

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Pend Oreille County Public Hospital  
District No. 1  
(Newport Hospital and Health Services)**

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1011141**

Issue Date  
**January 27, 2014**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

January 27, 2014

Board of Commissioners  
Newport Hospital and Health Services  
Newport, Washington

***Report on Financial Statements***

Please find attached our report on the Newport Hospital and Health Services' financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

**TROY KELLEY**  
STATE AUDITOR

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Pend Oreille County  
January 1, 2012 through December 31, 2012**

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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*

## **Newport Hospital and Health Services Pend Oreille County January 1, 2012 through December 31, 2012**

Board of Commissioners  
Newport Hospital and Health Services  
Newport, 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 Newport Hospital and Health Services, Pend Oreille County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 6, 2014. During the year ended December 31, 2012, the District implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

### ***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

January 6, 2014

# Independent Auditor's Report on Financial Statements

## **Newport Hospital and Health Services Pend Oreille County January 1, 2012 through December 31, 2012**

Board of Commissioners  
Newport Hospital and Health Services  
Newport, Washington

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

We have audited the accompanying financial statements of the Newport Hospital and Health Services, Pend Oreille County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 6.

#### ***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 Newport Hospital and Health Services, as of December 31, 2012 and 2011, 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.

### **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2012, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **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 7 through 11 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 January 6, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

**TROY KELLEY**  
STATE AUDITOR

January 6, 2014



# Financial Section

**Newport Hospital and Health Services  
Pend Oreille County  
January 1, 2012 through December 31, 2012**

***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

***BASIC FINANCIAL STATEMENTS***

Statements of Net Position – 2012 and 2011

Statements of Revenues, Expenses and Changes in Net Position – 2012 and 2011

Statements of Cash Flows – 2012 and 2011

Notes to Financial Statements – 2012 and 2011

**Pend Oreille County Public Hospital District No. 1**  
**dba**  
**Newport Hospital & Health Services**  
**Newport Community Hospital Long Term Care Unit**  
**Family Health Center Newport**  
**Family Medicine Newport**  
**River Mountain Village Assisted Living**

**Management's Discussion and Analysis**

**Introduction**

This section of the annual financial report of Pend Oreille County Public Hospital District No. 1 (District) (dba Newport Hospital & Health Services, Newport Community Hospital Long Term Care Unit, Family Medicine Newport, Family Health Center Newport, and River Mountain Village Assisted Living) provides background about the District and management's discussion and analysis of the organization for the fiscal year ended December 31, 2012. This discussion has been prepared along with the financial statements and related footnote disclosures, which should be read in conjunction with one another.

**Background and History**

The District is a governmental entity and a political subdivision of the State of Washington. Public Hospital Districts were 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 on November 2, 1954. The District operates a 24-licensed-bed acute care hospital, a 50-licensed-bed long term care facility, two provider-based rural health clinics and a 42-unit assisted living facility. The buildings to support all of the operations are located within a one-mile radius of each other. The District services include acute care, skilled nursing, assisted living, physician, emergency room, and surgical services, plus related ancillary procedures such as laboratory, imaging and physical therapy.

A five-member board of commissioners governs the District. The members of the board are publicly 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 with statutory authority to levy taxes; as such, the District levies and the county collects property taxes from property owners within the Hospital District. These tax revenues are used to support the purpose of the District, which is to provide health care to the members of the district.

The Government Accounting Standards Board prescribes the financial reporting of the District. This is the format followed by the District. The accounting records and system of internal controls are audited by the State of Washington's Auditors Office.

**Using This Annual Report**

The District's financial statements consist of three statements, the Statement of Net Position, the Statement of Revenues and Expenses and Changes in Net Position, and the Statement of Cash Flows.

**Pend Oreille County Public Hospital District No. 1**  
**dba**  
**Newport Hospital & Health Services**

**Management's Discussion and Analysis**

The Statement of Net Position lists the district's information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). This statement includes all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. The Statement of Net Position includes information to help compute the rate of return on investments, evaluate the capital structure and assess the liquidity and financial flexibility.

The Statement of Revenues and Expenses and Changes in Net Position includes all the current year's revenues and expenses regardless of when cash is received or paid. This statement measures changes in the District's operations over the past two years and can be used to determine whether the District has been able to recover all of its costs through patient service revenue and other revenue sources.

The Statement of Cash Flows provides information about the District's cash from operating, investing and financing activities. It explains the source of cash, how it was spent and the change in the cash balances during the reporting period.

## **Overview**

The overall financial position of the District as of the end of 2012 saw continued increases in total assets, net position, and total operating revenues. The District reported income from operations for 2012 of approximately \$352,000 and total excess of revenue over expenses of approximately \$995,000. The District received electronic health record incentive payments of \$611,432 for 2012 and \$568,701 for 2011 (see the accompanying footnotes), which was partially responsible for the operating and net income results. Absent these electronic health record incentive payments, the District would have still reported a higher net excess of revenues than any of the previous four years, the result of modest volume and revenue increases plus continued vigilance on operating expenses.

