

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

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**Mason County Public Hospital District No. 1**  
**(Mason General Hospital)**

Audit Period  
**January 1, 2013 through December 31, 2013**

**Report No. 1011826**

Issue Date  
**May 15, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

May 15, 2014

Board of Commissioners  
Mason General Hospital  
Shelton, Washington

### ***Report on Financial Statements***

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

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

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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**Mason General Hospital  
Mason County  
January 1, 2013 through December 31, 2013**

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# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**Mason General Hospital  
Mason County  
January 1, 2013 through December 31, 2013**

Board of Commissioners  
Mason General Hospital  
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Mason General Hospital, Mason County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 13, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 69, *Government Combinations and Disposals of Government Operations*.

## ***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.

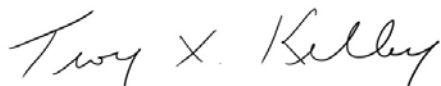
## ***COMPLIANCE AND OTHER MATTERS***

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

May 13, 2014

# **Independent Auditor's Report on Financial Statements**

## **Mason General Hospital Mason County January 1, 2013 through December 31, 2013**

Board of Commissioners  
Mason General Hospital  
Shelton, Washington

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

We have audited the accompanying financial statements of the Mason General Hospital, Mason County, Washington, as of and for the years ended December 31, 2013 and 2012, 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 Mason General Hospital, as of December 31, 2013 and 2012, 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 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 69, *Government Combinations and Disposals of Government Operations*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

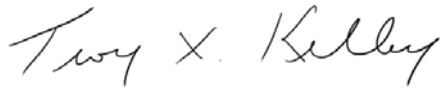
#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 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 cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

May 13, 2014



<b>Financial Section</b>
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**Mason General Hospital  
Mason County  
January 1, 2013 through December 31, 2013**

***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013 and 2012

***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012

Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

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

## Management's Discussion and Analysis (Continued)

December 31, 2013 and 2012

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Our discussion and analysis of Public Hospital District No. 1 of Mason County, WA, d/b/a Mason General Hospital and Family of Clinics' (the "District"), financial performance provides an overview of the District Hospital's financial activities for the fiscal year ended on December 31, 2013. Please read it in conjunction with the Hospital's financial statements that follow this analysis.

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

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

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

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

### Financial Highlights

The overall financial position of the District remains strong, with an increase in net position of \$1.8 million over 2012 because of solid revenue growth and controlled expenditures. The financial position of the District in 2012 was also strong with an increase in net position of \$4.4 million over 2011 also due to solid revenue growth and controlled expenditures.

The District's overall business continues to grow, with net patient revenue increasing \$1.5 million, or 2.3%. The increase in net revenue is attributable to the annual rate increase and reduced bad debt expense recording in 2013. Non-patient revenue increased \$108,152, or 2.8%. In 2012, the District's overall business also grew with gross patient revenue increasing \$11.7 million or 8.3% primarily due to rate increases implemented during the year. The 2012 net patient revenue increased \$4.6 million or 7.4%. Non-patient revenues increased \$109,399 or 2.9% in 2012.

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

## Management's Discussion and Analysis (Continued)

December 31, 2013 and 2012

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### Financial Highlights (Continued)

The District's operating expenses increased by \$3.8 million or 5.6% during 2013. Salary and benefits increased \$2.2 million, or 4.9%, primarily because of 2013 annual step increases per union contracts. In 2012, the District's operating expenses increased by \$1.8 million or 2.8%. Salary and benefits in 2012 increased \$1.7 million or 4% due primarily to annual step increases per union contracts. Overall inflation on other expenses was negligible in 2013 and 2012.

The Hospital District had a change in net position of \$1,814,444 in 2013, \$4,476,471 in 2012, and \$1,917,736 in 2011.

During 2013, net accounts receivable increased by \$969,648, or 11.4%. In 2012, net accounts receivable decreased by \$526,681 or -6%.

The District's net capital assets increased by \$9.1 million (18.4%) in 2013, compared to a net increase of \$16.4 million (49.7%) in 2012. \$13.7 million of capital additions occurred during 2013. The additions were partially offset by annual depreciation. Capital asset retirements were approximately \$612,000 (see Note 6). Of the \$13.7 million, major construction renovation project costs totaled \$7.0 million. The first phase of major construction was completed in August 2012, and the final phase of construction, including expansion of the emergency room, diagnostic imaging, gift shop, and conference meeting rooms, was completed in May 2013.

The District's net capital assets increased by \$16.4 million (49.7%) in 2012, compared to a net increase of \$9.5 million (40.2%) in 2011. \$19.8 million of capital additions occurred during 2012. The additions were partially offset by annual depreciation. Capital asset retirements were \$913,000 (see Note 6). Of the \$19.8 million, major construction expansion and renovation project costs totaled \$18.6 million.

