



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

December 13, 2018

Board of Commissioners  
Morton General Hospital  
Morton, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Morton General Hospital's financial statements for the fiscal years ended December 31, 2017 and 2016. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

**Lewis County Public Hospital District No. 1  
doing business as  
Morton General Hospital**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2017 and 2016



**DINGUS | ZARECOR & ASSOCIATES<sup>PLLC</sup>**  
Certified Public Accountants

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
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DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Lewis County Public Hospital District No. 1  
doing business as Morton General Hospital  
Morton, Washington

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 April 10, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We issued a similar report for the year ended December 31, 2016, dated May 11, 2017, which has not been included with the 2017 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in the District's internal control over financial reporting and compliance.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 10, 2018

**Lewis County Public Hospital District No. 1  
doing business as Morton General Hospital  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016**

Our discussion and analysis of Lewis County Public Hospital District No. 1 doing business as Morton General Hospital's (the District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2017 and 2016. Please read it in conjunction with the District's financial statements, which begin on page 7.

**Financial Highlights**

- The District's net position increased by \$1,701,791, or 26 percent, in 2017 and decreased by \$234,547, or 3 percent, in 2016.
- The District reported operating income of \$419,316 in 2017 and an operating loss of \$1,323,771 in 2016. Operating losses decreased by \$1,743,087 in 2017 and increased by \$406,254 in 2016.
- Nonoperating revenues and expenses increased by \$193,251, or 18 percent, in 2017 compared to 2016. Nonoperating revenues and expenses increased by \$91,770, or 9 percent, in 2016 compared to 2015.

**Using This Annual Report**

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

**The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position**

Our analysis of the District finances begins on page 7. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position—the difference between assets and liabilities—as a way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position can help indicate whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as the local economic factors, to assess the overall health of the District.

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended December 31, 2017 and 2016**

**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, on page 7. The District's net position increased by \$1,701,791, or 26 percent, in 2017 and decreased by \$234,547, or 3 percent, in 2016, as shown in Table 1.

A significant component of the change in the District's assets is the increase in patient accounts receivable. Although operating revenues increased in 2017 by \$2,684,081 (12 percent), patient accounts receivable, net of estimated uncollectible amounts, decreased by \$1,546,396, or 41 percent, in 2017. In addition, patient service revenue decreased by \$725,329 in 2016 compared to 2015, but receivables increased by \$355,317, or 10 percent.

**Table 1: Assets, Liabilities, and Net Position**

	2017	2016	2015
<i>Assets</i>			
Current assets	\$ 8,474,895	\$ 8,559,998	\$ 6,952,411
Capital assets, net	12,049,482	13,277,064	13,941,678
Other noncurrent assets	1,221,466	1,198,701	1,721,623
<b>Total assets</b>	<b>\$ 21,745,843</b>	<b>\$ 23,035,763</b>	<b>\$ 22,615,712</b>
<i>Liabilities</i>			
Current liabilities	\$ 3,431,865	\$ 4,756,209	\$ 2,587,098
Noncurrent liabilities	10,054,108	11,721,475	13,195,035
<b>Total liabilities</b>	<b>13,485,973</b>	<b>16,477,684</b>	<b>15,782,133</b>
<i>Deferred inflow of resources</i>			
Deferred electronic health records incentive revenue	-	-	40,953
<i>Net position</i>			
Net investment in capital assets	344,614	(121,902)	(410,562)
Restricted for debt service	668,364	598,072	558,768
Restricted for capital acquisitions	-	61,018	636,997
Unrestricted	7,246,892	6,020,891	6,007,423
<b>Total net position</b>	<b>8,259,870</b>	<b>6,558,079</b>	<b>6,792,626</b>
<b>Total liabilities, deferred inflow of resources, and net position</b>	<b>\$ 21,745,843</b>	<b>\$ 23,035,763</b>	<b>\$ 22,615,712</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended December 31, 2017 and 2016**

**Operating Results and Changes in The District's Net Position**

In 2017, the District's net position increased by \$1,701,791, or 26 percent, as shown in Table 2. This increase is made up of very different components, compared with the decrease in net position for 2016 of \$234,547 and is discussed below.

