Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Grays Harbor County Public Hospital District No. 1

For the period December 1, 2013 through December 31, 2014

Published August 27, 2015

Report No. 1014895

Washington State Auditor's Office

August 27, 2015

Board of Commissioners
Grays Harbor County Public Hospital District No. 1
Elma, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Grays Harbor County Public Hospital District No. 1'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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Grays Harbor County Public Hospital District No. 1
January 1, 2014 through December 31, 2014

The results of our audit of Grays Harbor County Public Hospital District No. 1 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 qualified as a low-risk auditee under OMB Circular A-133.

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*

Grays Harbor County Public Hospital District No. 1
December 1, 2013 through December 31, 2014

Board of Commissioners
Grays Harbor County Public Hospital District No. 1
McCleary, 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 Grays Harbor County Public Hospital District No. 1, Washington, as of and for the years ended December 31, 2014 and 2013, 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, 2015.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 20, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Grays Harbor County Public Hospital District No. 1
January 1, 2014 through December 31, 2014

Board of Commissioners
Grays Harbor County Public Hospital District No. 1
McCleary, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Grays Harbor County Public Hospital District No. 1, 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, 2014. 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, 2014.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Grays Harbor County Public Hospital District No. 1
December 1, 2013 through December 31, 2014

Board of Commissioners
Grays Harbor County Public Hospital District No. 1
McCleary, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Grays Harbor County Public Hospital District No. 1, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

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 Grays Harbor County Public Hospital District No. 1, as of December 31, 2014 and 2013, 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 15 through 19 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, 2015 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 20, 2015

FINANCIAL SECTION

Grays Harbor County Public Hospital District No. 1
December 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

Grays Harbor County Public Hospital District No. 1

Management's Discussion and Analysis
December 31, 2014

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, 2014. 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 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 a 15-bed acute-care hospital, 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 no more than 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 3% percent of the District's net revenue in 2014.

The Government Accounting Standards Board prescribes the financial reporting 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.

Financial Highlights

The District's overall business generated total operating revenues of $19,485,552 in 2014 and finished the year with a net income of $1,200,377 — a margin of just over six percent. This compares to a net income of $135,552 in 2013.

The District moved the hospital operations mid-February 2013, seven miles west from McCleary to Elma. The new location is closer to a larger population-base and patient volumes increased as a result. The year ending 2014 was the first full year of operations after moving the hospital. With rare exception, the volumes of patients seen and related financials are exceeding budget and expectations. Inpatient days and swing bed days were the only areas that were below budget and below prior year. Much of the inpatient day decrease was due to Medicare's new Two-Midnight Rule, which requires the patient to be kept in observation status if their inpatient stay is not expected to last for at least two midnights. Due to this, our observation hours were above budget. Emergency department visits — the District's largest revenue source — continued to grow through the year; even during periods when emergency visits tend to decline. In fact, there was a 25 percent increase in emergency department visits compared to 2013. Clinic visits also grew significantly throughout the year as the District increased its reputation with the greater community. The high clinic and emergency department volumes had also resulted in greater lab and diagnostic imaging tests generated, which is reflected in the outpatient revenue. Because of the increased volumes, total cash and cash equivalents increased from $2.9 million in December 2013 to $6.7 million in December of 2014.

Fiscal year 2014 was the first year of expanded insurance coverage under Patient Protection and Accountable Care Act, which also attributed to the increased clinic visits. In 2014, the District hired a certified In-Person Assister to reach out to the uninsured residents and enroll them in new insurance and Medicaid coverage that is now available as a result of the Patient Protection and Affordable Care Act. This certified assister began with the District on March 25, 2014 to help people navigate the new Health Insurance Exchange and enroll in the new health coverage options. By the end of the year, she had enrolled 419 lives. The increase in insurance and Medicaid coverage decreases the prevalence of self-pay patients. This significantly reduced our bad debt and provisions of community care in 2014 compared to 2013. In 2014, self-pay revenue as a percent of gross revenue was 4 percent compared to over 9 percent in 2013.