The District continues to successfully control operating expenses, maintain our capital asset outlays at the appropriate level to keep technology current and pay off debt as scheduled. We believe we continue to be well positioned and financially flexible to remain successful amidst the ever-changing world of health care.

## **Financial Highlights and Trends**

The District's net patient revenues increased to \$23.9 million in 2012 from \$22.9 million in 2011, an increase of 4.4%. This compares to very similar increases of 4.5% and 4.1% in the past two years. Since the District is cost reimbursed for Medicare and Medicaid services, these increases are heavily influenced by the increases of total operating expenses. Further discussions of gross revenues are as follows.

**Pend Oreille County Public Hospital District No. 1**  
**dba**  
**Newport Hospital & Health Services**

**Management's Discussion and Analysis**

- Hospital gross revenues increased to \$26.2 million in 2012 from \$25.0 million in 2011 or 4.8%. This compares to a similar 5.1% increase from 2010 to 2011.
- Rural health clinic gross revenue increased to \$4.5 million in 2012 from \$4.2 million in 2011. Reversing a decline of 2.2% to \$4.26 million in 2011 from \$4.4 million in 2010. Total clinic visits were generally flat for this three year period.
- Long term care gross revenues increased to \$3.6 million in 2012 from \$3.3 million in 2011 or 9%. This was the result of an increase in average resident census from approximately 39.3 to 42.5, or 8%.

The District's total operating expenses increased to \$24.7 million in 2012 from \$23.7 million in 2011 or 4.2%. compared to a 3.1% increase in 2011 from 2010. As mentioned above, because the District is a critical access hospital and receives cost reimbursement for Medicare and Medicaid services, total operating expense increases directly influence the growth in net patient revenue.

- Salaries, wages and benefits increased 4.7% in 2012, following a 3.5% increases for 2011, the result of annual wage increases as total full-time equivalent employees (FTE's) are approximately 248 for both years.

Condensed financial information as of December 31 for the years 2012, 2011 and 2010 are as follows.

**Table 1: Assets, Liabilities and Net Position (in thousands)**

	2012	2011	2010
<b>Assets:</b>			
Current assets	\$ 5,064	\$ 3,621	\$ 3,648
Capital assets, net	9,094	9,518	9,594
Other noncurrent assets	4,504	3,483	3,159
Total assets	<u>18,662</u>	<u>16,623</u>	<u>16,401</u>
<b>Liabilities:</b>			
Long-term debt	2,273	1,811	2,084
Other current and noncurrent liabilities	2,928	2,345	2,731
Total liabilities	<u>5,201</u>	<u>4,156</u>	<u>4,815</u>
<b>Net Position:</b>			
Net investments in capital assets	6,498	7,434	7,249
Unrestricted	6,963	5,032	4,338
Total net position	<u>\$ 13,461</u>	<u>\$ 12,466</u>	<u>\$ 11,587</u>

**Pend Oreille County Public Hospital District No. 1**  
**dba**  
**Newport Hospital & Health Services**

Management's Discussion and Analysis

**Table 2: Operating Results and Changes in Net Position (in thousands)**

	2012	2011	2010
<b>Operating Revenues:</b>			
Net patient service revenues	\$ 23,883	\$ 22,868	\$ 21,889
Other operating revenues	1,178	1,101	627
Total operating revenues	<u>25,061</u>	<u>23,969</u>	<u>22,516</u>
<b>Operating Expenses:</b>			
Salaries and benefits	17,595	16,803	16,236
Depreciation and amortization	1,099	1,076	1,225
Supplies	2,069	2,004	1,152
Other operating expenses	3,947	3,838	4,387
Total operating expenses	<u>24,709</u>	<u>23,721</u>	<u>23,000</u>
Income (loss) from operations	<u>352</u>	<u>248</u>	<u>-484</u>
<b>Nonoperating Revenues &amp; (Expenses)</b>			
Taxation revenue	415	404	382
Interest earnings	17	20	38
Interest expense	-131	-93	-113
Noncapital grants and contributions	462	299	233
Other	-120	2	-3
Total nonoperating revenues, net	<u>643</u>	<u>632</u>	<u>537</u>
Excess of revenues over expenses	995	880	54
<b>Net position: beginning of year</b>	<u>12,467</u>	<u>11,587</u>	<u>11,533</u>
<b>Net position: end of year</b>	<u>\$ 13,462</u>	<u>\$ 12,467</u>	<u>\$ 11,587</u>

**Electronic Health Records Incentive Payments and Net Operating Income (Loss)**

The district received its electronic health record incentive payment from both the Medicare and Medicaid programs in 2012, totaling \$611,432. The District received a payment only from Medicaid in 2011, in the amount of \$568,701. These payments are recorded as other operating income.