**Table 2: Operating Results and Changes in Net Position**

	2017	2016	2015
<i>Operating revenues</i>			
Net patient revenue, net of provision for bad debts	\$ 24,352,784	\$ 21,311,110	\$ 22,036,439
Electronic health records incentive payment (payback)	(194,689)	170,732	132,899
Grants and other	301,557	293,729	293,219
Total operating revenues	24,459,652	21,775,571	22,462,557
<i>Operating expenses</i>			
Salaries and benefits	14,671,212	14,414,292	14,736,548
Supplies	1,547,886	1,452,602	1,757,835
Depreciation and amortization	1,932,977	1,886,107	1,586,969
Other	5,888,261	5,346,341	5,298,722
Total operating expenses	24,040,336	23,099,342	23,380,074
<i>Operating income (loss)</i>	419,316	(1,323,771)	(917,517)
<i>Nonoperating revenues (expenses)</i>			
Taxation	1,611,703	1,579,113	1,559,951
Interest income	46,448	20,094	6,120
Interest expense	(570,027)	(613,222)	(611,833)
Other	194,351	103,239	43,216
Total nonoperating revenues, net	1,282,475	1,089,224	997,454
Change in net position	1,701,791	(234,547)	79,937
Net position, beginning of year	6,558,079	6,792,626	6,712,689
<b>Net position, end of year</b>	<b>\$ 8,259,870</b>	<b>\$ 6,558,079</b>	<b>\$ 6,792,626</b>



**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended December 31, 2017 and 2016**

**Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows**

The first component of the overall change in the District's net assets is its operating loss — the difference between net patient service revenues and the expenses incurred to perform those services. In 2017, the District reported operating income. In the preceding two years, the District reported an operating loss. Operating losses decreased by \$1,743,087, or 132 percent, from 2016 to 2017, and increased by \$406,254, or 44 percent, from 2015 to 2016.

The primary components of these changes in operating losses are:

- An increase in patient revenues of \$3,041,674, or 14 percent, is associated with a 19 percent gain in Skilled Nursing days and a 9 percent increase in Physician Clinic volume netted with write-off of old accounts from the 2016 EMR transition.
- The District recognized \$483,999 for estimated settlements related to Medicaid Managed Care contracts from the state of Washington for the years of 2011-2016; previously the District expected a \$25,000 payable.
- Increase in salaries and benefits expense of \$256,920, or 1.7 percent, from 2016 to 2017, and a decrease of \$322,256, or 2 percent, from 2015 to 2016.
- The District experienced a 501R review as a result of the 501(c)(3) status, resulting in a compliance fine of \$100,000. All issues were addressed and resolved with the Internal Revenue Service.
- The District identified, as part of the Washington State EHR program audit, that it has been overpaid in the amount of \$194,689.
- Increase in supplies expense of \$95,284, or 6.5 percent, from 2016 to 2017, and a decrease of \$305,233, or 17 percent, from 2015 to 2016.
- There was a write-off of the goodwill related to a physician practice purchase of \$63,925.

**Capital Assets**

At the end of 2017, the District had \$12,049,482 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2017, the District purchased or placed into use new assets costing \$705,395.

**Debt**

At year end, the District had \$10,054,108 in revenue notes, mortgage loans, and capital lease obligations outstanding. The District issued no new debt in 2017. The District's formal debt issuances—revenue notes—cannot be issued without approval of the Lewis County Board of Commissioners.

**Currently Known Facts, Decisions, and Conditions**

There are no known changes in the community, industry, or state programs that can be quantified at this time.

**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. If you have questions about this report or need additional information, contact the administration department at Morton General Hospital, P.O. Box 1138, Morton, Washington 98356.

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Statements of Net Position**  
**December 31, 2017 and 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 5,072,456	\$ 3,882,762
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$461,000 and \$1,121,000, respectively	2,242,505	3,788,901
Estimated third-party payor settlements	649,208	-
Taxes	33,597	39,679
Taxes restricted for debt service	30,805	39,228
Other	8,517	168,581
Inventories	191,211	160,453
Prepaid expenses and other	246,596	480,394
Total current assets	8,474,895	8,559,998
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	583,907	578,839
Cash and cash equivalents, restricted for debt service	637,559	558,844
Cash and cash equivalents, restricted for capital acquisition	-	61,018
Capital assets, net	12,049,482	13,277,064
Total noncurrent assets	13,270,948	14,475,765
<b>Total assets</b>	<b>\$ 21,745,843</b>	<b>\$ 23,035,763</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Statements of Net Position (Continued)**  
**December 31, 2017 and 2016**