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.

Statement of Revenues and Expense and Change in Net Position:
Net patient service revenue for 2014 was $18,627,865 compared $15,554,058 in 2013.

Statement of Cash Flows:
Total Cash and Cash Equivalents at end of the year 2014 were $6,698,192 and $2,886,036 at the end of 2013. Cash is being conserved to purchase a new electronic medical records system in 2015.

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 2014 was $6,078,611 compared to $4,878,234 at the end of 2013. During the year ending December 31, 2011 the District began construction of the new 44,975 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. The most notable asset additions were signage improvements, a pharmacy bio-hood, cardiac treadmill, software upgrades, and additional drawers to the Pyxis machine. The District also had the first full years' worth of accumulated depreciation for equipment, buildings, and land improvements. The District's long-term debt was reduced by $1,081,954 in 2014 due to the first full year of semi-annual payments to the 2011 and 2012 bonds, the final land payment of $350,000 on October 31, and a retirement of the 2001 bond. The District's long-term debt was also increased by $1,112,284 in 2014 due solely to closing out the 2012 LTGO bond. The funds drawn on the loan, yet not approved to be released, by the United States Department of Agriculture (USDA), were placed in a supervisory account during 2014 (See Note 1 for more information regarding the funds remaining in the USDA supervisory account at December 31, 2015). The net effect on the District's long-term debt was an increase of $30,330.

Condensed financial information for the years ended December 31, 2014, 2013 and 2012 are on the following page: Table 1: Assets, Liabilities, and Net Position.

Management's Discussion and Analysis (Continued)
December 31, 2014

	2014	2013	2012
Assets:			
Current assets	$ 8,334,485	$ 5,596,796	$ 4,408,068
Capital assets, net	19,125,602	20,653,641	18,549,585
Other non-current assets	1,919,721	1,339,432	8,089
Total Assets	**29,379,808**	**27,589,869**	**22,965,742**
Liabilities:			
Other current and non-current liabilities	3,289,918	3,233,711	2,181,193
Long-term debt outstanding	20,011,279	19,477,924	16,041,867
Total Liabilities	**23,301,197**	**22,711,635**	**18,223,060**
Net Position:			
Net Investment in Capital Assets	(1,465,578)	267,792	2,650,576
Restricted	1,339,432	1,339,432	--
Unrestricted	6,204,757	3,271,010	2,092,106
Total Net Position	**6,078,611**	**4,878,234**	**4,742,682**
Total Liabilities and Net Position	**$ 29,379,808**	**$ 27,589,869**	**$ 22,965,742**

	2014	2013	2012
Total operating revenue	$19,485,552	$16,022,971	$10,099,666
Total non-operating revenues	581,658	1,040,018	914,563
Total operating expenses and non-operating expenses	18,866,833	16,927,437	10,418,046
Excess or (deficiency)	1,200,377	135,552	596,183
Change in net position	1,200,377	135,552	596,183
Ending net position	$6,078,611	$4,878,234	$4,742,682

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, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 4,778,471	$ 1,546,604
Receivables:		
Patient accounts - Less allowance for uncollectible amounts and contractual adjustments of $6,920,106 in 2014 and $6,813,208 in 2013	2,965,890	2,839,988
Taxes	49,227	61,822
Other	264,157	981,929
Prepaid expenses	98,348	25,704
Inventories	178,392	140,749
Total current assets	**8,334,485**	**5,596,796**
Non current cash and cash equivalents:		
Supervisory account	580,289	--
Restricted by bond covenants	1,339,432	1,339,432
Total non current assets	**1,919,721**	**1,339,432**
Capital assets:		
Land	1,652,029	1,623,605
Construction in progress	25,072	--
Depreciable capital assets - Net of accumulated depreciation	17,448,501	19,030,036
Total capital assets - Net of accumulated depreciation	**19,125,602**	**20,653,641**
TOTAL ASSETS	**$ 29,379,808**	**$ 27,589,869**

Please see accompanying notes to the basic financial statements.