The District recorded net income from operations of \$352,000 in 2012 and \$248,000 in 2011 as a result of receiving these payments.

**Capital Asset and Debt Administration**

**Capital Assets**

The District had capital assets net of accumulated depreciation of approximately \$9,094,000 at the end of 2012 compared to \$9,518,000 at end of 2011, or 4% lower, compared to a 1% decline the previous year. The average age of the District facilities increased to 13.3 years from 12.5 years by the end of 2012.

**Pend Oreille County Public Hospital District No. 1**  
**dba**  
**Newport Hospital & Health Services**

**Management's Discussion and Analysis**

**Debt Administration**

The District issued new LTGO 2012 bonds in February 2012. These bonds were used to payoff older LTGO bonds along with providing over \$700,000 of additional proceeds to pay for certain facility improvements done in 2011 and 2012. As a result, the District has outstanding debt of approximately \$2,596,000 at the end of 2012, compared to \$2,084,000 at the end of 2011.

**Contacting the District's Management**

This financial report is intended to provide the reader with a general overview of the District's finances. If you have questions about this report or wish additional information, we welcome you to contact the chief financial officer.

Kim Manus  
Chief Financial Officer

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

Statements of Net Position  
December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 1,726,518	\$ 560,257
Receivables:		
Patients accounts, less allowance for uncollectible		
accounts of \$825,000 and \$781,000 respectively	2,820,600	3,174,692
Third party settlements payable	(149,170)	(605,595)
Taxes receivable	40,419	41,125
Other receivables	71,042	12,905
Inventories	339,428	306,427
Prepaid expenses	210,894	127,536
Patient trust funds	4,282	3,766
Total current assets	<u>5,064,013</u>	<u>3,621,113</u>
Noncurrent assets		
Cash and cash equivalents		
Internally designated for capital acquisitions	4,394,849	3,236,969
Internally designated for debt service	108,866	159,670
Total noncurrent cash and cash equivalents	<u>4,503,715</u>	<u>3,396,639</u>
Capital assets not being depreciated		
Land	479,792	479,792
Construction in progress	90,452	379,239
Capital assets being depreciated		
Improvements to land	336,763	336,763
Buildings	14,873,145	14,545,048
Equipment	7,858,197	7,261,101
Less: accumulated depreciation	(14,544,051)	(13,483,815)
Total capital assets, net	<u>9,094,298</u>	<u>9,518,128</u>
Other noncurrent assets	-	86,809
Total noncurrent assets	<u>13,598,013</u>	<u>13,001,576</u>
Total assets	<u>\$ 18,662,026</u>	<u>\$ 16,622,689</u>

The accompanying notes are an integral part of these financial statements

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1  
Statements of Net Position  
December 31, 2012 and 2011

Liabilities and Net Position

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable	\$ 874,809	\$ 676,114
Accrued compensation and related expenses	811,538	769,394
Compensated absences	636,760	596,704
Accrued interest payable	-	5,187
Deferred revenue	277,159	20,897
Patient trust fund liability	4,282	3,766
Current maturities of long-term debt	<u>323,485</u>	<u>273,147</u>
Total current liabilities	<u>2,928,033</u>	<u>2,345,209</u>
Noncurrent Liabilities		
Long-Term Debt, net of current maturities	2,272,760	1,811,233
Total liabilities	<u>5,200,793</u>	<u>4,156,442</u>
Net position		
Net investment in capital assets	6,498,052	7,433,748
Unrestricted	<u>6,963,181</u>	<u>5,032,499</u>
Total net position	<u>13,461,233</u>	<u>12,466,247</u>
Total liabilities and net position	<u>\$ 18,662,026</u>	<u>\$ 16,622,689</u>

*The accompanying notes are an integral part of these financial statements*



PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$932,738 and \$993,193, respectively	\$ 23,883,194	\$ 22,867,978
Other operating revenues		
Pro share revenues	349,120	291,656
Electronic health record incentive payments	611,432	568,701
Cafeteria	136,272	132,575
Other	80,768	107,758
Total operating revenues	<u>25,060,786</u>	<u>23,968,668</u>
Operating Expenses		
Salaries and wages	13,837,273	13,137,908
Employee benefits	3,757,255	3,665,019
Professional fees	733,059	859,802
Medical supplies	1,288,511	1,169,040
Other supplies	780,255	834,557
Utilities	444,090	433,167
Purchased services, information technology	927,114	783,225
Purchased services, other	938,927	905,275
Insurance	249,393	239,465
Other	654,092	616,968
Depreciation and amortization	1,099,198	1,076,107
Total operating expenses	<u>24,709,167</u>	<u>23,720,533</u>
Income from Operations	351,619	248,135
Nonoperating Revenues (Expenses)		
Property taxes	415,263	403,510
Interest income	16,541	19,760
Interest expense	(130,762)	(93,061)
Grants and contributions	462,486	299,375
Gain on disposal of assets	-	750
Other nonoperating revenue (expense)	(120,161)	1,219
Total nonoperating revenues (expenses), net	<u>643,367</u>	<u>631,553</u>
Excess of revenues over expenses	<u>994,986</u>	<u>879,688</u>
Net position, beginning of year	<u>12,466,247</u>	<u>11,586,559</u>
Net position, end of year	<u>\$ 13,461,233</u>	<u>\$ 12,466,247</u>

