transfer pools** – The District has a self-insured workers’ compensation plan for its employees. The District is a part of 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 \$51,000 and \$33,000, in 2016 and 2015, net of \$113,887 and \$65,890 dividend received in 2016 and 2015, respectively.

The District has a self-insured unemployment plan for its employees. The District is part of the Public Hospital District Unemployment Compensation Fund 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 expense were approximately \$29,000 and \$14,000 in 2016 and 2015, respectively.

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

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

**11. Concentrations:**

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

The mix of receivables from patients was as follows:

	2016	2015
Medicare	32 %	31 %
Medicaid	2	3
Other third-party payors	31	31
Patients	35	35
	<b>100 %</b>	<b>100 %</b>

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**11. Concentrations (continued):**

*Physicians* – The District is dependent on local physicians, nurse practitioners, and physician assistants in its services area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of providers providing these services or changes in their utilization patterns may have an adverse effect on hospital services.

*Collective bargaining unit* – The District has two collective bargaining agreements with the Office and Professional Employees International Union Local No. 8 (OPEIU) and the United Staff Nurses Union, Local 141 (USNU).

Effective July 1, 2014, the District renewed its contract with the OPEIU for its office and professional employees. The contract is effective through July 1, 2017.

Effective January 1, 2015, the District renewed its contract with the USNU for its nurses. The contract is effective through December 31, 2017.

As of December 31, 2016 and 2015, approximately 76% and 82%, respectively, of the Hospital's employees were represented by the union under these collective bargaining agreements with the OPEIU and USNU.



**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Schedules of Changes in Net Pension Liability**  
**Pacific County Public Hospital District No. 2 – Willapa Harbor Retirement Plan**  
**Last 10 Years \***

	<b>2016</b>	<b>2015</b>
<b>Change in total pension liability</b>		
Total pension liability at beginning of year	\$ 6,158,062	\$ 5,953,700
Service cost at beginning of year	41,957	46,568
Interest	392,992	380,567
Differences between expected and actual experience	106,845	17,233
Change in assumptions	(11,978)	-
Benefit payments, including refunds of employee contributions	(256,315)	(240,006)
<b>Total pension liability at end of year</b>	<b>6,431,563</b>	<b>6,158,062</b>
<b>Change in plan fiduciary net position</b>		
Plan fiduciary net position at beginning of year	3,569,218	3,481,859
Contributions - employees	51,391	54,382
Net investment income	(21,035)	282,654
Benefit payments, including refunds of employee contributions	(256,315)	(240,006)
Administrative expenses	(9,671)	(9,671)
<b>Plan fiduciary net position at end of year</b>	<b>3,333,588</b>	<b>3,569,218</b>
<b>Net pension liability</b>	<b>\$ 3,097,975</b>	<b>\$ 2,588,844</b>
<b>Plan fiduciary net position as % of total pension liability</b>	<b>51.83%</b>	<b>57.96%</b>
<b>Net pension liability as % of covered payroll</b>		
Covered-employee payroll	\$ 1,284,776	\$ 1,359,550
Net pension liability as % of covered payroll	241.13%	190.42%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2016 (measurement date).

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Schedule of Employer Contributions**  
**Pacific County Public Hospital District No. 2 – Willapa Harbor Retirement Plan**  
**Last 10 Years \***

<b>Years Ending December 31,</b>	<b>Actuarially determined contribution</b>	<b>Actual employer contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contribution as percentage of covered payroll</b>
2015	\$ 402,698	\$ -	\$ 402,698	\$ 1,359,550	0%
2016	456,815	-	456,815	1,284,776	0%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2016 (measurement date).

**Pacific County Public Hospital District No. 2**  
**doing business as Willapa Harbor Hospital**  
**Schedule of Investment Returns**  
**Pacific County Public Hospital District No. 2 – Willapa Harbor Retirement Plan**  
**Last 10 Years \***

<b>Years ending December 31,</b>	<b>Rate of Return</b>
2015	8.36%
2016	-0.61%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2016 (measurement date).

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>