Washington State Auditor's Office

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Financial Statements Audit Report

Mason County Public Hospital District No. 1

(Mason General Hospital)

For the period January 1, 2014 through December 31, 2015

Published May 23, 2016

Report No. 1016685

Washington State Auditor's Office

May 23, 2016

Board of Commissioners
Mason General Hospital
Shelton, Washington

Report on Financial Statements

Please find attached our report on the Mason General Hospital's financial statements.

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

Sincerely,

TROY KELLEY

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*

Mason General Hospital
Mason County
January 1, 2014 through December 31, 2015

Board of Commissioners
Mason General Hospital
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Mason General Hospital, Mason County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 10, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 10, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Mason General Hospital
Mason County
January 1, 2014 through December 31, 2015

Board of Commissioners
Mason General Hospital
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Mason General Hospital, Mason County, Washington, as of and for the years ended December 31, 2015 and 2014, 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 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 the Mason General Hospital, as of December 31, 2015 and 2014, 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 10 through 13 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

May 10, 2016

FINANCIAL SECTION

Mason General Hospital
Mason County
January 1, 2014 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

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BASIC FINANCIAL STATEMENTS

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Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Management's Discussion and Analysis
December 31, 2015 and 2014

Our discussion and analysis of Public Hospital District No. 1 of Mason County, WA, d/b/a Mason General Hospital and Family of Clinics' (the "District"), financial performance provides an overview of the District Hospital's financial activities for the fiscal year ended on December 31, 2015. Please read it in conjunction with the Hospital's financial statements that follow this analysis.

The District Hospital is a governmental entity and a political subdivision of the State of Washington. It was created by the Washington legislature to provide hospital services and other health care services for the residents of the District. The District was created by public vote in 1965, and the current Hospital facility opened its doors in October 1968. The District operates a 25-bed critical access hospital (licensed for 68 beds), physician clinics, and buildings to support those operations. The District's services include the acute care hospital, emergency room, and related ancillary services (lab, x-ray, etc.) associated with these services.

A three-member board of commissioners governs the District. The members of the board are elected commissioners for a term of six years. Elections are staggered so no more than one-third of the board is up for election at one time. The board is required to elect a president and secretary. One of their duties is to appoint a superintendent. The board delegates the day-to-day operations of the District to the superintendent.

The District is a municipal government entity. As such, the District levies, and the county collects, property taxes from property owners within the Hospital District. This tax revenue is used to support the purpose of the District, which is to provide health care to the members of the district. However, tax support is minimal, representing less than five percent of the Hospital's receipts.

The Governmental Accounting Standards Board prescribes the financial reporting of the Hospital. This is the format followed by the District. The financial statements are audited by the State of Washington's Auditors Office.

Financial Highlights

The overall financial position of the District remains strong in 2015, with an increase in net position of $3.9 million over 2014 because of solid revenue growth and controlled expenditures. The financial position of the District in 2014 was also strong with an increase in net position of $2.1 million over 2013 also due to solid revenue growth and controlled expenditures.

The District's overall business continues to grow, with net patient revenue increasing $6.4 million, or
8.4%. The increase in net revenue is attributable to outpatient volume growth, annual rate increase and reduced uncompensated care expense recording in 2015.

Financial Highlights (Continued)

Non-patient revenue increased $1,046,877, or 20.0%. In 2014, the District's overall business also grew with net patient revenue increasing $7.5 million or 11.1% primarily due to rate increases and clinic acquisitions implemented during the year. Non-patient revenues increased $1,253,424 or 31.5% in 2014.

The District's operating expenses increased by $6.5 million or 8.2% during 2015. Salary and benefits increased $3.5 million, or 7%, primarily because of additional FTE positions 2015 and the annual step increases per union contracts. In 2014, the District's operating expenses increased by $7.7 million or 10.7%. Salary and benefits in 2014 increased $2.8 million or 6% due primarily to the annual step increases per union contracts and acquired clinics. Depreciation expense increased by $1.7 million or 3.6% in 2014 primarily due to the implementation of a new electronic health records system. Overall inflation on other expenses was negligible in 2015 and 2014.

The Hospital District had a change in net position of $3,925,243 in 2015, $2,085,441 in 2014, and $1,814,444 in 2013.

During 2015, net accounts receivable decreased by $1.9 million or 15.6% due to improved billing and collection workflows. In 2014, net accounts receivable increased by $2.8 million or 30% reflecting a buildup in accounts during the 2014 adoption of the new electronic medical record system.

The District's net capital assets decreased by $3.8 million (-6.7%) in 2015, compared to a net decrease of $2.2 million (-3.7%) in 2014. Capital additions of equipment, IT, and facilities totaled $2.2 million dollars during 2015. The additions were partially offset by annual depreciation. Capital asset retirements were approximately $.4 million (see Note 6).