In December 2012, the District's Board of Commissioners approved a capital project to implement a District wide Electronic Health Record (EHR) system with the goal of enhancing patient safety and care and providing a for seamless integration and transference of patient records throughout the District's system, regardless of where the patient is. The total expected cost for licensing, hardware, and implementation is \$6.2 million. The hospital and clinics "went live" in January 2014. Of the \$13.7 million in capital additions, electronic health record project costs totaled \$4.3 million.

Long-term debt decreased \$848,730 during 2013. The current portion of long-term debt is \$850,000 (see Note 7). The decrease is because of principal payments on existing long-term debt and premium amortization. No additional new long-term debt was incurred in 2013. Long-term debt decreased \$828,808 during 2012. The current portion of long-term debt is \$820,000 (see Note 7). The decrease is due to principal payments on existing long term debt and premium amortization. No additional new long term debt was incurred.

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

## Management's Discussion and Analysis (Continued)

December 31, 2013 and 2012

### Financial Highlights (Continued)

Condensed financial information for the years ended December 31, 2013, 2012, and 2011, is as follows:

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

	2013	2012	2011
<b>Assets:</b>			
Current assets	\$ 47,458,480	\$ 50,631,752	\$ 45,503,549
Restricted assets	1,945,307	8,488,554	26,191,687
Net property, buildings, and equipment	58,658,195	49,586,107	33,122,730
Deferred outflows of resources*	871,900	-	-
<b>Total assets</b>	<b>\$ 108,933,882</b>	<b>\$ 108,706,413</b>	<b>\$ 104,817,966</b>
<b>Liabilities:</b>			
Current liabilities	\$ 18,118,251	\$ 18,267,604	\$ 18,736,358
Long-term debt outstanding - Less current maturities	25,947,353	26,826,083	27,684,891
Long-term unearned revenue - Less current portion	180,648	739,540	-
<b>Total liabilities</b>	<b>\$ 44,246,252</b>	<b>\$ 45,833,227</b>	<b>\$ 46,421,249</b>
<b>Net position:</b>			
Invested in capital assets - Net of related debt	\$ 33,615,255	\$ 30,230,993	\$ 30,641,555
Restricted	172,434	181,547	155,488
Unrestricted	30,899,941	32,460,646	27,599,674
<b>Total net position*</b>	<b>\$ 64,687,630</b>	<b>\$ 62,873,186</b>	<b>\$ 58,396,717</b>

\*Years ended 2012 and 2011 have been restated to reflect adoption of GASB 65.

# Public Hospital District No. 1 of Mason County, WA

## d/b/a Mason General Hospital and Family of Clinics

### Management's Discussion and Analysis (Continued)

December 31, 2013 and 2012

### Financial Highlights (Continued)

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

	2013	2012	2011
Operating revenue:			
Net patient service revenue	\$ 67,957,776	\$ 66,474,029	\$ 61,912,131
Other operating revenue	3,974,560	3,866,408	3,757,009
Total operating revenue	71,932,336	70,340,437	65,669,140
Operating expenses:			
Salaries and benefits	46,917,008	44,707,307	42,975,196
Depreciation and amortization	4,685,219	3,138,067	3,099,383
Supplies	7,461,763	7,524,900	6,908,411
Other operating expenses	12,774,403	12,648,033	13,202,556
Total operating expenses	71,838,393	68,018,307	66,185,546
Operating income (loss)	93,943	2,322,130	(516,406)
Nonoperating revenue (expenses):			
Property taxes for operations and debt service	2,107,741	2,091,459	2,051,511
Grants and donations	318,547	348,263	358,011
Interest earnings	127,291	131,923	141,956
Interest expense*	(889,388)	(265,355)	(76,531)
Gain (loss) on disposal of assets	56,310	(151,949)	(40,805)
Total nonoperating revenue - Net	1,720,501	2,154,341	2,434,142
Change in net position	1,814,444	4,476,471	1,917,736
Net position - Beginning of year*	62,873,186	58,396,715	56,478,979
Net position - End of year	\$ 64,687,630	\$ 62,873,186	\$ 58,396,715

\*Years ended 2012 and 2011 have been restated to reflect adoption of GASB 65.

# Public Hospital District No. 1 of Mason County, WA

## d/b/a Mason General Hospital and Family of Clinics

### Statement of Net Position

December 31, 2013 and 2012

<i>Assets and Deferred Outflows of Resources</i>	2013	Restated 2012
Currents assets:		
Cash and cash equivalents	\$ 23,240,670	\$ 23,916,635
Internally designated cash for capital acquisitions	12,256,148	16,195,320
Restricted assets:		
Debt service fund - Cash	116,286	115,888
Memorial fund - Cash	38,617	38,562
Construction fund - Cash	1,754,413	8,290,969
Debt service - Taxes receivable	389	651
Debt service - Interest subsidy receivable	35,602	42,484
Receivables:		
Patient accounts receivable - Net	9,445,824	8,476,176
Taxes receivable	125,289	141,249
Other	708,979	339,889
Inventories	1,230,370	984,710
Prepaid expenses	451,200	577,773
<b>Total current assets</b>	<b>49,403,787</b>	<b>59,120,306</b>
Noncurrent assets:		
Nondepreciable capital assets	7,093,912	13,785,900
Depreciable capital assets - Net	51,564,283	35,800,207
<b>Total capital assets - Net</b>	<b>58,658,195</b>	<b>49,586,107</b>
Deferred outflows of resources		
Excess consideration provided for acquisition	871,900	-
<b>Total noncurrent assets</b>	<b>59,530,095</b>	<b>49,586,107</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 108,933,882</b>	<b>\$ 108,706,413</b>

The accompanying notes are an integral part of this financial statement.