Grays Harbor County Public Hospital District No. 1

Statement of Net Position
December 31, 2014 and 2013

Liabilities and Net Position	2014	2013
Current liabilities:		
Warrants payable	$ 1,478	$ 425
Accounts payable	447,401	306,623
Employee compensation and related liabilities	443,279	642,171
Accrued vacation	336,931	318,080
Third-party settlement payable	1,126,796	574,180
Other current liabilities	354,132	309,307
Current maturities of long-term debt	579,901	1,082,925
Total current liabilities	**3,289,918**	**3,233,711**
Non current liabilities:		
Long-term debt - Less current maturities	20,011,279	19,477,924
Total non current liabilities	**20,011,279**	**19,477,924**
Total liabilities	**23,301,197**	**22,711,635**
Net position:		
Net investment in capital assets	(1,465,578)	267,792
Restricted for bond reserve fund	1,339,432	1,339,432
Unrestricted	6,204,757	3,271,010
Total net position	**6,078,611**	**4,878,234**
TOTAL LIABILITIES AND NET POSITION	**$29,379,808**	**$27,589,869**

Please see accompanying notes to the basic financial statements.

Grays Harbor County Public Hospital District No. 1

Statements of Revenues, Expenses, and Changes in Fund Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Patient service revenues:		
Daily hospital care	$ 2,278,291	$ 2,911,964
Outpatient and ancillary services	46,640,784	35,726,940
Total patient service revenues	**48,919,075**	**38,638,904**
Revenue deductions and allowances, including provisions for bad debts	(30,291,210)	(23,084,846)
Net patient service revenues	**18,627,865**	**15,554,058**
Other operating revenues	857,687	468,913
Total operating revenues	**19,485,552**	**16,022,971**
Operating expenses:		
Salaries and wages	8,395,331	6,887,204
Employee benefits	1,596,132	1,481,849
Supplies	1,316,613	2,039,403
Professional fees	1,857,433	2,072,340
Purchased services - utilities	351,448	318,494
Purchased services - other	2,062,449	1,350,361
Insurance	179,639	170,366
Other	511,173	395,301
Rent	117,458	118,010
Depreciation and amortization	1,703,108	1,446,337
Total operating expenses	**18,090,784**	**16,279,665**
Operating income (loss)	**1,394,768**	**(256,694)**
Non operating revenues (expenses)- net	(194,391)	392,246
Excess of revenues over expenses	**1,200,377**	**135,552**
Net position - Beginning of year	4,878,234	4,742,682
Net Position - End of year	**$ 6,078,611**	**$ 4,878,234**

Please see accompanying notes to the basic financial statements.

Grays Harbor County Public Hospital District No. 1

Statement of Cash Flows
Years Ending December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 19,054,579	$ 14,796,578
Receipts from other operating activities	1,575,459	(496,315)
Payments to employees	(10,171,504)	(8,041,198)
Payment to suppliers, contractors, and others	(6,319,844)	(6,219,974)
Net cash (used in) provided by operating activities	**4,138,690**	**39,091**
Cash flows from noncapital financing activities:		
Property and other taxes	542,848	738,088
Cash received from noncapital, grants contributions and non operating revenues	38,636	300,466
Net cash provided by noncapital financing activities	**581,484**	**1,038,554**
Cash flows from capital and related financing activities:		
Proceeds from the issuance of long-term debt	1,112,284	4,542,350
Principal payments on long-term debt	(1,081,954)	(313,368)
Principal payments on capital lease obligations	-	(35,142)
Interest paid	(776,049)	(646,305)
Payments for purchase of capital assets	(175,068)	(3,543,771)
Net cash used in capital and related financing activities	**(920,787)**	**3,764**
Cash flows from investing activities:		
Interest income	12,769	2,178
Net (decrease) increase in cash and cash equivalents	**3,812,156**	**1,083,587**
Cash and cash equivalents - Beginning of year	2,886,036	1,802,449
Cash and cash equivalents - End of year	**6,698,192**	**2,886,036**
Cash and cash equivalents:		
Current cash and cash equivalents	4,778,471	1,546,604
Non current cash and cash equivalents	1,919,721	1,339,432
Total cash and cash equivalents	**$ 6,698,192**	**$ 2,886,036**

Please see accompanying notes to the basic financial statements.