The District's net capital assets decreased by $2.2 million (-3.7%) in 2014, compared to a net increase of $9.1 million (18.4%) in 2013. $4.1 million of capital additions occurred during 2014. The additions were partially offset by annual depreciation. Capital asset retirements were $1.4 million (see Note 6).

In December 2012, the District's Board of Commissioners approved a capital project to implement a District wide Electronic Health Record (EHR) system with the goal of enhancing patient safety and care and providing a for seamless integration and transference of patient records throughout the District's system, regardless of where the patient is. The total cost for licensing, hardware, and implementation was $7.4 million. The hospital and clinics "went live" in January 2014.

Long-term debt decreased $885,000, $867,353, and 848,730 in 2015, 2014 and 2013 respectively. The decrease is due to principal payments on existing long-term debt as there has been no new long-term debt entered into during these periods. The current portion of long-term debt is $905,000 (see Note 7).

Financial Highlights (Continued)

Condensed financial information for the years ended December 31, 2015, 2014, and 2013, is as follows:

Table 1: Assets and Deferred Outflows of Resources, Liabilities and Net Position

	2015	2014	2013
Assets:			
Current assets	$ 61,170,083	$ 50,728,385	$ 49,403,787
Net property, buildings, and equipment	52,652,523	56,454,974	58,658,195
Total assets	$ 113,822,606	$ 107,183,359	$ 108,061,982
Deferred outflows of resources	$ 523,132	$ 697,516	$ 871,900
Liabilities:			
Current liabilities	$ 16,758,191	$ 15,972,500	$ 18,118,251
Long-term debt outstanding - Less current maturities	24,140,000	25,045,000	25,947,353
Long-term unearned revenue - Less current portion	2,749,233	90,304	180,648
Total liabilities	$ 43,647,424	$ 41,107,804	$ 44,246,252
Net position:			
Net investment in capital assets	$ 27,607,523	$ 30,524,974	$ 33,615,255
Restricted	193,615	194,446	172,434
Unrestricted	42,897,176	36,053,651	30,899,941
Total net position	$ 70,698,314	$ 66,773,071	$ 64,687,630

Financial Highlights (Continued)

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating revenue:			
Net patient service revenue	$ 81,836,231	$ 74,649,557	$ 67,957,776
Other operating revenue	6,274,861	5,227,984	3,974,560
Total operating revenue	88,111,092	79,877,541	71,932,336
Operating expenses:			
Salaries and benefits	53,255,688	49,747,876	46,917,008
Depreciation and amortization	6,597,856	6,552,112	4,685,219
Supplies	9,682,765	8,636,421	7,461,763
Other operating expenses	16,453,085	14,571,874	12,774,403
Total operating expenses	85,989,394	79,508,283	71,838,393
Operating income	2,121,698	369,258	93,943
Nonoperating revenue (expenses):			
Property taxes for operations and debt service	2,399,375	2,240,769	2,107,741
Grants and donations	301,603	327,090	318,547
Interest earnings	139,870	101,162	127,291
Interest expense	(982,695)	(993,786)	(889,388)
Gain (loss) on disposal of assets	(54,608)	40,948	56,310
Total nonoperating revenue - Net	1,803,545	1,716,183	1,720,501
Change in net position	3,925,243	2,085,441	1,814,444
Net position - Beginning of year	66,773,071	64,687,630	62,873,186
Net position - End of year	$ 70,698,314	$ 66,773,071	$ 64,687,630

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Statements of Net Position

As of December 31, 2015 and 2014

Assets and Deferred Outflows of Resources	2015	2014
Currents assets:		
Cash and cash equivalents		
Cash	$ 47,979,738	$ 36,062,344
Restricted	155,294	155,063
Receivables:		
Patient accounts receivable - Net	10,357,713	12,278,583
Taxes receivable	112,298	119,638
Restricted	38,321	39,383
Other	495,419	206,666
Inventories	1,316,976	1,198,777
Prepaid expenses	714,324	667,931
Total current assets	61,170,083	50,728,385
Capital assets:		
Nondepreciable capital assets	2,536,805	2,112,754
Depreciable capital assets - Net	50,115,718	54,342,220
Total capital assets - Net	52,652,523	56,454,974
Deferred outflows of resources		
Excess consideration provided for acquisition	523,132	697,516
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 114,345,738	$ 107,880,875

See accompanying notes to financial statements.