*The accompanying notes are an integral part of these financial statements*

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1  
Statements of Cash Flows  
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 23,780,861	\$ 22,575,780
Receipts from other operating revenues	1,119,455	924,430
Payments for salaries and benefits	(17,512,328)	(16,791,422)
Payments to suppliers, contractors and others	<u>(6,172,941)</u>	<u>(5,702,956)</u>
Net cash provided by operating activities	<u>1,215,047</u>	<u>1,005,832</u>
Cash Flows from Noncapital Financing Activities		
Taxation for operations	415,969	399,903
Cash received from grants and contributions	718,748	201,353
Cash received from (paid for) nonoperating revenues (expenses)	<u>(120,161)</u>	<u>1,219</u>
Net cash provided by noncapital financing activities	<u>1,014,556</u>	<u>602,475</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	-	750
Proceeds from sale of investments in property	65,000	-
Proceeds from new issuances of long-term debt	2,400,000	-
Principal payments on long-term debt and capital leases	(1,888,135)	(261,053)
Interest paid on long-term debt and capital leases	(135,949)	(93,798)
Payments for capital assets	<u>(413,723)</u>	<u>(1,074,968)</u>
Net cash provided by (used in) capital and related financing activities	<u>27,193</u>	<u>(1,429,069)</u>
Cash Flows from Investing Activities		
Interest Received	<u>16,541</u>	<u>19,760</u>
Net Cash provided by investing activities	<u>16,541</u>	<u>19,760</u>
Net Increase in Cash and Cash Equivalents	2,273,337	198,998
Cash and Cash Equivalents, beginning of year	<u>3,956,896</u>	<u>3,757,898</u>
Cash and Cash Equivalents, end of year	<u>\$ 6,230,233</u>	<u>\$ 3,956,896</u>

*The accompanying notes are an integral part of these financial statements*

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1  
Statements of Cash Flows  
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Income from Operations	\$ 351,619	\$ 248,135
Adjustment to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation and amortization	1,099,198	1,076,384
Provision for bad debts	932,738	993,193
(Increase) decrease in current assets		
Receivables		
Patient accounts, net	(578,646)	(1,194,037)
Third party settlements	(456,425)	(91,354)
Other receivables	(58,137)	4,997
Inventories	(33,001)	(1,067)
Prepaid expenses	(83,358)	(6,529)
Increase (decrease) in current liabilities		
Accounts payable	(41,208)	145,862
Deferred revenue	-	(181,257)
Employee compensation and related liabilities	42,144	34,427
Compensated absences	40,123	(22,922)
Net cash provided by operating activities	<u>\$ 1,215,047</u>	<u>\$ 1,005,832</u>

*The accompanying notes are an integral part of these financial statements*

# **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

## **Notes to Financial Statements December 31, 2012 and 2011**

### Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies

#### Reporting entity

Pend Oreille County Public Hospital District No. 1 (District) doing business as Newport Hospital & Health Services, Newport Community Hospital Long Term Care Unit, Family Health Center Newport, Family Medicine Newport, and River Mountain Village, operates a licensed 24-bed hospital, 50-bed nursing home, 42-unit assisted living facility and two Medicare certified rural health clinics. The District provides healthcare services to patients in Newport, Washington, as the primary healthcare provider to the residents of Pend Oreille County, Washington, and West Bonner County, Idaho. The services provided include acute care, skilled nursing, assisted living, emergency room, physician and surgical services, plus related ancillary procedures such as laboratory and imaging.

The District operates under the laws of the State of Washington for Washington municipal corporations. It was created in 1954, by the county of Pend Oreille to operate, control and manage all matters concerning the County's health care functions. The District is governed by an elected five member board. The District has one component unit, the Newport Hospital and Health Services Foundation. As organized, the District is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements. The accounting records of the District are maintained in accordance with Generally Accepted Accounting Procedures (GAAP), method prescribed by the State Auditor under the authority of Chapter 43.09 RCW, and the Department of Health in the *Accounting and Reporting Manual for Hospitals*.