<b>LIABILITIES AND NET POSITION</b>	<b>2017</b>	<b>2016</b>
<i>Current liabilities</i>		
Accounts payable	\$ 366,409	\$ 401,568
Accrued compensation and related liabilities	1,220,007	1,119,663
Estimated third-party payor settlements	-	1,557,486
Electronic health records incentive payback	194,689	-
Current maturities of long-term debt	1,566,724	1,531,465
Current portion of capital lease obligations	84,036	146,027
Total current liabilities	3,431,865	4,756,209
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	9,890,251	11,472,821
Capital lease obligations, less current portion	163,857	248,654
Total noncurrent liabilities	10,054,108	11,721,475
Total liabilities	13,485,973	16,477,684
<i>Net position</i>		
Net investment in capital assets	344,614	(121,902)
Restricted for debt service	668,364	598,072
Restricted for capital acquisitions	-	61,018
Unrestricted	7,246,892	6,020,891
Total net position	8,259,870	6,558,079
<b>Total liabilities and net position</b>	<b>\$ 21,745,843</b>	<b>\$ 23,035,763</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Operating revenues</i>		
Net patient revenue, net of provision for bad debts		
of \$2,219,819 and \$667,234, respectively	\$ 24,352,784	\$ 21,311,110
Electronic health records incentive payment (payback)	(194,689)	170,732
Grants	46,453	29,680
Other	255,104	264,049
Total operating revenues	24,459,652	21,775,571
<i>Operating expenses</i>		
Salaries and wages	11,708,048	11,605,416
Employee benefits	2,963,164	2,808,876
Professional fees	2,378,086	1,790,500
Supplies	1,547,886	1,452,602
Utilities	389,205	391,630
Purchased services	1,528,772	1,603,987
Leases and rentals	175,622	284,453
Repairs and maintenance	280,529	298,510
Depreciation and amortization	1,932,977	1,886,107
Insurance	207,279	194,808
Other	928,768	782,453
Total operating expenses	24,040,336	23,099,342
<i>Operating income (loss)</i>	419,316	(1,323,771)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	823,687	800,903
Taxation for bond principal and interest	788,016	778,210
Contributions	102,514	17,626
Build America Bond subsidy	91,337	91,361
Gain (loss) on disposal of assets	500	(5,748)
Interest income	46,448	20,094
Interest expense	(570,027)	(613,222)
Total nonoperating revenues, net	1,282,475	1,089,224
Change in net position	1,701,791	(234,547)
Net position, beginning of year	6,558,079	6,792,626
<b>Net position, end of year</b>	<b>\$ 8,259,870</b>	<b>\$ 6,558,079</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 23,692,486	\$ 22,635,771
Cash received from electronic health records incentive payments	-	129,779
Cash received from grants	46,453	29,680
Cash received from other revenue	255,104	264,049
Cash paid to and on behalf of employees	(14,570,868)	(14,418,398)
Cash paid to suppliers and contractors	(7,058,140)	(6,998,449)
Net cash provided by operating activities	2,365,035	1,642,432
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	829,769	811,664
Contributions received	102,514	17,626
Net cash provided by noncapital financing activities	932,283	829,290
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	796,439	789,350
Interest paid	(585,692)	(628,888)
Principal payments on long-term debt	(1,531,646)	(1,103,589)
Principal payments on capital leases	(146,788)	(111,687)
Payments for purchase of capital assets	(755,457)	(901,560)
Proceeds from the sale of capital assets	500	2,050
Cash received from Build America Bonds subsidy	91,337	91,361
Net cash provided by (used in) capital and related financing activities	(2,131,307)	(1,862,963)
<i>Cash flows from investing activities</i>		
Interest received	46,448	20,094
Net increase in cash and cash equivalents	1,212,459	628,853
Cash and cash equivalents, beginning of year	5,081,463	4,452,610
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,293,922</b>	<b>\$ 5,081,463</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 5,072,456	\$ 3,882,762
Cash and cash equivalents, limited as to use for capital acquisitions	583,907	578,839
Cash and cash equivalents, restricted for debt service	637,559	558,844
Cash and cash equivalents, restricted for capital acquisition	-	61,018
<b>Total cash and cash equivalents</b>	<b>\$ 6,293,922</b>	<b>\$ 5,081,463</b>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i></b>		
Operating income (loss)	\$ 419,316	\$ (1,323,771)
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation and amortization	1,932,977	1,886,107
Provision for bad debts	2,219,819	667,234
Decrease (increase) in current assets:		
Receivables:		
Patient accounts, net	(673,423)	(1,022,551)
Estimated third-party payor settlements	(649,208)	122,492
Other	160,064	(64,356)
Inventories	(30,758)	(54,435)
Prepaid expenses and other	233,798	(126,097)
Increase (decrease) in current liabilities:		
Accounts payable	14,903	45,382
Accrued compensation and related liabilities	100,344	(4,106)
Estimated third-party payor settlements	(1,557,486)	1,557,486
Electronic health records incentive payback	194,689	-
Deferred electronic health records incentive revenue	-	(40,953)
<b>Net cash provided by operating activities</b>	<b>\$ 2,365,035</b>	<b>\$ 1,642,432</b>