<i>Liabilities and Net Position</i>	2013	Restated 2012
Currents liabilities:		
Accounts payable	\$ 3,105,685	\$ 3,359,829
Third-party settlements	3,476,946	4,386,926
Payroll and related expenses	7,358,021	6,550,758
Accrued vacation	2,356,376	2,255,996
Accrued interest payable	124,217	128,088
Current maturities of long-term debt	850,000	820,000
Current portion of unearned revenue	829,864	739,561
Other	17,142	26,446
Total current liabilities	18,118,251	18,267,604
Noncurrent liabilities:		
Long-term debt - Less current maturities	25,947,353	26,826,083
Long-term unearned revenue - Less current portion	180,648	739,540
Total noncurrent liabilities	26,128,001	27,565,623
Total liabilities	44,246,252	45,833,227
Net position:		
Net investment in capital assets	33,615,255	30,230,993
Restricted for debt service	116,675	116,539
Restricted for memorial fund	55,759	65,008
Unrestricted	30,899,941	32,460,646
Total net position	64,687,630	62,873,186
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 108,933,882</b>	<b>\$ 108,706,413</b>

The accompanying notes are an integral part of this financial statement.

# Public Hospital District No. 1 of Mason County, WA

## d/b/a Mason General Hospital and Family of Clinics

### Statement of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating revenue:		
Net patient service revenue	\$ 67,957,776	\$ 66,474,029
Other operating revenue	3,974,560	3,866,408
Total operating revenue	71,932,336	70,340,437
Operating expenses:		
Salaries and wages	32,387,730	32,159,321
Employee benefits	14,529,278	12,547,986
Professional fees	2,891,974	2,619,318
Supplies	7,461,763	7,524,900
Purchased services - Utilities	767,020	732,098
Purchased services - Other	6,193,918	6,265,200
Insurance	748,005	856,493
Other	1,753,433	1,766,193
Rent and leases	420,053	408,731
Depreciation and amortization	4,685,219	3,138,067
Total operating expenses	71,838,393	68,018,307
Operating income	93,943	2,322,130
Nonoperating revenue (expenses):		
Property taxes for operations and debt service	2,107,741	2,091,459
Interest earnings	127,291	131,923
Interest expense	(889,388)	(265,355)
Grants and donations	318,547	348,263
Gain (loss) on disposal of assets	56,310	(151,949)
Total nonoperating revenue - Net	1,720,501	2,154,341
Change in net position	1,814,444	4,476,471
Net position - Beginning of year, as previously reported	62,873,186	58,696,543
Adoption of GASB 65	-	(299,828)
Net position - Beginning of year, as restated	62,873,186	58,396,715
Net position - End of year	\$ 64,687,630	\$ 62,873,186

The accompanying notes are an integral part of this financial statement.



# Public Hospital District No. 1 of Mason County, WA

## d/b/a Mason General Hospital and Family of Clinics

### Statement of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from patient services	\$ 66,078,148	\$ 67,121,652
Cash received from other operating revenue	3,234,999	3,573,074
Cash paid for salaries and benefits	(46,009,365)	(44,575,116)
Cash paid for supplies, professional fees, and other operating expenses	(20,978,487)	(21,991,755)
Net cash provided by operating activities	2,325,295	4,127,855
Cash flows from noncapital financing activities:		
Cash received from property tax for operations	2,123,701	2,091,653
Cash received from donations and grants	318,547	348,263
Cash from other nonoperating gains	(9,304)	26,446
Net cash provided by noncapital financing activities	2,432,944	2,466,362
Cash flows from capital and related financing activities:		
Property tax received for debt service	262	1,886
Principal payments on long-term debt obligations	(848,730)	(828,808)
Interest paid	(886,377)	(266,853)
Excess consideration provided for acquisition	(871,900)	-
Payments for purchase of property, buildings, and equipment	(13,700,997)	(19,753,393)
Incentive payments received for electronic health records	270,972	1,772,435
Net cash used in capital and related financing activities	(16,036,770)	(19,074,733)
Cash flows from investing activities -		
Interest received	127,291	131,923
Net decrease in cash and cash equivalents	(11,151,240)	(12,348,593)
Cash and cash equivalents - Beginning of year	48,557,374	60,905,967
Cash and cash equivalents - End of year	\$ 37,406,134	\$ 48,557,374
Cash and cash equivalents	\$ 23,240,670	\$ 23,916,635
Internally designated cash for capital acquisitions	12,256,148	16,195,320
Restricted assets:		
Debt service fund - Cash	116,286	115,888
Memorial fund - Cash	38,617	38,562
Construction fund - Cash	1,754,413	8,290,969
Cash and cash equivalents - End of year	\$ 37,406,134	\$ 48,557,374

The accompanying notes are an integral part of this financial statement.