#### Component unit

The Newport Hospital and Health Services Foundation (Foundation), formed in 2007, is a separate tax-exempt non-profit Washington corporation. The District is the sole member of the Foundation and Foundation was organized for the sole benefit of the District. The Foundation has five board members, all appointed by the District. The District also employs the Foundation director and provides office space for it to use. The Foundation's assets, net position and net contributions to the district are consolidated in the District financial statements. The Foundation is not material to the District financial statements.

#### 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 financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

## **Notes to Financial Statements December 31, 2012 and 2011**

### Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

#### 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.

#### Recent Accounting Pronouncements

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

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

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

In March 2011, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65, which is effective for financial statements for periods beginning after December 15, 2012, amends or supersedes accounting and financial reporting guidance for certain items previously reported as assets or liabilities. The District chose early adoption of GASB Statement No. 65 in 2012. Adoption of this statement required the debt issuance costs of the 2012 LTGO bonds to be expensed as incurred.

## **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

### **Notes to Financial Statements December 31, 2012 and 2011**

#### Cash and cash equivalents

For purposes of the statement of cash flows, the district considers to be cash equivalents all investments in highly liquid debt instruments with original maturity dates of three months or less. Cash receipts are deposited directly to the District's depository accounts at a bank. Periodically, such cash is transferred to the operating accounts against which the District issues warrants.

#### Noncurrent cash and cash equivalents

Noncurrent cash and cash equivalents include designated assets set aside by the Board of Commissioners for bond principal and interest payments and for future acquisition and replacement of capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes (notes 2 and 3).

#### Property tax revenues

Property taxes are levied by the District and collected by the Pend Oreille County Treasurer. The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 based on the assessed property values as of May 31 of the previous year. Assessed values are established by the county assessor at 100 percent of fair market value. Taxes are due in two equal installments on April 30, and October 31. Collections are distributed monthly to the district by the county treasurer.

The District is permitted by law to levy up to \$.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 the District. The District's regular tax levy was \$0.358 per \$1,000 in 2012, and \$0.348 per \$1,000 in 2011 on total assessed valuation of \$1,128,880,000 in 2012, and \$1,138,334,000 in 2011, respectively.

The District received total property tax revenues, which includes the regular levy and additional supplements throughout the year, of \$415,263 or approximately 1.6% of its financial support in 2012 and \$403,510 or approximately 1.6% of its financial support in 2011. These funds were used to support operations.

Property taxes are recorded as revenue in the year of the levy. No estimate for uncollectible taxes is considered necessary as state law allows for sale of property for failure to pay taxes.

#### Inventories

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

# **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

## **Notes to Financial Statements December 31, 2012 and 2011**

### Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

#### Capital assets

Capital assets are stated at cost. The capitalization threshold is \$5,000. Expenditures for maintenance and repairs are charged to operations as incurred. Betterments and major renewals are capitalized. Donated items are recorded at fair market value at the date of contribution which is subsequently considered cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method over the following useful service lives (note 6):

Land improvements	5 to 25 years
Buildings and building improvements	5 to 40 years
Major movable equipment	3 to 20 years

#### Compensated absences

The District's employees earn paid time off (PTO) days in varying rates depending on years of service. The District records unpaid PTO as an expense and liability when earned. PTO time can accumulate up to a maximum of 1.5 times the annual accrual amount. The District has a policy which allows an employee to cash out PTO hours, if the employee meets certain criteria. PTO benefits are fully vested and payable upon separation from the District. The balances and net change in the District's liability for compensated absences for the years ended December 31, 2012 and 2011 are as follows.

	Beginning Balance	Net Change	Ending Balance
Year Ended December 31, 2011	619,626	(22,922)	596,704
Year Ended December 31, 2012	596,704	40,056	636,760

Employees also earn sick leave benefits based on a standard accrual rate for all employees. Employees may accumulate sick leave up to a maximum of 720 hours. Accumulated sick leave hours in excess of 720 on November 30 of each year are paid 50% to the employee with the other 50% removed from the employee's accrual bank. Sick time is not a vested benefit and employees are not paid for accumulated sick time when they separate from the District.

#### Grants and contributions

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

# **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

## **Notes to Financial Statements December 31, 2012 and 2011**

### Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

#### Net position

Net position of the District is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

#### Operating revenues and expenses

The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Other operating revenues include retail revenue from the district's cafeteria, service fees on past due accounts, rebates from vendors and reimbursements of certain expenditures made on behalf of others. Non-exchange revenues, including grants, property taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

#### Pro share revenues

The District received federal funds passed through Washington State for Proportionate Share Payments for Nursing Facilities operated by Public Hospital Districts (Pro Share). Eligible providers are hospital districts that operate skilled nursing facilities. These payments are limited to the federal share of the difference between routine costs as determined by Medicare and the routine Medicaid payments received for the same services, and are intended to supplement providers of Medicaid skilled nursing services. They may also be further limited by an upper payment limit calculation performed by the state. Revenues are accrued in the year they are earned.