***Noncash Investing, Capital, and Financing Activities***

The District entered into capital lease obligations of \$0- and \$277,669 in the years ended December 31, 2017 and 2016, respectively, for the acquisition of equipment.

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2017 and 2016**

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

**a. Reporting Entity:**

Lewis County Public Hospital District No. 1 owns and operates Morton General Hospital (the District), a licensed 25-bed critical access hospital in Morton, Washington, and rural health clinics in Randle and Riffe, Washington. The District provides healthcare services to patients in eastern Lewis County, Washington. The services provided include acute care hospital, emergency room, long-term swing-bed care services, physicians' clinic, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms. The District has no material component units.

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

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

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

*Cash and cash equivalents* – All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Lewis County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

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

*Assets restricted or limited as to use* – Assets restricted or limited as to use include assets set aside by the Board of Commissioners for future capital improvements over which the Board retains control and could subsequently use for other purposes, and assets set aside for repayment of principal and interest on bond indebtedness and capital acquisitions.

*Bond premiums and discounts* – The straight-line method is used to amortize the bond premiums and discounts over the period the related obligation is outstanding, which approximates the effective interest method.

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

**b. Summary of Significant Accounting Policies (continued):**

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

**Compensated absences** – Compensated absences consist of 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 incurred.

Accrued vacation, which may be accumulated up to 360 hours, is payable upon resignation, retirement, or death. There is no limit to the amount of sick leave employees may accumulate; however, it is not payable to the employees upon conclusion of their employment under any circumstance.

**Net position** – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by current balances of any outstanding balances used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District.

*Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

**Operating revenues and expenses** – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District's principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

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

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



**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

**b. Summary of Significant Accounting Policies (continued):**

***Reclassifications*** – Certain reclassifications of the 2016 amounts have been made in the financial statements in order to conform to the 2017 presentation. These reclassifications had no effect on the previously reported change in net position.

***Subsequent events*** – Subsequent events have been reviewed through April 10, 2018, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Investments:**

*The Revised Code of Washington*, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2017 and 2016, were approximately \$5,499,000 and \$4,879,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

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

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

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

***Interest rate risk*** – The possibility that an interest rate change could adversely affect an investment's fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**3. Patient Accounts Receivable:**

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

The District's allowance for uncollectible accounts for self-pay patients has decreased from the prior year due to efforts by the District to write off noncollectible accounts. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	<b>2017</b>	<b>2016</b>
Receivables from patients and their insurance carriers	\$ 1,343,104	\$ 2,227,271
Receivables from Medicare	927,008	1,895,119
Receivables from Medicaid	433,528	787,280
Total patient accounts receivable	2,703,640	4,909,670
Less allowance for uncollectible accounts	461,135	1,120,769
<b>Patient accounts receivable, net</b>	<b>\$ 2,242,505</b>	<b>\$ 3,788,901</b>

**4. Capital Assets:**

All capital assets other than land are depreciated or amortized (in the case of capital leases) by the straight-line method of depreciation using these asset lives:

Land improvements	8 to 25 years
Buildings and improvements	5 to 40 years
Equipment	3 to 25 years