Statement of Cash Flows (Continued)
Years Ending December 31, 2014 and 2013

	2014	2013
Reconciliation from income from operations to net cash provided by operating activities:		
Operating income (loss)	**$ 1,394,768**	**$ (256,694)**
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,703,108	1,446,337
Bad debt expense	2,375,957	3,967,631
Change in operating assets and liabilities:		
Patient accounts receivable - Net	(2,501,859)	(4,395,874)
Prepaid expenses	(72,644)	(17,762)
Other receivables	717,772	(965,228)
Inventories	(37,643)	(34,054)
Warrants payable	1,053	(10,321)
Accounts payable	140,778	18,736
Employee compensation and related liabilities	(198,892)	296,049
Accrued vacation	18,851	31,806
Third-party (settlement) payable	552,616	(329,237)
Other current liabilities	44,825	287,702
Total adjustments	**2,743,922**	**295,785**
Net cash (used in) provided by operating activities	**$4,138,690**	**$39,091**

Please see accompanying notes to the basic financial statements.

Note 1 Summary of Significant Accounting Policies

Reporting Entity

Grays Harbor County Public Hospital District No.1 (The District), doing business as, Summit Pacific Medical Center, owns and operates a 15-bed acute care hospital, and three 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. 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), is a separate tax-exempt Washington corporation, and received its foundation designation in 1988. The Foundation is not considered a component unit of the District for financial statement purposes. Donations of approximately $16,622 and $267,263 were contributed to the District by the Foundation for the year ended December 31, 2014 and 2013, 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 an original maturity of three months or less to be current 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 may include funds that are internally considered designated for capital acquisitions and future expenditures. For the years ending December 31, 2014 and 2013, respectively, the District did not have any internally designated for capital acquisitions and future expenditures.

The District had non current cash and cash equivalents for the year ending December 31, 2014 in the amount of $580,289 in a supervisory bank account. These funds are supervised by the United States Department of Agriculture (USDA) and related to funds drawn on the Limited Tax Federal Obligation Bond (LTGO – Bond 2012). Funds withdrawn from this account required approval from the USDA Rural Development office. There were no supervisory funds for the year ending December 31, 2013.

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position

Net position of the District is classified into three components. Net investment in capital assets, 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.

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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the classifications used in the 2014 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 and any such events requiring disclosure have been noted within the relevant section of these notes to the 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 (Expenses)-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. However, 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.

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's policy does not require 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 fund 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 but not limited to, interest income, rental payment, grants, tax revenue 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, including provision for bad debts. 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 $771,821 and $1,108,849 were provided for the years ended December 31, 2014 and 2013, respectively. On a percentage basis, this represents 1.6 percent and 2.9 percent respectfully of total patient service revenues. The decline in community care during 2014 is due to new healthcare insurance coverage options made available by the Affordable Care Act.

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,	
	2014	2013
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	$ 7,833,493	$ 8,194,685
Medicaid	4,647,794	2,406,619
Other third-party payors	7,211,958	6,124,746
Self-pay patients	2,082,398	3,904,488
Total Patient Service Revenue	**21,775,643**	**20,630,538**
Less:		
Community care	771,821	1,108,849
Provision for bad debts	2,375,957	3,967,631
Net patient service revenue	**$18,627,865**	**$15,554,058**

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 $34,650,000 and $24,927,000 for 2014 and 2013, 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 billed, for up to three years from the date the District's cost reports were filed with the Medicare intermediary. Medicare has tentatively reviewed and settled cost reports through 2011.

- 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 2013.