#### Electronic health record incentive payments

Starting in 2011, as authorized by the American Recovery and Reinvestment Act (ARRA), the Medicare and Medicaid programs are providing incentive payments to eligible hospitals and professionals if certified electronic health record (EHR) technology is adopted and utilized. An incentive payment received by the District is recognized when the District is reasonably assured that it has complied with the conditions set forth by Medicare or Medicaid.

The District became eligible in 2011 for payments from the Washington State Medicaid program, and received \$355,438 in 2012 and \$568,701 in 2011. The District became eligible for payments from the Medicare program in 2012 and received \$255,994 in 2012. These payments were recognized as other operating revenue. The District attested that it had adopted or implemented certified EHR technology at the appropriate stage for each year to receive these payments according to rules set forth by the Centers for Medicare and Medicaid Services (CMS).



# **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

## **Notes to Financial Statements December 31, 2012 and 2011**

### Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

The District's attestation of compliance is subject to audit by the federal government or its designee. Additionally, EHR incentive payments may be subject to retrospective adjustment.

#### Risk Transfer Pool

The District has a self-insured unemployment plan for its employees. The District is part of the Public Hospital District Unemployment Compensation Fund, which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District for unemployment expense were approximately \$189,000 and \$170,000 in 2012 and 2011, respectively.

#### Reclassifications

Certain reclassifications of the 2011 amounts have been made in the financial statements in to conform to the 2012 presentation. These reclassifications had no effect on the previously reported net position or change in net position.

### Note 2 – Designated Net Position

Of the \$6,963,181 and \$5,032,499 of unrestricted net position reported in 2012 and 2011, respectively, \$4,394,849 and \$3,236,969 has been designated by the District's Board of Commissioners for capital acquisitions. Designated funds remain under the control of the Board of Commissioners, which may at its discretion later use the funds for other purposes.

### Note 3 – Bank Deposits and Investments

#### Deposits

The District deposits are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

#### 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 State of Washington Local Government Investment Pool, savings accounts in qualified public depositories, and certain other investments. The book value of all cash investments approximates the bank balance. During 2012 the District withdrew all remaining funds from the state investment pool investing them in a qualified public depository bank.

# **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

## **Notes to Financial Statements December 31, 2012 and 2011**

Cash and cash equivalents consisted of the following at the statement in net position dates:

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction, the district would not be able to recover the collateral securities. Of the district's total cash and cash equivalents, there is no exposure to custodial credit risk. All investments or collateral securities are held by the PDPC or by the county treasurer.

### Note 4 – Patient Accounts Receivable and Concentration of Credit Risk

Receivables arising from patient service revenue are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance.

The District's allowance for doubtful accounts for self pay patients has not changed significantly from prior years. The District has not changed its charity care policy during 2012 or 2011.

Patient accounts receivable reported as current assets by the District as December 31, 2012 and 2011, consisted of the following.

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Receivable from patients and their insurance carriers	\$ 2,053,616	56%	\$ 1,988,823	50%
Receivable from Medicare	749,733	21%	1,292,398	33%
Receivable from Medicaid	842,251	23%	674,470	17%
Total patient accounts receivable	<u>3,645,600</u>	100%	<u>3,955,692</u>	100%
Less allowance for uncollectible amounts	<u>(825,000)</u>		<u>(781,000)</u>	
Patient Accounts receivable, net	<u>\$ 2,820,600</u>		<u>\$ 3,174,692</u>	

The District grants credit without collateral to its patients, most of who are local residents and are insured under third party payor agreements. The majority of these patients are geographically concentrated in and around Pend Oreille County. No single patient comprises more than 5% of the total receivable at year end.

# PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

## Notes to Financial Statements December 31, 2012 and 2011

### Note 5 – 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). Based on 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 provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, and is as follows.

	Years Ended December 31,	
	2012	2011
Patient service revenue (net of contractual adjustments and discounts)		
Medicare	9,800,811	9,554,690
Medicaid	8,026,753	6,310,504
Other third-party payors	4,851,051	5,523,135
Uninsured (self pay)	2,900,790	3,149,308
	<u>25,579,405</u>	<u>24,537,637</u>
Less:		
Charity care	763,473	676,466
Provision for bad debts	932,738	993,193
<b>Net patient service revenue</b>	<u><b>23,883,194</b></u>	<u><b>22,867,978</b></u>

The District is designated as a critical access hospital and is reimbursed by Medicare for inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The District's two clinics are designated rural health clinics and are reimbursed on a cost basis as defined and limited by the Medicare program. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare intermediary. Medicare has audited and settled cost reports through 2011.