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

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

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 971,399	\$ -	\$ -	\$ -	\$ 971,399
Construction in progress	212,194	341,263	-	(332,457)	221,000
Total capital assets not being depreciated	1,183,593	341,263	-	(332,457)	1,192,399
<i>Capital assets being depreciated</i>					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	16,976,234	-	-	47,971	17,024,205
Equipment	9,407,142	364,132	-	284,486	10,055,760
Total capital assets being depreciated	27,810,115	364,132	-	332,457	28,506,704
<i>Less accumulated depreciation for</i>					
Land improvements	(806,644)	(89,151)	-	-	(895,795)
Buildings and improvements	(9,749,123)	(710,056)	-	-	(10,459,179)
Equipment	(5,160,877)	(1,133,770)	-	-	(6,294,647)
Total accumulated depreciation	(15,716,644)	(1,932,977)	-	-	(17,649,621)
Total capital assets being depreciated, net	12,093,471	(1,568,845)	-	332,457	10,857,083
<b>Capital assets, net</b>	<b>\$ 13,277,064</b>	<b>\$ (1,227,582)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,049,482</b>
	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 971,399	\$ -	\$ -	\$ -	\$ 971,399
Construction in progress	1,871,254	331,927	-	(1,990,987)	212,194
Total capital assets not being depreciated	2,842,653	331,927	-	(1,990,987)	1,183,593
<i>Capital assets being depreciated</i>					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	16,976,234	-	-	-	16,976,234
Equipment	6,709,822	897,364	(191,031)	1,990,987	9,407,142
Total capital assets being depreciated	25,112,795	897,364	(191,031)	1,990,987	27,810,115
<i>Less accumulated depreciation for</i>					
Land improvements	(716,358)	(90,286)	-	-	(806,644)
Buildings and improvements	(9,008,974)	(740,149)	-	-	(9,749,123)
Equipment	(4,288,438)	(1,055,672)	183,233	-	(5,160,877)
Total accumulated depreciation	(14,013,770)	(1,886,107)	183,233	-	(15,716,644)
Total capital assets being depreciated, net	11,099,025	(988,743)	(7,798)	1,990,987	12,093,471
<b>Capital assets, net</b>	<b>\$ 13,941,678</b>	<b>\$ (656,816)</b>	<b>\$ (7,798)</b>	<b>\$ -</b>	<b>\$ 13,277,064</b>

**Lewis County Public Hospital District No. 1  
doing business as Morton General Hospital  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2017 and 2016**

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

At December 31, 2017, construction in progress consists of costs associated with a remodel of the human resource space and the implementation of a new patient monitoring system. The remodel is scheduled to be complete in the first quarter of 2019, with estimated cost of completion of approximately \$100,000. The patient monitoring system is scheduled to be placed into service in June 2018 and has no significant estimated cost to complete.

**5. Defined Contribution Retirement Plan:**

The District has a tax-sheltered annuity (TSA) plan that is available to substantially all employees. The deferred compensation plan has been established by the District under Section 403(b) of the Internal Revenue Code and is administered by The Hartford. The name of the plan is Lewis County Hospital District No. 1 doing business as Morton General Hospital 403(b) Plan (the Plan). The Plan is a defined contribution plan funded from both employee and employer contributions that are deposited in employee-controlled accounts. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the District. Employees may contribute to the TSA immediately upon employment. After employees have completed 12 months of service (1,000 hours in the preceding 12-month period), have attained age 18, and are in the eligible class, the District will make contributions to the employee's account. The District's contribution is on a matching basis at a rate to be determined annually by the District, and the District maintains sole discretion of how much, if any, it will make as an employer contribution. Employee and employer contributions are 100% vested at the time they are paid. Any forfeitures occurring during the plan year will be used to pay plan expenses and reduce the current-period contribution requirement. Pension expenses for the years ended December 31, 2017 and 2016, were approximately \$404,000 and \$319,000, respectively. Employee contributions to the Plan for the years ended December 31, 2017 and 2016, were approximately \$648,000 and \$620,000, respectively.

The District owed approximately \$55,000 to the Plan at both December 31, 2017 and 2016.

**6. Line of Credit:**

The District has a line of credit with a maturity date of June 20, 2018, with Umpqua Bank for \$1,000,000. There were no draws or payments associated with this line of credit during the year and no balance outstanding at year end.