- 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 $2,375,957 and $3,967,631 for 2014 and 2013, respectively. The cost to the District associated with these bad debts for 2014 and 2013 are estimated to be approximately $957,088 and $1,759,454, 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 entirely covered up to Federal Deposit Insurance Corporation (FDIC) limit or by collateral that has been pledged, by the related financial institution. 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 Revised Code of Washington, Chapter 39, authorizes governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories' and certain other investments.

The District had investments of $248,814 and $248,566 in the Washington State Local Government Investment Pool at December 31, 2014 and 2013, 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 patient account collection policies during 2014 or 2013. The District does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs 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:

	2014	2013
Receivable from patients and their insurance	$4,308,824	$5,692,474
Receivable from Medicare	2,817,534	2,390,028
Receivable from Medicaid	2,759,638	1,570,694
Total patient accounts receivable	**9,885,996**	**9,653,196**
Less allowance for uncollectible amounts	6,920,106	6,813,208
Net patient accounts receivable	**$2,965,890**	**$2,839,988**

Effective December 1, 2011 the District began outsourcing the billing, credit and 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. No incentive payments were received for the year ending December 31, 2014. The District recognized $63,750 in Medicaid provider incentive payments during the year ending December 31, 2013. These funds were recognized as other operating revenues.

The Medicaid hospital incentive payment 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.

Note 6 Taxes

During the year end December 31, 2014 and 2013, the District received approximately 3% and 4%, respectively, of its financial support from property and other taxes. The funds were used as follows:

	2014	2013
Tax income recorded as non operati		
revenue (expenses)	$ 530,253	$ 737,374

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 assessed as if the same date and are intended to finance the District's activities of same calendar year. Assessed values are established by the County Assessor at 100% of fair market values. A revaluation of all property is required annually.

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.

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

For 2014, the District's regular tax levy was approximately $.50 per $1,000 on a total assessed valuation of $908,786,720 for a total levy of $454,393. The District received $450,970 in regular levy taxes and $79,283 in timber and other tax categories in 2014.

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 regular levy of $618,966. The District received $619,055 in regular tax levy taxes and $118,319 in timber and other tax categories in 2013.

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 (expenses) - 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, 2014, are as follows:

	Balance January 1, 2014	Additions/ (Transfers)	Retirements	Balance December 31, 2014
Non depreciable capital assets:				
Land	$ 1,623,605	28,424	$ --	$ 1,652,029
Construction in progress	--	25,072	--	25,072
Total non depreciable capital assets	**1,623,605**	**53,496**	**--**	**1,677,101**
Depreciable capital assets:				
Land improvements	65,147	--	--	65,147
Buildings and improvements	18,118,654	(28,424)	--	18,090,230
Equipment	3,597,981	149,997	--	3,747,978
Total depreciable capital assets	**21,781,782**	**121,573**	**--**	**21,903,355**
Total capital assets before depreciation	**23,405,387**	**175,069**	**--**	**23,580,456**
Less accumulated depreciation for:				
Land improvements	44,617	4,464	--	49,081
Buildings and improvements	1,755,817	1,119,486	--	2,875,302
Equipment	951,312	579,158	--	1,530,471
Total accumulated depreciation	**2,751,746**	**1,703,108**	**--**	**4,454,854**
Net capital assets	**$ 20,653,641**	**$ (1,528,039)**	**$ --**	**$ 19,125,602**

Construction in progress at December 31, 2014, consisted of the following:

- Medical Unit – Verathon Bladder Scanner to be placed into service in 2015, with a cost of $14,669.
- Diagnostic Imaging- NPI Ultrasound Gurney to be placed into service in 2015, with a cost of $10,403

Note 7 Capital Assets (Continued)

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 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, 2014, is as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Amounts Due Within One Year
Bonds and notes payable:					
LTGO Bonds - 2001	$ 175,000	--	$ 175,000	$ --	$ --
Note Payable - Land	350,000	--	350,000	--	--
LTGO Bond - 2011	9,494,686	--	186,182	9,308,504	204,147
Revenue Bond - 2011	9,492,966	--	186,249	9,306,717	204,215
LTGO Bond-2012	1,048,197	1,112,284	184,523	1,975,958	171,539
Total long-term debt	**20,560,849**	**1,112,284**	**1,081,954**	**20,591,179**	**579,901**
Capital leases payable:					
--	--	--	--	--	--
Total long-term debt, capital leases payable, and other noncurrent liabilities	**$20,560,849**	**$1,112,284**	**$1,081,954**	**$20,591,179**	**$579,901**

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, 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)

Long-Term Debt

The terms and due dates of the District's long-term debt, including capital lease obligations, at December 31, 2014 and 2013, are as follows:

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. The funds received were used to help fund District operations. This bond was paid in full during 2014.