Liabilities and Net Position	2015	2014
Currents liabilities:		
Accounts payable	$ 2,270,253	$ 2,227,617
Third-party settlements	1,111,108	2,822,453
Payroll and related expenses	8,607,268	7,321,483
Accrued vacation	2,291,894	2,489,763
Accrued interest payable	119,106	121,383
Current maturities of long-term debt	905,000	885,000
Current portion of unearned revenue	1,441,292	90,324
Other	12,270	14,477
Total current liabilities	16,758,191	15,972,500
Noncurrent liabilities:		
Long-term debt - Less current maturities	24,140,000	25,045,000
Long-term unearned revenue - Less current portion	2,749,233	90,304
Total noncurrent liabilities	26,889,233	25,135,304
Total liabilities	43,647,424	41,107,804
Net position:		
Net investment in capital assets	27,607,523	30,524,974
Restricted for debt service	154,905	155,792
Restricted for equipment purchases	38,710	38,654
Unrestricted	42,897,176	36,053,651
Total net position	70,698,314	66,773,071
TOTAL LIABILITIES AND NET POSITION	$ 114,345,738	$ 107,880,875

See accompanying notes to financial statements.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Statements of Revenue, Expenses, and Changes in Net Position
December 31, 2015 and 2014

	2015	2014
Operating revenue:		
Net patient service revenue	$ 81,836,231	$ 74,649,557
Other operating revenue	6,274,861	5,227,984
Total operating revenue	88,111,092	79,877,541
Operating expenses:		
Salaries and wages	38,466,981	36,422,882
Employee benefits	14,788,707	13,324,994
Professional fees	4,498,180	3,171,634
Supplies	9,682,765	8,636,421
Purchased services - Utilities	878,658	816,267
Purchased services - Other	8,170,113	7,415,116
Insurance	601,087	708,749
Other	1,798,321	1,969,759
Rent and leases	506,726	490,349
Depreciation and amortization	6,597,856	6,552,112
Total operating expenses	85,989,394	79,508,283
Operating income	2,121,698	369,258
Nonoperating revenue (expenses):		
Property taxes for operations	2,399,375	2,240,769
Interest subsidy		
Interest earnings	139,870	101,162
Interest expense	(982,695)	(993,786)
Grants and donations	301,603	327,090
Loss (gain) on disposal of assets	(54,608)	40,948
Total nonoperating revenue - Net	1,803,545	1,716,183
Change in net position	3,925,243	2,085,441
Net position - Beginning of year	66,773,071	64,687,630
Net position - End of year	$ 70,698,314	$ 66,773,071

See accompanying notes to financial statements.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Statements of Cash Flows
December 31, 2015 and 2014

	2015	2014
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from patient services	$ 82,045,756	$ 71,162,305
Cash received from other operating revenue	10,284,758	4,398,100
Cash paid for salaries and benefits	(52,167,772)	(49,651,027)
Cash paid for supplies, professional fees, and other operating expenses	(26,546,559)	(23,769,188)
Net cash provided by operating activities	13,616,183	2,140,190
Cash flows from noncapital financing activities:		
Cash received from property tax for operations	2,406,715	2,246,809
Cash received from donations and grants	301,603	327,090
Payments to memorial fund	(2,207)	(2,665)
Net cash provided by noncapital financing activities	2,706,111	2,571,234
Cash flows from capital and related financing activities:		
Principal payments on long-term debt obligations	(885,000)	(867,353)
Interest paid	(1,460,541)	(1,473,208)
Interest subsidy	476,631	472,807
Proceeds from the sale of assets	5,892	-
Payments for purchase of property, buildings, and equipment	(2,681,521)	(4,133,559)
Net cash used in capital and related financing activities	(4,544,539)	(6,001,313)
Cash flows from investing activities -		
Interest received	139,870	101,162
Net increase (decrease) in cash and cash equivalents	11,917,625	(1,188,727)
Cash and cash equivalents - Beginning of year	36,217,407	37,406,134
Cash and cash equivalents - End of year	$ 48,135,032	$ 36,217,407
Cash and cash equivalents	$ 47,979,738	$ 36,062,344
Cash and cash equivalents - Restricted	155,294	155,063
Cash and cash equivalents - End of year	$ 48,135,032	$ 36,217,407

See accompanying notes to financial statements.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Statements of Cash Flows (Continued)
December 31, 2015 and 2014

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 2,121,698	$ 369,258
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,597,856	6,552,112
Provision for bad debts	2,853,960	3,594,231
Amortization of unearned revenue	(1,518,202)	(829,884)
Changes in operating assets and liabilities:		
Patient accounts receivable - Net	(933,090)	(6,426,990)
Other	(288,753)	502,313
Inventories	(118,199)	31,593
Prepaid expenses	(46,393)	(216,731)
Accounts payable	42,636	(878,068)
Third-party settlements	(1,711,345)	(654,493)
Payroll and related expenses	1,285,785	(36,538)
Accrued vacation	(197,869)	133,387
Unearned revenue	5,528,099	-
Total adjustments	11,494,485	1,770,932
Net cash provided by operating activities	$ 13,616,183	$ 2,140,190