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	Balance December 31, 2016			Additions	Reductions	Balance December 31, 2017			Amounts Due Within One Year
<i>Long-term debt</i>									
Note payable to De Lage (Cemer)	\$	1,959,930	\$	-	\$ (647,791)	\$	1,312,139	\$	645,362
Note payable to Security State Bank		15,217		-	(8,855)		6,362		6,362
2005 LTGO bonds		1,695,000		-	(155,000)		1,540,000		165,000
2010 LTGO A bonds		730,000		-	(75,000)		655,000		70,000
2010 LTGO B bonds		4,130,000		-	-		4,130,000		-
2012 UTGO bonds		4,385,000		-	(645,000)		3,740,000		680,000
Bond premiums and discounts		89,139		-	(15,665)		73,474		-
Total long-term debt		13,004,286		-	(1,547,311)		11,456,975		1,566,724
<i>Capital lease obligations</i>									
First Financial		62,461		-	(62,461)		-		-
Regents		147,357		-	(37,676)		109,681		35,450
Delage (Cemer)		43,656		-	(11,097)		32,559		12,656
Everbank		141,207		-	(35,554)		105,653		35,930
Total capital lease obligations		394,681		-	(146,788)		247,893		84,036
<b>Total long-term debt and capital lease obligations</b>									
	\$	13,398,967	\$	-	\$ (1,694,099)	\$	11,704,868	\$	1,650,760

	Balance December 31, 2015			Additions	Reductions	Balance December 31, 2016			Amounts Due Within One Year
<i>Long-term debt</i>									
Note payable to De Lage (Cemer)	\$	2,220,980	\$	-	\$ (261,050)	\$	1,959,930	\$	647,289
Note payable to Security State Bank		22,756		-	(7,539)		15,217		8,978
2005 LTGO bonds		1,845,000		-	(150,000)		1,695,000		155,198
2010 LTGO A bonds		800,000		-	(70,000)		730,000		75,000
2010 LTGO B bonds		4,130,000		-	-		4,130,000		-
2012 UTGO bonds		5,000,000		-	(615,000)		4,385,000		645,000
Bond premiums and discounts		104,805		-	(15,666)		89,139		-
Total long-term debt		14,123,541		-	(1,119,255)		13,004,286		1,531,465
<i>Capital lease obligations</i>									
First Financial		15,505		99,813	(52,857)		62,461		12,127
Regents		-		177,856	(30,499)		147,357		34,510
Delage (Cemer)		55,284		-	(11,628)		43,656		35,578
Everbank		157,910		-	(16,703)		141,207		63,812
Total capital lease obligations		228,699		277,669	(111,687)		394,681		146,027
<b>Total long-term debt and capital lease obligations</b>									
	\$	14,352,240	\$	277,669	\$ (1,230,942)	\$	13,398,967	\$	1,677,492

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

*Long-term debt* – the terms and due dates of the District’s long-term debt are as follows:

- Note payable to De Lage Landen Public Finance LLC, dated January 28, 2015, in the original amount of \$2,470,685, for the purchase of software. The note is due in monthly installments of \$56,554, including interest at 3.27 percent, through December 2019.
- Note payable to Security State Bank, dated July 31, 2008, in the original amount of \$67,378, for the purchase of property near the hospital. The note is due in monthly installments of \$812, including interest at 7.75 percent through July 2018.
- Limited tax general obligation (LTGO) bonds dated February 18, 2005, in the original amount of \$3,000,000; payable annually on December 1, with variable principal payments ranging from \$165,000 to \$225,000. Interest of 4.69 percent is payable semiannually through December 2025.
- Limited tax general obligation (LTGO) series A bonds, dated October 28, 2010, in the original amount of \$1,090,000, payable annually on December 1, with variable principal payments ranging from \$70,000 to \$95,000. Interest of 4 percent is payable semiannually through December 2025. The District issued the bonds for an addition and remodel to the hospital.
- Limited tax general obligation (LTGO) series B bonds (federally taxable Revenue Build America Bonds), dated October 28, 2010, in the original amount of \$4,130,000, payable annually on December 1, with variable principal payments starting in 2025, ranging from \$25,000 to \$495,000. Variable rate interest of 6.675 percent to 6.875 percent is payable semiannually through December 2035. The District issued the bonds for an addition and remodel to the hospital.
- Unlimited tax general obligation (UTGO) bonds (refunding), dated December 1, 2012, in the original amount of \$7,265,000, payable annually on December 1, with variable principal payments ranging from \$680,000 to \$815,000. Variable rate interest of 2 percent to 4 percent is payable semiannually through December 2022. The District issued the bonds to refund the 2002 UTGO bonds.