# Public Hospital District No. 1 of Mason County, WA

## d/b/a Mason General Hospital and Family of Clinics

### Statement of Cash Flows (Continued)

Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 93,943	\$ 2,322,130
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,685,219	3,138,067
Provision for bad debts	7,060,916	8,370,200
Amortization of unearned revenue	(739,561)	(293,334)
Changes in operating assets and liabilities:		
Patient accounts receivable - Net	(8,030,564)	(7,843,519)
Other	(369,090)	(225,553)
Inventories	(245,660)	27,613
Prepaid expenses	126,573	(104,483)
Accounts payable	(254,144)	(1,516,399)
Third-party settlements	(909,980)	120,942
Payroll and related expenses	807,263	12,186
Accrued vacation	100,380	120,005
Total adjustments	2,231,352	1,805,725
Net cash provided by operating activities	\$ 2,325,295	\$ 4,127,855

The accompanying notes are an integral part of this financial statement.

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      Summary of Significant Accounting Policies

#### The Entity

Public Hospital District No. 1 of Mason County, WA d/b/a Mason General Hospital and Family of Clinics (the "District"), is a municipal corporation governed by an elected three-member board. The District does not have component units. The District owns and operates a 25-bed critical access hospital (licensed for 68 beds), four certified rural health clinics, an eye clinic, an orthopedic clinic, a podiatry clinic, a family practice clinic and a surgery clinic. The District provides health care services to patients in the Mason County, Washington, market. The services include an acute care hospital, an emergency room, clinics, and related ancillary procedures (lab, x-ray, etc.) associated with these services. During 2013, the District acquired Olympic Physicians, a primary health care clinic in Shelton, WA. The clinic was acquired at the beginning of December 2013.

#### Associate

The Mason General Hospital Foundation (the "Foundation"), formed in 1991, is a separate nonprofit corporation. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the District. The Foundation provided contributions to the District of \$207,000 for 2013 and \$253,622 for 2012.

The Foundation's financial position at the balance sheet dates September 30, 2013 and 2012, is summarized as follows:

	2013	2012
Assets	\$ 1,786,584	\$ 1,744,611
Liabilities	\$ 21,965	\$ 24,968
Fund balance	1,764,619	1,719,643
Total liabilities and fund balance	\$ 1,786,584	\$ 1,744,611

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Basis of Accounting and Financial Statement Presentation**

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

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under authority of Chapter 43.09 RCW and the Department of Health in the *Accounting and Reporting Manual for Hospitals*. The District's statements are reported using the economic resources measurements focus and full-accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Unbilled hospital service receivables are recorded at year-end.

#### **Use of Estimates in Preparation of Financial Statements**

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

#### **Cash and Cash Equivalents**

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

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Restricted Assets**

Restricted assets relate to certain cash and other resources set aside for specific purposes because of restrictions placed on them.

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

#### **Investments**

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

#### **Patient Accounts Receivable and Credit Policy**

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

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Patient Accounts Receivable and Credit Policy** (Continued)

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

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

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

## Notes to Financial Statements See Accountant's Compilation Report

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### Note 1                      Summary of Significant Accounting Policies (Continued)

#### Taxes Receivable

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

#### Inventories

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

#### Capital Assets

Capital acquisitions are recorded at cost or, if donated, at fair value at the date of donation and are subsequently considered as being on the basis of cost. The District capitalizes all assets with an initial, individual cost of \$5,000 or greater and an estimated useful life in excess of three years. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements.

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

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Asset Impairment**

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statement of revenue, expenses, and changes in net position. No impairment losses were recorded in 2013 and 2012.

#### **Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The District has only one item that qualifies for reporting in this category. The District purchased a medical clinic, and the deferred outflow is the consideration given in excess of the net position acquired. The remaining life of the deferred outflow is estimated at five years. The estimated life will be periodically reviewed and revised as necessary in subsequent reporting periods. The District had no deferred outflows recorded in 2012.

#### **Compensated Absences**

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

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



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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Unearned Revenue**

The District has unearned revenue related to the Medicare Electronic Health Record (EHR) incentive payments. These incentive payments are being recognized over the same period of time as the EHR assets are depreciated.

#### **Net Position**

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

#### **Operating Revenue and Expenses**

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

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Net Patient Service Revenue**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

#### **Charity Care**

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

#### **Advertising Cost**

Advertising costs are expensed as incurred.