See accompanying notes to financial statements.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics (the "District"), is a municipal corporation governed by an elected three-member board. The District does not have component units. The District owns and operates a 25-bed critical access hospital (licensed for 68 beds), five certified rural health clinics, an eye clinic, an orthopedic clinic, a podiatry clinic, a family practice clinic and a surgery clinic. The District provides health care services to patients in the Mason County, Washington, market. The services include an acute care hospital, an emergency room, clinics, and related ancillary procedures (lab, x-ray, etc.) associated with these services. During 2014, the District acquired Hoodsport Family Medicine, a primary health care clinic in Hoodsport WA. The clinic was acquired at the beginning of January 2014.

Associate

The Mason General Hospital Foundation (the "Foundation"), formed in 1991, is a separate legal entity, with a separate governing body and budget. The District is not financially accountable for the Foundation; therefore, its financial statements are not included in this report. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the District. The Foundation provided contributions to the District of $166,189 for 2015 and $207,000 for 2014.

The Foundation's financial position at the balance sheet dates September 30, 2015 and 2014, is summarized as follows:

	2015	2014
Assets	$ 1,891,420	$ 1,851,668
Liabilities	$ 82,145	$ 25,978
Fund balance	1,809,275	1,825,690
Total liabilities and fund balance	$ 1,891,420	$ 1,851,668

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under 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 measurements focus and full-accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the 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. Unbilled hospital service receivables are recorded at year-end.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All cash receipts are deposited directly in the District's depository account. Periodically such cash is transferred to the Mason County Treasurer, who acts as the District Treasurer. Warrants are issued by the District against the cash placed with the County Treasurer. For purposes of the statement of cash flows, the District considers all cash and cash investments with maturity dates of less than one year as cash and cash equivalents.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Investments

The County Treasurer invests cash in interest-bearing investments at the direction of the District. All investments are in the Washington State Local Government Investment Pool (WSLGIP), which is a safe short-term liquidity vehicle. Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same value as the fair value of the pool shares. The WSLGIP operates in a manner consistent with section 2a-7 of the Securities and Exchange Commission's Investment Act of 1940 and is unrated.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement.

Patient accounts receivable are recorded in the accompanying statement of net position net of contractual adjustments and allowances for doubtful accounts, which reflect management's best estimate of the amounts that won't be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments and provision for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and provision for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for these amounts and a provision for doubtful accounts 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 doubtful accounts 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 provision for bad debts.

Taxes Receivable

Taxes receivable are amounts due from Mason County. The Mason County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed monthly to the District by the County Treasurer. Property taxes are recorded as receivables when levied. Since state law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 1 Summary of Significant Accounting Policies (Continued)

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 operation of the District.

Restricted Assets

Restricted assets include certain cash and cash equivalents whose use is restricted under debt indentures and trust agreements and those set aside by the Board of Commissioners for future bond principal and interest payments, future acquisitions, and replacement of property, buildings, equipment, and other purposes.

Capital Assets

Capital acquisitions are recorded at cost or, if donated, at fair value at the date of donation and are subsequently considered as being on the basis of cost. The District capitalizes all assets with an initial, individual cost of $5,000 or greater and an estimated useful life of three years or more. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Depreciation is provided over the estimated useful life of each class of depreciable asset and is 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 with depreciation expense in the accompanying financial statements.

Land improvements	15 to 20 years
Buildings and building improvements	5 to 40 years
Major movable equipment	3 to 20 years

Note 1 Summary of Significant Accounting Policies (Continued)

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statement of revenue, expenses, and changes in net position. No impairment losses were recorded in 2015 and 2014.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The District has only one item that qualifies for reporting in this category. The District purchased a medical clinic, and the deferred outflow is the consideration given in excess of the net position acquired. The remaining life of the deferred outflow is estimated at three years. The estimated life will be periodically reviewed and revised as necessary in subsequent reporting periods.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when earned.

Vacation and sick pay, which may be accumulated up to a maximum of 320 hours, is payable upon resignation, retirement, or death.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Unearned Revenue

The District has unearned revenue related to the Medicare Electronic Health Record (EHR) incentive payments. These incentive payments are being recognized over the average useful life of the underlying assets.