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. The funds received were used to help fund District operations. 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 that was built in Elma, WA, which was completed in early 2013. This note payable was paid in full during 2014.

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 were determined at the time the required interest payment was due, based on the amount drawn on this bond at the time the interest payments were due. The bond was for $9,505,500, and the funds were used to construct the replacement facility, and related equipment, in Elma, WA, which was completed in early 2013.

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

Long-Term Debt (Continued)

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 were determined at the time the required interest payment was due, based on the amount drawn on this bond at the time. The bond was for $9,505,500, and the funds were to construct the replacement facility in Elma, WA, which was completed in early 2013.

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%. The bond was for a total of $2,160,500 which, was fully drawn in 2014; however, as of December 31, 2013 the District had drawn only $1,048,217. The District used the full loan amount available, to fund purchases, including capital assets, that enhance the services available at the replacement facility.

All limited tax general obligation bonds are general obligations of the District and are secured by an irrevocable pledge of the District that the District will have sufficient funds available to pay the related principal and interest payments due by levying each year a maintenance and operations tax upon the taxable property within the District boundaries.

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

Capital Leases Payable

Lease obligation to Shared Imaging (CT Scan), was 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:

Year Ending	Bonds and Notes Payable		
December 31,	Principal	Interest	Total
2015	$579,901	$759,531	$1,339,432
2016	$601,196	$738,236	$1,339,432
2017	$623,275	$716,157	$1,339,432
2018	$646,167	$693,265	$1,339,432
2019	$669,902	$669,530	$1,339,432
2020-2024	$3,709,787	$2,959,898	$6,669,685
2025-2029	$3,193,284	$2,319,916	$5,513,200
2030-2034	$3,845,155	$1,668,045	$5,513,200
2035-2039	$4,630,096	$883,104	$5,513,200
2040-2041	$2,092,417	$98,598	$2,191,015
Total	**$20,591,180**	**$11,506,280**	**$32,097,460**

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 $31,490 and $36,867 for the years ended December 31, 2014 and 2013, respectively. Participants of this plan who could no longer participate were able to leave their funds in the plan.

Note 10 Deferred Compensation Plan

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, 2014 and 2013 were $193,202 and $145,563, respectively. The District accrued employer matching contributions to the plan of $74,247 and $37,528 for the year ending December 31, 2014 and 2013 respectively. The discretionary employer match contributions are paid annually by June 30, based on the prior year's employee contributions amounts.

Note 10 Deferred Compensation Plans (Continued)

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. Participant and employer matching contributions to this plan are 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 employer 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 $27,387 and $24,129 for the year ended December 31, 2014 and 2013, respectively. These contributions are paid annually by June 30, based on the prior year's employee contributions and compensation.

Note 11 Risk Management and Contingent Liability

Medical Malpractice Claims

On September 1, 2014, the District changed insurance brokers to Parker, Smith and Feek, Inc. who brokered a new insurance policy through Physicians Insurance a Mutual Company for the District. Through August 30, 2014, the District carried a policy with Washington Casualty Company (WCC). WCC is a wholly owned subsidiary of FinCor Holdings, Inc.

The District's policies provide 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 or 2014 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 2014 or 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. Total payments, reduced by any related distributions of dividends, made by the District charged to workers' compensation expense were approximately $112,000 and $121,000 in 2014 and 2013, respectively.