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

The UTGO bond is a direct and general obligation and is secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

*Capital lease obligations* – the terms and due dates of the District’s capital lease obligations are as follows:

- Capital lease obligations with First Financial Corporate Services, dated March 2011, in the original amount of \$202,605, for hospital equipment. This lease was paid off in 2017.
- Capital lease obligations with Regents Capital Corporation, dated January 2016, due in combined quarterly installments of \$9,376, including interest of 2.1 percent through February 2021.
- Capital lease obligation with De Lage Landen Public Finance, collateralized by leased software, dated May 2015, due in monthly installments of \$1,146, including interest of 4.27 percent through May 2020.
- Capital lease obligation with Everbank, collateralized by equipment, dated November 2015, due in monthly installments ranging from \$1,500 to \$3,065, including interest of 0.96 percent through October 2020.

The lease obligations are reflected in the District’s assets and liabilities. The assets acquired under the capital leases had a capitalized cost of \$400,344 and \$508,462 and accumulated amortization of \$158,770 and \$195,773 as of December 31, 2017 and 2016, respectively.

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

Years Ending December 31,	LTGO Bonds			UTGO Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2018	\$ 235,000	\$ 378,035	\$ 613,035	\$ 680,000	\$ 100,275	\$ 780,275
2019	250,000	367,807	617,807	720,000	73,075	793,075
2020	260,000	357,074	617,074	745,000	58,675	803,675
2021	270,000	345,832	615,832	780,000	41,913	821,913
2022	280,000	333,649	613,649	815,000	22,423	837,423
2023-2027	1,610,000	1,457,091	3,067,091	-	-	-
2028-2032	1,995,000	908,694	2,903,694	-	-	-
2033-2037	1,425,000	198,688	1,623,688	-	-	-
	<b>\$ 6,325,000</b>	<b>\$ 4,346,870</b>	<b>\$ 10,671,870</b>	<b>\$ 3,740,000</b>	<b>\$ 296,361</b>	<b>\$ 4,036,361</b>

Years Ending December 31,	Other			Total Long-Term Debt		
	Principal	Interest	Totals	Principal	Interest	Totals
2018	\$ 651,724	\$ 33,421	\$ 685,145	\$ 1,566,724	\$ 511,731	\$ 2,078,455
2019	666,777	11,868	678,645	1,636,777	452,750	2,089,527
2020	-	-	-	1,005,000	415,749	1,420,749
2021	-	-	-	1,050,000	387,745	1,437,745
2022	-	-	-	1,095,000	356,072	1,451,072
2023-2027	-	-	-	1,610,000	1,457,091	3,067,091
2028-2032	-	-	-	1,995,000	908,694	2,903,694
2033-2037	-	-	-	1,425,000	198,688	1,623,688
	<b>\$ 1,318,501</b>	<b>\$ 45,289</b>	<b>\$ 1,363,790</b>	<b>\$ 11,383,501</b>	<b>\$ 4,688,520</b>	<b>\$ 16,072,021</b>



**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

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

Years Ending December 31,	Capital Lease Obligations		
	Principal	Interest	Totals
2018	\$ 84,036	\$ 4,561	\$ 88,597
2019	85,909	2,686	88,595
2020	73,592	848	74,440
2021	4,356	10	4,366
	<b>\$ 247,893</b>	<b>\$ 8,105</b>	<b>\$ 255,998</b>

**8. Net Patient Service Revenue:**

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

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 16,140,262	\$ 11,770,034
Medicaid	5,628,503	4,737,952
Other third-party payors	3,402,557	4,563,311
Patients	1,622,495	1,097,871
	<b>26,793,817</b>	<b>22,169,168</b>
Less:		
Charity care	221,214	190,824
Provision for bad debts	2,219,819	667,234
<b>Net patient service revenue</b>	<b>\$ 24,352,784</b>	<b>\$ 21,311,110</b>



**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

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

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The rural health clinics are also paid under a cost reimbursement method. Nonrural health clinic physician services are reimbursed on a fee schedule. 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.
- *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 rural health clinics are paid under a prospective rate per encounter methodology. 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 Health Care Authority.