Net Position

Net position is classified and displayed in three components: (1) Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted resources are a component of net position with constraints placed on their use either by creditors, grantors, donors, etc. or by law through constitutional provision or enabling legislation. (3) Unrestricted resources are all other assets that do not meet the definition of restricted resources or net investment in capital assets. When the District has both restricted and unrestricted resources available to finance particular program/activities, it is the District's policy to use restricted resources before unrestricted resources.

Operating Revenue and Expenses

The District's statement of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services. It also includes payments from the federal government for health care services rendered to eligible individuals. Other operating revenue includes retail revenue from the District's cafeteria, pharmacy, class registration fees, and health information and laboratory services. Nonexchange revenue, including taxes, interest income, grants, and contributions, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services.

Note 1 Summary of Significant Accounting Policies (Continued)

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. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amount less than established rates. The District maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy.

Advertising Cost

Advertising costs are expensed as incurred.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years. The amount of property tax received is dependent on the assessed real property valuations as determined by the County Assessor.

Grants and Contributions

The District receives grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue (expenses).

Tax Status

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 on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

Electronic Health Record Incentive Funding

The American Recovery and Reinvestment Act of 2009 (“ARRA”) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Electronic Health Record Incentive Funding (Continued)

The District recognizes revenue for EHR incentive payments when there is reasonable assurance that the District will meet the conditions of the program, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based on management's best estimates, which are based in part on cost report data that is subject to audit by fiscal intermediaries; accordingly, amounts recognized are subject to change. In addition, the District's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The District incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments. These incentive payments are amortized over the average useful life of the underlying assets.

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications of 2014 amounts have been made in the accompanying financial statements to conform to 2015 presentation (see note 17).

Subsequent Events

Subsequent events have been evaluated through April 27, 2016 which is the date the financial statements were available to be issued.

Note 2 Cash, Cash Equivalents, and Investments

Deposits

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

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Investments

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

The District's investment policy specifies that investments will be limited to collateralized certificates of deposit, collateralized repurchase options, passbook savings, money market checking, U.S. Government Treasury securities, or the Washington State Local Government Investment Pool.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 2 Cash, Cash Equivalents, and Investments (Continued)

The carrying amount of cash, cash equivalents, and investments was as follows at December 31:

	2015	2014
Cash on deposit	$ 39,209,753	$ 29,887,702
Board designated cash - capital fund	3,355,875	593
Board designated (WSLGIP) - capital fund	5,414,110	6,174,049
Total	$ 47,979,738	$ 36,062,344

The District's investments generally are reported at fair value. The carrying amount of cash, cash equivalents, and investments included in the District's restricted assets was as follows at December 31:

	2015	2014
Restricted (WSLGIP)	155,294	155,063

Note 3 Restricted Assets

Restricted assets consisted of the following at December 31:

	2015	2014
Debt service (WSGLIP)	116,584	116,409
Debt service (interest subsidy receivable)	38,321	39,383
Total restricted for debt service	154,905	155,792
Restricted for capital improvements:		
Equipment fund (WSLGIP)	38,710	38,654
Total restricted	193,615	194,446

Note 4 Patient Accounts Receivable

Patient accounts receivable were comprised of the following at December 31:

	2015	2014
Patient accounts receivable	$ 26,113,886	$ 32,412,797
Less:		
Contractual adjustments	12,192,780	13,921,975
Allowance for doubtful accounts	3,563,393	6,212,239
Patient accounts receivable - Net	$ 10,357,713	$ 12,278,583

Note 5 Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. Gross hospital revenue billed under the Medicare and Medicaid programs totaled approximately $135,625,000 and $110,155,000 in 2015 and 2014, respectively. A summary of the basis of reimbursement with major third-party payors follows:

Medicare

The District is designated as a critical access hospital (CAH). As a CAH, the District's inpatient and outpatient services provided to Medicare program beneficiaries are paid for based on a cost-reimbursement methodology. Professional services provided by physicians and other clinicians are reimbursed on prospectively determined fee schedules or a cost-reimbursement methodology depending on the type of professional services provided. The District has five clinics designated as rural health clinics, and they are paid on a cost-per-visit basis. The District is reimbursed for cost at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

Note 5 Reimbursement Arrangements With Third-Party Payors (Continued)

Medicare (Continued)

The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled on by the Medicare fiscal intermediary. Medicare has audited and settled cost reports for the years through 2013.

Medicaid

Medicaid reimbursement for inpatient and outpatient hospital services is paid based on cost as defined and limited by the Washington State Health Care Authority. The District is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. Medicaid pays rural health clinic services on a prospectively set rate. Medicaid hospital cost reports have been audited and tentatively settled for the years through 2012.