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Property Tax Revenue**

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

#### **Grants and Contributions**

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

#### **Tax Status**

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

#### **Electronic Health Record Incentive Funding**

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

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **Electronic Health Record Incentive Funding** (Continued)

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

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

The District incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments.

The District has deferred the payment received under the Medicare EHR program. The unearned revenue is being amortized and recognized as revenue over three years, which is the period the software would have been depreciated and cost reimbursed through the Medicare cost report.

#### **New Accounting Pronouncements**

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The District adopted this guidance as of December 31, 2012.

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 1      **Summary of Significant Accounting Policies** (Continued)

#### **New Accounting Pronouncements** (Continued)

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON No. 4. Based on those definitions, Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, Statement No. 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The requirements of Statement No. 65 are effective for periods beginning after December 15, 2012. In the year ended December 31, 2013, the District adopted Statement No. 65 and restated the opening position as of January 1, 2012, for deferred bond issuance costs as discussed in Note 16.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. Government combinations are arrangements that meet GASB's definition of a government merger, government acquisition, or transfer of operations. The District adopted this guidance as of December 31, 2013.

#### **Reclassifications**

Certain reclassifications of 2012 amounts have been made in the accompanying financial statements to conform to 2013 presentation.

#### **Subsequent Events**

Subsequent events have been evaluated through April 25, 2014, which is the date the financial statements were available to be issued.

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

## Notes to Financial Statements

See Accountant's Compilation Report

### Note 2 Cash and Cash Equivalents

Cash and cash equivalents were composed of the following at December 31:

	2013	2012
Investments with state investment pool	\$ 34,292,888	\$ 39,205,942
Cash on deposit with Mason County Treasury	1,123,325	834,304
General bank accounts	80,605	71,709
Total cash and cash equivalents	\$ 35,496,818	\$ 40,111,955

### Restricted Assets

The restricted assets included the following at December 31:

Purpose	2013	2012
2004 Bond Fund debt service	\$ 21	\$ 21
2005 Bond Fund debt service	116,265	115,867
2010 Bond Construction Fund	-	2,672,461
Equipment Memorial Fund	38,617	38,562
Renovation Fund	1,754,413	5,618,508
Restricted cash with state investment pool	\$ 1,909,316	\$ 8,445,419

### Deposits

The District's 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). The District does not have a policy for custodial credit risk.

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 3 Patient Accounts Receivable

Patient accounts receivable was composed of the following at December 31:

	2013	2012
Patient accounts receivable	\$ 25,207,671	\$ 23,034,198
Less:		
Contractual adjustments	8,668,657	7,752,850
Allowance for doubtful accounts	7,093,190	6,805,172
Patient accounts receivable - Net	\$ 9,445,824	\$ 8,476,176

### Note 4 Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. Gross revenue billed under the Medicare and Medicaid programs totaled approximately \$95,926,000 and \$95,502,000 in 2013 and 2012, respectively. A summary of the basis of reimbursement with major third-party payors follows:

#### Medicare

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

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 4      **Reimbursement Arrangements With Third-Party Payors** (Continued)

#### **Medicare** (Continued)

The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled on by the Medicare fiscal intermediary. Medicare has audited and settled cost reports for the years through 2011.

#### **Medicaid**

Medicaid reimbursement for inpatient and outpatient hospital services is paid based on cost as defined and limited by the Washington State Health Care Authority. The District is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. Medicaid pays rural health clinic services on a prospectively set rate. Medicaid hospital cost reports have been audited and tentatively settled for the years through 2011.

#### **Other Payors**

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

#### **Medicare Electronic Health Record Incentive Funding**

The District amortized \$739,561 and \$293,335 of unearned revenue from the Medicare EHR incentive program for 2013 and 2012, respectively. These amounts are included in other operating revenue in the accompanying statement of revenue, expenses, and changes in net position. As of December 31, 2013 and 2012, unearned revenue from the Medicare EHR incentive payments totaled \$1,010,512 and \$1,479,101, respectively.



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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 4      Reimbursement Arrangements With Third-Party Payors (Continued)

#### Compliance

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

The Centers of Medicare & Medicaid Services (CMS) has implemented a new project using recovery audit contractors (RAC) as part of its efforts to ensure accurate payments under the Medicare program. The project uses RACs to search for potentially inaccurate Medicare payments that might have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The organization may either accept or appeal the RAC's findings. The District's policy is to adjust revenue for decreases in reimbursement from the RAC reviews when these amounts are estimatable and to adjust revenue for increases in reimbursement from the RAC reviews when the increase in reimbursement is agreed upon. During 2013, the District went through a Medicaid RAC audit. The District is currently in the appeals process with the Washington State Health Care Authority regarding the estimated overpayments to the District totaling approximately \$232,000. This amount is reserved in the third-party payable on the statement of net position.