Unemployment Insurance

The District has a self-insured unemployment plan through the Public Hospital District Unemployment Compensation Trust (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. Net distributions of dividends from the Trust/Net Payment by the District (credited)/charged to unemployment insurance expense were approximately ($19,000) and $73,000 in 2014 and 2013, 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. However a new lease agreement was entered to, which commenced on March 1, 2014 through February 28, 2017. The lease agreement requires monthly payments in the amount of approximately $4,988. A total of $59,850 was paid to Blue Lady, LLC during the years ending 2014 and 2013. The initial lease agreement for this space expires on February 28, 2014.

Note 11 Risk Management and Contingent Liability (Continued)

Emergency and Medical Unit Registered Nurse Employment Contract

As of December 31, 2014 and 2013, approximately 20% and 22%, respectively, of the District's employees were covered under a collective bargaining agreement with the Association of Emergency Department and Medical Unit Registered Nurses. The most current agreement expired February 9, 2014 and, as of the date of this report, the parties are engaged in bargaining.

McCleary Rural Health Clinic Replacement Facility

A local developer is in the planning phase, and seeking permits, for a new clinic building centrally located in downtown McCleary, WA. The District is collaborating with the developer in the design of the building with the intent to lease space for its McCleary rural health clinic. The District is currently in negotiation on a possible lease rate and term for the new clinic building. After the new facility is opened, the District may explore options to divest the former hospital and clinic campus in McCleary.

Electronic Medical Record Purchase

In June 2015, the District signed a contract with Meditech to purchasing a new electronic medical records system. The contract identifies the purchase price, as well as fees related to the ongoing maintenance and support of the new system. The District is also in discussions with Engage (formerly I.N.H.S.) to remotely host and managed the new system. The financial liability related to this purchase of software and services is approximately $5.3 million during the first five years, and $1.4 million for years six through seven.

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:

	2014	2013
Medicare	29%	25%
Medicaid	28%	16%
Other third-party payors	24%	19%
Self-pay patients	19%	40%
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)-Net

Total non-operating revenues (expenses) for the years ended 2014 and 2013 were as follows:

	2014	2013
Property and other tax revenues	$ 530,253	$737,374
Interest income revenues	12,769	2,178
Gain (Loss) on disposal of equipment	-	(1,467)
Interest Expense	(776,049)	(646,305)
Rental income revenues	14,864	14,431
Noncapital grants and contributions revenues	16,622	267,263
Miscellaneous revenues	7,150	18,772
Total non operating revenues (expenses) - net	**$ (194,391)**	**$392,246**

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, 2014

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	Essential Community Facilities loans and grants	10.766	N/A	$ -	$ 1,053,278	$ 1,053,278	1,2,3
State of Washington Department of Health	Small Rural Hospital Improvement (SHIP) Grant	93.301	Contract N19838	$ 8,167	$ -	$ 8,167	1,2,4
State of Washington Department of Health	Trauma Service Grant	93.301	Contract N19293	$ 8,511	$ -	$ 8,511	1,2,4
Washington State Hospital Association	Preparing for the Unexpected Grant	93.889	Ref: 53898	$ 1,686	$ -	$ 1,686	1,2,4
Total Federal Awards Expended:				$ 18,364	$ 1,053,278	$ 1,071,642	

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, 2014

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 $1,071,642 for fiscal year ending 2014, which included $580,289 in a supervisory account (see Note 3 (c) below).

NOTE 3 - FEDERAL LOANS

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

(a) The District was approved by the United States Department of Agriculture (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. In relation to this loan, the District had non current cash and cash equivalents for the year ending December 31, 2014 in the amount of $580,289 in a supervisory bank account (See Note 1 of the financial statements). Funds withdrawn from this supervisory account required approval from the USDA Rural Development office and will be considered expenditures for the year ending December 31, 2015.

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 $8,167.

(b) The District applied and was awarded by the Department of Health for a Trauma Service Grant in the amount of $8,511.

(c) The District applied and was awarded by the Washington State Hospital Association for a Preparing for the Unexpected grant in the amount of $1,686.

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

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.

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