Accountable Care Organizations

In 2014, the District, along with other parties, formed an accountable care organization (ACO) to participate in the Medicare shared Savings Program (MSSP) effective January 1, 2015. The original term of the MSSP is 3 years. The ACO participants coordinate care for assigned Medicare fee-for-service members. Based on terms of the agreement with CMS, the ACO has the potential to receive a portion of the cost savings for services provided to assigned members.

Other Payors

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment to the District under these agreements includes prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Note 5 Reimbursement Arrangements With Third-Party Payors (Continued)

Medicare Electronic Health Record Incentive Funding

The District amortized $1,518,202 and $829,884 of unearned revenue from the Medicare EHR incentive program for 2015 and 2014, respectively. These amounts are included in other operating revenue in the accompanying statement of revenue, expenses, and changes in net position. December 31, 2015 and 2014, unamortized unearned revenue from the Medicare EHR incentive payments totaled $4,190,525 and $180,628, respectively.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patients' services. Management believes the District is in substantial compliance with current laws and regulations.

The Centers of Medicare & Medicaid Services (CMS) has implemented a new project using recovery audit contractors (RAC) as part of its efforts to ensure accurate payments under the Medicare program. The project uses RACs to search for potentially inaccurate Medicare payments that might have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The organization may either accept or appeal the RAC's findings. The District's policy is to adjust revenue for decreases in reimbursement from the RAC reviews when these amounts are estimable and to adjust revenue for increases in reimbursement from the RAC reviews when the increase in reimbursement is agreed upon. The District was not subject to a RAC audit during 2015 or 2014.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 6 Property Taxes

The District received approximately 1.30% and 1.33% of its financial support from property taxes for the years ended December 31 2015 and 2014, respectively. The funds were used as follows:

	2015	2014
Property taxes for operations and debt service	$ 2,399,375	$ 2,240,769

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

For 2015, the District's regular tax levy was $0.39 per $1,000 on the total assessed valuation of $5,310,141,002 for a total regular levy of $2,083,720. There were no additional levies for debt service in 2015.

For 2014, the District's regular tax levy was $0.39 per $1,000 on the total assessed valuation of $5,234,533,597 for a total regular levy of $2,058,677. There were no additional levies for debt service in 2014.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 7 Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance 1/1/15	Increase	Decrease	Ending Balance 12/31/15
Capital assets not being depreciated:				
Land	$ 2,015,497	$ -	$ -	$ 2,015,497
Construction in progress	97,257	1,675,921	1,251,870	521,308
Total capital assets not being depreciated	2,112,754	1,675,921	1,251,870	2,536,805
Capital assets being depreciated:				
Land improvements	2,483,391	181,078	-	2,664,469
Leasehold improvements	42,847	-	-	42,847
Buildings	35,564,501	208,922	-	35,773,423
Equipment	50,696,153	1,844,063	360,953	52,179,263
Total capital assets being depreciated	88,786,892	2,234,063	360,953	90,660,002
Less accumulated depreciation for:				
Land improvements	990,902	177,841	-	1,168,743
Leasehold improvements	23,923	4,285	-	28,208
Buildings	11,679,320	1,540,256	-	13,219,576
Equipment	21,750,527	4,701,090	323,860	26,127,757
Total accumulated depreciation	34,444,672	6,423,472	323,860	40,544,284
Total capital assets, depreciable - Net	54,342,220	(4,189,409)	37,093	50,115,718
Total capital assets - Net	$ 56,454,974	$ (2,513,488)	$ 1,288,963	$ 52,652,523

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 7 Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance 1/1/14	Increase	Decrease	Ending Balance 12/31/14
Capital assets not being depreciated:				
Land	$ 1,951,348	$ 64,149	$ -	$ 2,015,497
Construction in progress	5,142,564	3,890,460	8,935,767	97,257
Total capital assets not being depreciated	7,093,912	3,954,609	8,935,767	2,112,754
Capital assets being depreciated:				
Land improvements	2,483,391	-	-	2,483,391
Leasehold improvements	42,847	-	-	42,847
Buildings	35,541,420	87,231	64,150	35,564,501
Equipment	42,931,825	9,164,653	1,400,325	50,696,153
Total capital assets being depreciated	80,999,483	9,251,884	1,464,475	88,786,892
Less accumulated depreciation for:				
Land improvements	804,155	186,747	-	990,902
Leasehold improvements	19,638	4,285	-	23,923
Buildings	10,233,438	1,445,882	-	11,679,320
Equipment	18,377,969	4,740,817	1,368,259	21,750,527
Total accumulated depreciation	29,435,200	6,377,731	1,368,259	34,444,672
Total capital assets, depreciable - Net	51,564,283	2,874,153	96,216	54,342,220
Total capital assets - Net	$ 58,658,195	$ 6,828,762	$ 9,031,983	$ 56,454,974