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 5      Property Taxes

The District received approximately 1.37% and 1.35% of its financial support from property taxes for the years ended December 31, 2013 and 2012, respectively. The funds were used as follows:

	2013	2012
Taxes levied to support operations and debt service	\$ 2,107,741	\$ 2,091,459

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

For 2013, the District's regular tax levy was \$0.37 per \$1,000 on the total assessed valuation of \$5,460,901,033 for a total regular levy of \$2,021,815. There were no additional levies for debt service in 2013.

For 2012, the District's regular tax levy was \$0.32 per \$1,000 on the total assessed valuation of \$6,180,189,508 for a total regular levy of \$1,975,207. There were no additional levies for debt service in 2012.

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

## Notes to Financial Statements

See Accountant's Compilation Report

### Note 6 Capital Assets

Capital asset activities for the year ended December 31, 2013, were as follows:

	Beginning Balance 1/1/13	Increase	Decrease	Ending Balance 12/31/13
Capital assets not being depreciated:				
Land	\$ 1,526,034	\$ 425,314	\$ -	\$ 1,951,348
Construction in progress	12,259,866	11,289,067	18,406,369	5,142,564
Total capital assets not being depreciated	13,785,900	11,714,381	18,406,369	7,093,912
Capital assets being depreciated:				
Land improvements	1,983,382	500,009	-	2,483,391
Leasehold improvements	42,847	-	-	42,847
Buildings	26,826,785	8,714,635	-	35,541,420
Equipment	32,224,536	11,319,065	611,776	42,931,825
Total capital assets being depreciated	61,077,550	20,533,709	611,776	80,999,483
Less accumulated depreciation for:				
Land improvements	625,232	178,923	-	804,155
Leasehold improvements	15,354	4,284	-	19,638
Buildings	8,919,161	1,314,277	-	10,233,438
Equipment	15,717,596	3,187,735	527,362	18,377,969
Total accumulated depreciation	25,277,343	4,685,219	527,362	29,435,200
Total capital assets, depreciable - Net	35,800,207	15,848,490	84,414	51,564,283
Total capital assets - Net	\$ 49,586,107	\$ 27,562,871	\$ 18,490,783	\$ 58,658,195

At December 31, 2013, construction in progress consisted primarily of project costs for the new Electronic Health Record (EHR) system totaling \$5.1 million.

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

## Notes to Financial Statements

See Accountant's Compilation Report

### Note 6 Capital Assets (Continued)

Capital asset activities for the year ended December 31, 2012, were as follows:

	Beginning Balance 1/1/12	Increase	Decrease	Ending Balance 12/31/12
Capital assets not being depreciated:				
Land	\$ 938,479	\$ 587,555	\$ -	\$ 1,526,034
Construction in progress	13,898,134	18,575,602	20,213,870	12,259,866
Total capital assets not being depreciated	14,836,613	19,163,157	20,213,870	13,785,900
Capital assets being depreciated:				
Land improvements	836,050	1,147,332	-	1,983,382
Leasehold improvements	42,847	-	-	42,847
Buildings	19,515,581	7,352,483	41,279	26,826,785
Equipment	20,783,100	12,313,491	872,055	32,224,536
Total capital assets being depreciated	41,177,578	20,813,306	913,334	61,077,550
Less accumulated depreciation for:				
Land improvements	536,116	89,116	-	625,232
Leasehold improvements	11,069	4,285	-	15,354
Buildings	8,210,694	742,891	34,424	8,919,161
Equipment	14,133,582	2,301,775	717,761	15,717,596
Total accumulated depreciation	22,891,461	3,138,067	752,185	25,277,343
Total capital assets, depreciable - Net	18,286,117	17,675,239	161,149	35,800,207
Total capital assets - Net	\$ 33,122,730	\$ 36,838,396	\$ 20,375,019	\$ 49,586,107

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

## Notes to Financial Statements

See Accountant's Compilation Report

### Note 7 Long-Term Debt, Capital Leases, and Other Noncurrent Liabilities

A schedule of changes in noncurrent liabilities for the year ended December 31, 2013, is as follows:

	Beginning Balance 1/1/13	Additions	Reductions	Ending Balance 12/31/13	Amount Due Within One Year
Bonds and notes payable:					
2004 LTGO Bonds	\$ 340,000	\$ -	\$ 340,000	\$ -	\$ -
2010A LTGO Bonds	1,330,000	-	480,000	850,000	850,000
2010A LTGO Bonds Premium	46,083	-	28,730	17,353	-
2010B LTGO Bonds	25,930,000	-	-	25,930,000	-
Total long-term debt	\$ 27,646,083	\$ -	\$ 848,730	\$ 26,797,353	\$ 850,000

A schedule of changes in noncurrent liabilities for the year ended December 31, 2012, is as follows:

	Beginning Balance 1/1/12	Additions	Reductions	Ending Balance 12/31/12	Amount Due Within One Year
Bonds and notes payable:					
2004 LTGO Bonds	\$ 680,000	\$ -	\$ 340,000	\$ 340,000	\$ 340,000
2010A LTGO Bonds	1,780,000	-	450,000	1,330,000	480,000
2010A LTGO Bonds Premium	84,891	-	38,808	46,083	-
2010B LTGO Bonds	25,930,000	-	-	25,930,000	-
Total long-term debt	\$ 28,474,891	\$ -	\$ 828,808	\$ 27,646,083	\$ 820,000