The District is reimbursed by Medicaid for inpatient and outpatient services on a cost basis as defined and limited by the Medicaid program. The Medicaid 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 completed or otherwise reviewed and settled upon by the Medicaid program. Idaho Medicaid has audited and settled cost reports through 2008. Washington Medicaid has audited and settled cost reports through 2009. The District also has Medicaid managed care contracts with insurance companies whose reimbursement rate may be different than that of the State Medicaid program.

# PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

## Notes to Financial Statements December 31, 2012 and 2011

The District has also entered into payment arrangements with many other commercial insurance carriers. The basis for payment to the District under these arrangements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. 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 doubtful accounts. The District estimates the costs for providing charity care was approximately \$523,000 and \$463,000 in 2012 and 2011, respectively.

### Note 6 – Capital Assets

Capital asset additions, transfers from construction in progress, retirements and balances as of December 31, 2012, are as follows:

	Balance December 31, 2011	Additions/ Transfers	Retirements	Balance December 31, 2012
<u>Non-Depreciable Assets</u>				
Land	\$ 479,792			\$ 479,792
Construction in Progress	379,239	(288,787)		90,452
Total Non-Depreciable Assets	859,031	(288,787)	-	570,244
<u>Depreciable Assets</u>				
Land Improvements	336,763			336,763
Buildings and Improvements	14,545,048	328,097		14,873,145
Equipment	7,261,101	636,242	(39,146)	7,858,197
Total Depreciable Assets	22,142,912	964,339	(39,146)	23,068,105
Total Assets Before Depreciation	23,001,943	675,552	(39,146)	23,638,349
<u>Less Accumulated</u>				
Depreciation for:		Depreciation		
Land Improvements	250,675	9,916		260,591
Buildings and Improvements	7,579,918	561,009		8,140,927
Equipment	5,653,222	528,273	(38,962)	6,142,533
Total Accumulated Depreciation	13,483,815	1,099,198	(38,962)	14,544,051
Total Capital Assets, net	\$ 9,518,128	\$ (423,646)	\$ (184)	\$ 9,094,298

# PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

## Notes to Financial Statements December 31, 2012 and 2011

At December 31, 2012, the District has recorded preliminary design work on two contemplated remodeling projects. These projects have not been authorized for completion by the District's board of commissioners nor has the total costs of the project and any related financing sources been determined, if necessary, once any or all of these projects are authorized.

Capital asset additions, transfers from construction in progress, retirements and balances as of December 31, 2011, are as follows:

	Balance December 31, 2010	Additions/ Transfers	Retirements	Balance December 31, 2011
<u>Non-Depreciable Assets</u>				
Land	479,792			479,792
Construction in Progress	105,336	273,903		379,239
Total Non-Depreciable Assets	585,128	273,903	-	859,031
<u>Depreciable Assets</u>				
Land Improvements	336,763	-		336,763
Buildings and Improvements	14,401,930	143,118		14,545,048
Equipment	6,802,704	579,597	(121,200)	7,261,101
Total Depreciable Assets	21,541,397	722,715	(121,200)	22,142,912
Total Assets Before Depreciation	22,126,525	996,618	(121,200)	23,001,943
<u>Less Accumulated</u>				
Depreciation for:		Depreciation		
Land Improvements	238,305	12,370		250,675
Buildings and Improvements	7,035,784	544,134		7,579,918
Equipment	5,258,175	516,247	(121,200)	5,653,222
Total Accumulated Depreciation	12,532,264	1,072,751	(121,200)	13,483,815
Total Capital Assets, net	9,594,261	(76,133)	-	9,518,128

**PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

**Notes to Financial Statements  
December 31, 2012 and 2011**

Note 7 – Long – Term Debt

The District issued limited tax general obligation and refunding bonds on February 15, 2012 to refund in full the 2003 limited tax general obligation bonds and the 2001 limited tax general obligation bonds along with providing additional funds to reimburse the district for the costs of certain building improvements completed or in process in 2011 and 2012. All limited tax general obligation 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.

Schedule of changes in long term debt for the fiscal year ended December 31, 2012, is as follows:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Amounts Due Within One Year
2012 LTGO Payable	\$ -	\$ 2,400,000	\$ (251,329)	\$ 2,148,671	\$ 315,161
2003 LTGO Payable	1,350,147		(1,350,147)	-	
NFM LTGO Payable	278,458	-	(278,458)	-	
HFU Loan Payable	455,775	-	(8,201)	447,574	8,324
Total Noncurrent Liabilities	<u>\$ 2,084,380</u>	<u>\$ 2,400,000</u>	<u>\$ (1,888,135)</u>	<u>\$ 2,596,245</u>	<u>\$ 323,485</u>

Schedule of changes in long term debt for the fiscal year ended December 31, 2011, is as follows:

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Amounts Due Within One Year
2003 LTGO Payable	\$ 1,541,766	\$ -	\$ (191,619)	\$ 1,350,147	\$ 200,452
NFM LTGO Payable	339,813	-	(61,355)	278,458	64,494
HFU Loan Payable	463,855	-	(8,080)	455,775	8,201
Total Noncurrent Liabilities	<u>\$ 2,345,434</u>	<u>\$ -</u>	<u>\$ (261,054)</u>	<u>\$ 2,084,380</u>	<u>\$ 273,147</u>

The terms and due dates of the District's long-term debt at December 31, 2012 and 2011, are as follows:

Limited tax general obligation bonds, dated February 15, 2012, due in 85 monthly installments of \$31,699 through April 1, 2019 including interest at 3.21%. This debt is collateralized by taxes levied for debt service.

# PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

## Notes to Financial Statements December 31, 2012 and 2011

Limited tax general obligation bonds, dated February 14, 2003, due in varying semiannual principal installments including interest, at 4.61%. This debt was paid in full in 2012 from the proceeds of the 2012 LTGO bond.

Limited tax general obligation dated October 1, 2001, due in 170 monthly installments of \$6,413 including interest at 5.00%. This debt was paid in full in 2012 from the proceeds of the 2012 LTGO bond.

HFU loan payable assumed by the District through the acquisition of the RMV assisted living facility, dated May 30, 2000, due in annual installments of \$15,038 including interest at 1.5% through 2052. This debt is collateralized by property.

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

Year Ending December 31,	Bonds and Notes Payable		
	Principal	Interest	Total
2013	323,485	72,812	396,297
2014	334,022	62,305	396,327
2015	344,904	51,452	396,356
2016	356,039	40,347	396,386
2017	367,748	28,670	396,418
2018-2022	511,566	40,483	552,049
2023-2027	49,776	25,414	75,190
2028-2032	53,622	21,568	75,190
2033-2037	57,767	17,423	75,190
2038-2042	62,229	12,961	75,190
2043-2047	67,040	8,150	75,190
2048-2052	68,047	2,969	71,016
	<u>\$ 2,596,245</u>	<u>\$ 384,554</u>	<u>\$ 2,980,799</u>

### Note 8 – Retirement Plans

The District maintains the following defined contribution retirement plan through the Public Hospital of Pend Oreille County District #1 Defined Contribution Plan –( 401(a)/403(b)), which is administered by the Principal Financial Group.

The 403(b) plan is a voluntary, tax-deferred annuity plan, organized under Internal Revenue Code Section 403(b). This plan is available to all benefit eligible employees of the District. Contributions are based on a percentage of compensation up to the legal maximums. Plan participants made contributions for the years ended December 31, 2012 and 2011 of approximately \$653,000 and \$638,000 respectively.

## **PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1**

### **Notes to Financial Statements December 31, 2012 and 2011**

#### Note 8 – Retirement Plans (continued)

The 401(a) plan is voluntary, contributory, money purchase thrift plan, organized under Internal Revenue Code Section 401(a). This plan is available to all employees who have completed three months of service and who are making contributions to the tax-deferred annuity plan. The District “matches” an amount equal to the employee contribution to the tax-deferred annuity plan, up to 6% of compensation. Employees become fully vested in the District’s contributions at the end of three years of service. The District made plan contributions for the years ended December 31, 2012 and 2011 of approximately \$442,000 and \$426,000 respectively.

The District also offers a defined contribution plan under Internal Revenue Code Section 457. This plan is funded solely from employee contributions. The 457 plan assets are managed by the Principal Financial Group.

#### Note 9 – Risk Management

The District is one of a number of Washington hospitals who are members of Washington Casualty Company (WCC), a nonprofit mutual insurance corporation used for payment of professional liability claims. The WCC policy provides protection on a “claims-made” basis whereby only the claims reported to the insurance carrier during the current policy period are covered, regardless of when the incident giving rise to the claim occurred. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases extended (tail) insurance to cover claims incurred before but reported after cancellation or expiration of the claims-made policy.

The current malpractice insurance provides for \$5,000,000 of aggregate primary coverage, \$1,000,000 per incident with no deductible. Excess liability insurance provides an additional \$9,000,000 excess professional liability for each occurrence, \$9,000,000 healthcare umbrella liability for each occurrence, and \$9,000,000 as a general aggregate limit. No liability had been accrued for future coverage for acts, if any, occurred in this or prior years. Also, it is possible that claims may exceed coverage in any given year.

The District is also exposed to various risk of loss from torts; theft or, damage to, and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; 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.





## **ABOUT THE STATE AUDITOR'S OFFICE**

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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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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

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

**State Auditor**  
**Chief of Staff**  
**Director of Performance and State Audit**  
**Director of Local Audit**  
**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

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