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 8 Long-Term Debt

A schedule of changes in long-term debt for the year ended December 31, 2015, was as follows:

	Beginning Balance 1/1/15	Additions	Reductions	Ending Balance 12/31/15	Amount Due Within One Year
Bonds and notes payable:					
2010B LTGO Bonds	$ 25,930,000	$ -	$ 885,000	$ 25,045,000	$ 905,000
Total long-term debt	$ 25,930,000	$ -	$ 885,000	$ 25,045,000	$ 905,000

A schedule of changes in long-term debt for the year ended December 31, 2014 was as follows:

	Beginning Balance 1/1/14	Additions	Reductions	Ending Balance 12/31/14	Amount Due Within One Year
Bonds and notes payable:					
2010A LTGO Bonds	$ 850,000	$ -	$ 850,000	$ -	$ -
2010A LTGO Bonds Premium	17,353	-	17,353	-	-
2010B LTGO Bonds	25,930,000	-	-	25,930,000	885,000
Total long-term debt	$ 26,797,353	$ -	$ 867,353	$ 25,930,000	$ 885,000

Note 8 Long-Term Debt (Continued)

The terms and due dates of the District's long-term debt, including capital lease obligations at December 31, 2015, follow:

Long-Term Debt

Limited Tax General Obligation Bonds 2010A (the "2010A Bonds"), dated October 14, 2010, in the amount of $2,070,000, due in varying annual principal installments of $450,000 in 2012 to $850,000 in 2014, plus interest at 4.00%, payable June 1 and December 1 each year. There is no optional redemption of the 2010A Bonds. The 2010A Bonds were sold at a premium of 6.69% above par value. The District issued general obligation bonds to finance the campus renewal project and construction of a new surgical wing, which was retired December 2014.

Limited Tax General Obligation Bonds 2010B (the "2010B Bonds"), dated October 14, 2010, in the amount of $25,930,000, due in varying annual principal installments of $885,000 in 2015 to $1,760,000 in 2035, plus interest at varying interest rates from 3.088% to 6.397% per bond schedule, payable in June and December each year. The 2010B Bonds maturing on or before December 1, 2020, are not subject to optional redemption prior to their stated maturities. The Bonds maturing on or after December 1, 2025, are subject to redemption on any date on or after December 1, 2020. The 2010B Bonds are designated as "Build America Bonds" and will be allowed a credit payable by the United States Treasury in an amount equal to 35% (less sequestration) of the interest payable on each interest payment date. The District issued general obligation bonds to finance the campus renewal project and construction of a new surgical wing.

Note 8 Long-Term Debt (Continued)

Principal maturities of long-term debt for succeeding years are as follows for the years ending December 31:

	Principal	Interest	Total
2016	905,000	1,429,273	2,334,273
2017	925,000	1,397,725	2,322,725
2018	945,000	1,363,167	2,308,167
2019	975,000	1,323,222	2,298,222
2020	1,000,000	1,280,546	2,280,546
2021-2025	5,525,000	5,602,655	11,127,655
2026-2030	6,640,000	3,887,802	10,527,802
2031-2035	8,130,000	1,602,449	9,732,449
Totals	$ 25,045,000	$ 17,886,839	$ 42,931,839

Note 9 Operating Leases

The District is committed under various leases for various equipment and building spaces. These leases are considered operating leases for accounting purposes. Lease expense for the year ended December 31, 2015, amounted to $452,580. Future minimum rental commitments for these leases for the years ending December 31 are as follows:

2016	349,359
2017	171,112
2018	54,034
2019	26,943
2020	17,632
Total	$ 619,080

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 10 Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended December 31:

	2015	2014
Gross patient service revenue:		
Inpatient services	$ 48,263,796	$ 46,124,579
Outpatient services	112,767,036	101,683,396
Physician clinics	20,092,732	17,503,701
Totals	181,123,564	165,311,676
Less:		
Contractual adjustments	96,433,373	87,067,888
Provision for bad debts	2,853,960	3,594,231
Net patient service revenue	$ 81,836,231	$ 74,649,557

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 11 Charity Care

The District provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated $2,209,561 and $2,357,031 for the years ended December 31, 2015 and 2014, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated approximately $1,059,900 and $1,147,800 in 2015 and 2014, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care.

Note 12 Pension

Defined Contribution Plan

The District sponsors and contributes to the Public Hospital District No. 1 of Mason County Pension Plan Number 001, a defined contribution pension plan, for its employees. The Plan covers its employees who have attained the age of 18 years and worked at least 1,000 hours in the first year.