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### **Note 7                      Long-Term Debt, Capital Leases, and Other Noncurrent Liabilities** (Continued)

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

#### **Long-Term Debt**

Limited Tax Equipment and Refunding General Obligation Bonds, dated April 1, 1994, in the amount of \$4,295,000, due in varying annual principal installments of \$205,000 in 2004 to \$335,000 in 2013, plus interest at varying rates from 5.85% to 6.25%, payable December 1 and June 1 each year. The District has the right to redeem any or all of the bonds maturing on or after 2005 prior to their stated maturity dates on December 1, 2004, or on any semiannual interest payment date thereafter, at par plus interest accrued to the date of redemption. On November 30, 2004, the District refinanced these bonds, saving approximately \$300,000 in debt service over the life of the loan. The refinanced interest rates vary from 2.5% to 4.0%, with varying principal installments of \$235,000 to \$340,000 per year over the remaining life of the loan, which was retired December 2013.

Limited Tax General Obligation Bonds 2010A (the "2010A Bonds"), dated October 14, 2010, in the amount of \$2,070,000, due in varying annual principal installments of \$450,000 in 2012 to \$850,000 in 2014, plus interest at 4.00%, payable June 1 and December 1 each year. There is no optional redemption of the 2010A Bonds. The 2010A Bonds were sold at a premium of 6.69% above par value. The 2013 unamortized premium balance is \$17,353. The District issued general obligation bonds to finance the campus renewal project and construction of a new surgical wing.

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

## Notes to Financial Statements

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### Note 7 Long-Term Debt, Capital Leases, and Other Noncurrent Liabilities (Continued)

#### Long-Term Debt (Continued)

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

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

	Principal	Interest	Total
2014	\$ 850,000	\$ 1,490,602	\$ 2,340,602
2015	885,000	1,456,602	2,341,602
2016	905,000	1,429,273	2,334,273
2017	925,000	1,397,725	2,322,725
2018	945,000	1,363,167	2,308,167
2019 - 2023	5,175,000	6,141,565	11,316,565
2024 - 2028	6,150,000	4,644,885	10,794,885
2029 - 2033	7,495,000	2,576,940	10,071,940
2034 - 2035	3,450,000	333,284	3,783,284
Totals	\$ 26,780,000	\$ 20,834,043	\$ 47,614,043

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

## Notes to Financial Statements

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### Note 8 Operating Leases

The District is committed under various leases for various equipment and building spaces. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended December 31, 2013, amounted to \$355,908. Future minimum rental commitments for these leases for the years ending December 31 are as follows:

2014	\$	344,949
2015		267,283
2016		94,355
2017		6,517
2018		6,517
Total		\$ 719,621

### Note 9 Net Patient Service Revenue

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

	2013	2012
Gross patient service revenue:		
Inpatient services	\$ 43,377,929	\$ 44,354,767
Outpatient services	93,983,759	93,986,791
Physician clinics	14,270,053	14,591,269
Totals	151,631,741	152,932,827
Less:		
Contractual adjustments	76,613,049	78,088,598
Provision for bad debt	7,060,916	8,370,200
Net patient service revenue	\$ 67,957,776	\$ 66,474,029



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

## Notes to Financial Statements

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### Note 10      Charity Care

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

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated \$4,221,014 and \$4,253,029 for the years ended December 31, 2013 and 2012, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated approximately \$2,024,500 and \$1,899,000 in 2013 and 2012, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care.

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

## Notes to Financial Statements

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### Note 11 Pension

#### Defined Contribution Plan

The District's defined contribution plan is Public Hospital District No. 1 of Mason County Pension Plan Number 001. The District's Director of human resources serves as the plan administrator. The District provides pension benefits through a defined contribution plan for all of its full-time and part-time employees who have worked at least 1,000 hours in the first year and have attained age 18. In a defined contribution plan, the pension benefits depend solely on amounts contributed by the District to the plan, plus investment earnings. Employees are eligible to participate after one year of service if they agree to contribute three percent of earnings of up to \$650 a month, and six percent of earnings over \$650 per month to the deferred compensation plan. The District contributes four percent of earnings of up to \$650 per month and eight percent of earnings over \$650 per month. The employer pension contributions are vested at 30% after three years, 40% after four years, 60% after five years, 80% after six years, and 100% after seven years of service. Any pension contributions and interest forfeited by employees are used to reduce the District's current-period contribution requirement. The District made the required pension contributions of \$1,635,853 and \$1,602,830 for 2013 and 2012, respectively. The Board of Commissioners has sole authority to amend this plan.