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$532,000 in 2017 and decreased by approximately \$575,000 in 2016, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016, were approximately \$131,000 and \$111,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

**9. Electronic Health Records Incentive Payment:**

During the year ended December 31, 2012, the District received an EHR incentive payment lump sum of \$204,766 from the Medicare program. The District received no additional EHR incentive payments. The District recognizes incentive revenue ratably over the life of the assets funded.

The District recognized \$-0- and \$40,953 of revenue related to incentive payments from the Medicare program during the years ended December 31, 2017 and 2016, respectively.

**Lewis County Public Hospital District No. 1**  
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**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**9. Electronic Health Records Incentive Payment (continued):**

The District recognizes the first of its four Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded, or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent three payments are issued when meaningful use is demonstrated under either Medicare or Medicaid. Medicaid incentive payments of \$-0- and \$129,779 were recognized as revenue during 2017 and 2016, respectively. In 2017, the District recognized a payback of \$194,689 to Medicaid.

**10. Property Taxes:**

The Lewis County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values assessed as of the prior January 1, and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Lewis County Assessor at 100% of fair market values. A revaluation of all property is required every four years.

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

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

Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as nonoperating revenue. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

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

<b>2017</b>				
	<b>Levy Rate</b>	<b>Assessed Value</b>		<b>Total</b>
		<b>Real and Personal</b>	<b>Timber</b>	<b>Levy Amount</b>
Bond	0.5073	\$ 976,456,872	\$ 576,413,247	\$ <b>787,772</b>
Maintenance and operation	0.5948	\$ 992,381,633	\$ -	\$ <b>590,245</b>
<b>2016</b>				
	<b>Levy Rate</b>	<b>Assessed Value</b>		<b>Total</b>
		<b>Real and Personal</b>	<b>Timber</b>	<b>Levy Amount</b>
Bond	0.5766	\$ 1,352,624,178	\$ 369,118,466	\$ <b>779,971</b>
Maintenance and operation	0.5820	\$ 999,866,321	\$ -	\$ <b>582,129</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**11. Risk Management and Contingencies:**

***Risk management*** – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

The District also has excess professional liability insurance with Physicians Insurance on a “claims-made” basis. The excess malpractice insurance provides \$4,000,000 per claim of primary coverage with an aggregate limit of \$4,000,000. The policy has no deductible per claim.

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

***Self-insurance risk pools*** – The District has a self-insured workers’ compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust and the Public Hospital District Unemployment Trust, which are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers’ compensation claims, unemployed claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$263,000 and \$218,000 in 2017 and 2016, respectively. Payments by the District charged to unemployment expense were approximately \$32,000 and \$72,000 in 2017 and 2016, respectively.

***Industry regulations*** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**Lewis County Public Hospital District No. 1**  
**doing business as Morton General Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2017 and 2016**

**12. Concentration of Risks:**

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

The mix of receivables from patients was as follows:

	<b>2017</b>	<b>2016</b>
Medicare	<b>41 %</b>	45 %
Medicaid	<b>20</b>	20
Other third-party payors	<b>31</b>	23
Patients	<b>8</b>	12
	<b>100 %</b>	100 %

***Physicians*** – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

***Collective bargaining units*** – Effective November 1, 2015, the District renewed its contract with Carpenters' Industrial Council Local Union No. 2767. Approximately 55 percent of the District's employees are represented by the labor union under this collective bargaining agreement. The contract is effective through June 30, 2018.

Effective October 30, 2017, the District renewed its contracts with Washington State Nurses Association for registered nurses and licensed practical nurses. Approximately 18 percent of the District's employees are represented by the labor union under these collective bargaining agreements. The contracts are effective through March 31, 2019.



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners  
Lewis County Public Hospital District No. 1  
doing business as Morton General Hospital  
Morton, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lewis County Public Hospital District No. 1 doing business as Morton General Hospital (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 10, 2018.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 10, 2018

**Lewis County Public Hospital District No. 1  
doing business as Morton General Hospital  
Summary Schedule of Prior Year Audit Findings  
Year Ended December 31, 2017**

The audit for the year ended December 31, 2016, reported no audit findings, nor were there any unresolved findings from the periods ended December 31, 2015, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2017.