Benefit terms, including contribution requirements, for the Plan are established and may be amended by the District board of directors. Employees are eligible to participate if they agree to contribute 3% of their earnings up to $650 a month, and 6% of earnings over $650 per month to the deferred compensation plan. The District contributes 4% of earnings of up to $650 per month and 8%of earnings over $650 per month. For the years ended December 31, 2015 and 2014, the District recognized pension expense of $1,894,779 and $1,723,115, respectively.

Each participant shall have a nonforfeitable and vested right to his or her account for each year of service completed while an employee of the employer, in accordance with the following schedule:

Years	Nonforfeitable percentage
0-2	0%
3	30%
4	40%
5	60%
6	80%
7 or more	100%

Note 12 Pension (Continued)

Deferred Compensation Plan

In addition to the defined contribution plan above, the District provides a deferred compensation plan to eligible employees under section 457(b) and 403(b) of the Internal Revenue Code. The plan is funded solely from employee contributions, which are deposited with insurance companies. The plan is administered by VALIC. Funds on deposit with the insurance company were $27,476,716 and $26,612,364 as of December 31, 2015 and 2014, respectively. Employee contributions to the plan were $2,763,754 and $2,452,031 as of December 31, 2015 and 2014, respectively.

Note 13 Risk Management

Professional Liability Insurance

The District is one of a number of Washington hospitals that are members of the Washington Hospital Casualty Company (WCC), a nonprofit mutual insurance corporation used for payment of liability claims. The WCC policy provides protection on a “claims made” basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies. If there are unreported incidents that 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 “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 aggregate limit of $5,000,000, plus $11,000,000 annual excess coverage per claim with an annual aggregate of $11,000,000. There are no significant deductible or coinsurance clauses. No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

Note 13 Risk Management (Continued)

The District is also exposed to various risks 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.

Self-Insurance

The District self-insures for health care benefits provided to its employees. Employee medical claims are paid by the District through a plan administrator, HMA. Employees file their claims with the administrator. The administrator pays the claim and invoices the amount paid back to the District. The District pays the claims out of unrestricted funds. The District also has major medical coverage with an insurance company that provides coverage for employee claims in excess of $150,000.

Expenses for health insurance coverage totaled $10,326,448 and $9,069,922 in 2015 and 2014, respectively.

The District has estimated the incurred but not reported (IBNR) liability as of December 31, 2015 using actuarial methods. These methods include the use of average lag claims multiplied by a stabilization reserve factor. The following represents changes to those liabilities during the past two years:

	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments and Fees	Ending Liability
2015	$ 3,808,630	$ 10,326,448	$ 9,410,812	$ 4,724,266
2014	$ 4,063,648	$ 9,069,922	$ 9,324,940	$ 3,808,630

Note 13 Risk Management (Continued)

Workers' Compensation and Unemployment Insurance

The District has a self-insured workers' compensation plan for its employees. The District participates in the Public Hospital District Workers' Compensation Trust, which is administered by the Washington State Hospital Association. The District pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reinsurance premiums. Amounts paid by the District for workers' compensation expense were $569,052 and $643,075 in 2015 and 2014, respectively.

The District has a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Unemployment Compensation Fund, which is 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 $133,243 and $180,018 in 2015 and 2014, respectively.

Property

The District is insured for earthquake, flood, theft, and fire for $84,770,000.

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 14 Concentration of Credit Risk

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

The mix of patient revenue at December 31 is as follows:

	2015	2014
Medicare	45%	48%
Medicaid	30%	26%
Self-pay	4%	4%
Other	22%	22%
Totals	100%	100%

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics

Notes to Financial Statements

Note 15 Functional Expenses

The District provides general health care services to residents within its geographic location. Expenses related to providing these services consisted of the following for the year ended December 31:

	2015	2014
Health care services	$ 68,072,133	$ 63,540,489
General and administrative	18,899,956	16,961,580
Total operating expenses and interest	$ 86,972,089	$ 80,502,069

Note 16 Subsequent Event

On April 12, 2016 the District and Shelton School District No. 309 (School) entered into an inter-local agreement for the joint operation of the Health Science Academy. The District is authorized by state law to deliver any services which might be reasonably expected to improve the health of the district's residents. The partnership provides the opportunity to motivate students to pursue medical/healthcare science careers.

Note 17 Reclassifications

The District recognized $829,884 in Medicare EHR revenue and $8.876 in patient account interest in 2014, which were both grouped within net patient revenue as a contractual adjustment in the Statement of Revenue, Expenses, and Changes in Net Position. These amounts are now classified as other operating revenue and interest earnings respectively.

Note three provides a detailed reconciliation to the restricted net position reclassifications.

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.

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