#### Deferred Compensation Plan

In addition to the defined contribution plan above, the District provides a deferred compensation plan to substantially all employees. The plan is funded solely from employee contributions, which are deposited with insurance companies. The plan is administered by VALIC. The Board of Commissioners has sole authority to amend this plan. Funds on deposit with the insurance company were \$20,690,290 and \$18,049,713 as of December 31, 2013 and 2012, respectively. Contributions to the plan were \$1,913,084 and \$1,850,147 as of December 31, 2013 and 2012, respectively.

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

## Notes to Financial Statements

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### Note 11      Pension (Continued)

#### Deferred Compensation Plan (Continued)

In addition to the deferred compensation plan described above, the District entered into a voluntary plan in 1975, funded with Aetna Life Insurance Company. This plan was frozen in 1979 when contributions to the retirement plan were given deferred compensation status. One past employee is currently utilizing this plan.

### Note 12      Risk Management

#### Professional Liability Insurance

The District is one of a number of Washington hospitals that are members of the Washington Hospital Casualty Company (WCC), a nonprofit mutual insurance corporation used for payment of liability claims. The WCC policy provides protection on a "claims made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies. If there are unreported incidents that result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The current malpractice insurance provides \$1,000,000 per claim of primary coverage with an aggregate limit of \$5,000,000, plus \$11,000,000 annual excess coverage per claim with an annual aggregate of \$11,000,000. There are no significant deductible or coinsurance clauses. No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

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

## Notes to Financial Statements

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### Note 12 Risk Management (Continued)

#### Self-Insurance

The District self-insures for health care benefits provided to its employees. Employee medical claims are paid by the District through a plan administrator, HMA. Employees file their claims with the administrator. The administrator pays the claim and invoices the amount paid back to the District. The District pays the claims out of unrestricted funds. The District also has major medical coverage with an insurance company that provides coverage for employee claims in excess of \$120,000.

Expenses for health insurance coverage totaled \$10,442,400 and \$8,513,704 in 2013 and 2012, respectively. The District has accrued a liability equal to approximately one hundred fifty days of health insurance claims at December 31, 2013, for claims incurred prior to year-end and filed with the administrator after year-end. The following represents changes to those liabilities during the past two years:

	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments and Fees	Ending Liability
2013	\$ 3,509,459	\$ 10,442,400	\$ 9,888,211	\$ 4,063,648
2012	\$ 3,534,009	\$ 8,513,704	\$ 8,538,254	\$ 3,509,459

#### Workers' Compensation and Unemployment Insurance

The District has a self-insured workers' compensation plan for its employees. The District joined the Public Hospital District Workers' Compensation Trust, which is administered by the Washington State Hospital Association. The District pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reinsurance premiums. Amounts paid by the District for workers' compensation expense were \$650,224 and \$646,835 in 2013 and 2012, respectively.

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

## Notes to Financial Statements

See Accountant's Compilation Report

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### Note 12 Risk Management (Continued)

#### Workers' Compensation and Unemployment Insurance (Continued)

The District has a self-insured unemployment plan for its employees. The District has joined the Public Hospital District Unemployment Compensation Fund, which is administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to unemployment expense were \$191,758 and \$189,875 in 2013 and 2012, respectively.

#### Property

The District is insured for earthquake, flood, theft, and fire. The plant is insured for \$70,980,136.

### Note 13 Concentration of Credit Risk

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

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

	2013	2012
Medicare	47%	47%
Medicaid	22%	22%
Self-pay	7%	8%
Other	24%	23%
Totals	100%	100%

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

## Notes to Financial Statements

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### Note 14      Functional Expenses

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

	2013	2012
Health care services	\$ 57,799,839	\$ 53,801,328
General and administrative	14,927,942	14,482,334
Total operating expenses and interest	\$ 72,727,781	\$ 68,283,662

### Note 15      Commitments

The District has current commitments at December 31, 2013 of \$2.4 million related to the completion of the major construction project and completion of the new Electronic Health Record (EHR) system.

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

## Notes to Financial Statements

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### Note 16 Restatement of Net Position

As a result of adopting GASB 65 as described in Note 1, beginning net position and change in net position as reflected in the statement of revenue, expenses, and changes in net position for the year ended December 31, 2012, have been restated as follows:

	Change in Revenue in Excess of Expenses	Beginning Net Position
Balances before restatement	\$ 4,447,943	\$ 58,696,543
Restated for:		
Elimination of beginning debt issuance cost	-	(299,828)
Amortization of debt issuance cost	28,528	-
Balances after restatement	\$ 4,476,471	\$ 58,396,715

The difference represents a restatement for bond issuance costs that were amortized under the prior standards but expensed in the periods presented under the new standards.

### Note 17 Government Acquisition

On December 1, 2013, the District acquired Olympic Physicians PLLC (the "Clinic") in exchange for \$2,502,060. The acquisition included all of the assets of the Clinic consisting of inventory, prepaid expenses, and property. The acquisition value of the net position acquired as of the acquisition date was determined to be \$1,630,160.



## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens 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.

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