



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

**Pend Oreille County Public Hospital
District No. 1**

**(Newport Hospital and Health
Services)**

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

Published December 1, 2014

Report No. 1013062





Washington State Auditor
Troy Kelley

December 1, 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,

TROY KELLEY
STATE AUDITOR

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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, 2013 through December 31, 2013**

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, 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 October 29, 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. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*.

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.

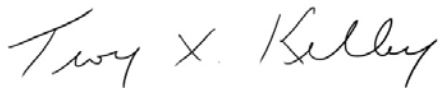
COMPLIANCE AND OTHER MATTERS

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

October 29, 2014

Independent Auditor's Report on Financial Statements

Newport Hospital and Health Services Pend Oreille County January 1, 2013 through December 31, 2013

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Newport Hospital and Health Services, 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. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. 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 10 through 14 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 October 29, 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

October 29, 2014

Financial Section

**Newport Hospital and Health Services
Pend Oreille County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statements of Net Position – 2013 and 2012

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

Statements of Cash Flows – 2013 and 2012

Notes to the Financial Statements – 2013 and 2012

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, 2013. 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 district residents. 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.

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 2013 saw continued increases in total assets, net position, and total operating revenues. The District reported total excess of revenue over expenses for 2013 of approximately \$678,000, compared to \$994,986 in 2012. This decrease is primarily due to a similar decrease in the electronic health record payments (see footnote disclosure and later comment).

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 \$25.4 million in 2013 from \$23.9 million in 2012, or 6.5%. This compares to an increase of 4.4% in the previous year. Since the District is cost reimbursed for most Medicare and Medicaid services, these increases are influenced by the changes in total operating expenses. Further discussions of gross revenues are as follows.

Hospital gross revenues increased to \$27.2 million in 2013 from \$26.2 million in 2012 or 4.0%. This compares to a 4.7% increase in the previous year. Rural health clinic gross revenue decreased to \$4.4 million in 2013 from \$4.5 million in 2012 or -3.7%. This compares to an increase of 6.7% in the previous year. Total clinic visits declined 2.7% in 2013 from 2012, compared to an increase of 1.7% in the previous year.

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

Management's Discussion and Analysis

Long term care gross revenues decreased to \$3.4 million in 2013 from \$3.6 million in 2012. The daily long term care average census declined by 8.4% in 2013 from 2012 compared to an increase of 8.0% in the previous year.

The District's total operating expenses increased to \$26.4 million in 2013 from \$24.7 million in 2012 or 6.9%. compared to a 4.2% increase in the previous year. As mentioned above, because the District is a critical access hospital and receives cost reimbursement for most Medicare and Medicaid services, total operating expense increases directly influence the growth in net patient revenue.

Salaries, wages and benefits increased 2.5% in 2013 over the prior year, following a 5.3% increase for 2012, the result of annual wage increases offset slightly by a lower full-time equivalent (FTE) employee total for 2013.

Condensed financial information as of December 31 for the years 2013, 2012 and 2011 are as follows.

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

	2013	2012	2011
Assets:			
Current assets	\$ 5,335	\$ 5,064	\$ 3,621
Capital assets, net	8,734	9,094	9,518
Other noncurrent assets	4,881	4,504	3,483
Total assets	<u>18,950</u>	<u>18,662</u>	<u>16,622</u>
Liabilities:			
Long-term debt	1,939	2,273	1,811
Other current and noncurrent liabilities	<u>2,872</u>	<u>2,928</u>	<u>2,345</u>
Total liabilities	<u>4,811</u>	<u>5,201</u>	<u>4,156</u>
Net Position:			
Net investments in capital assets	6,462	6,498	7,434
Unrestricted	<u>7,677</u>	<u>6,963</u>	<u>5,032</u>
Total net position	<u>\$ 14,139</u>	<u>\$ 13,461</u>	<u>\$ 12,466</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)

	2013	2012	2011
Operating Revenues:			
Net patient service revenues	\$ 25,446	\$ 23,883	\$ 22,868
Other operating revenues	861	1,178	1,101
Total operating revenues	<u>26,307</u>	<u>25,061</u>	<u>23,969</u>
Operating Expenses:			
Salaries and benefits	17,936	17,595	16,803
Depreciation and amortization	1,132	1,099	1,076
Supplies	2,506	2,069	2,004
Other operating expenses	<u>4,828</u>	<u>3,947</u>	<u>3,838</u>
Total operating expenses	<u>26,403</u>	<u>24,709</u>	<u>23,721</u>
Income (loss) from operations	<u>-96</u>	<u>352</u>	<u>248</u>
Nonoperating Revenues & (Expenses)			
Taxation revenue	420	415	404
Interest earnings	16	17	20
Interest expense	-73	-131	-93
Noncapital grants and contributions	485	462	299
Other	<u>-75</u>	<u>-120</u>	<u>2</u>
Total nonoperating revenues, net	<u>773</u>	<u>643</u>	<u>632</u>
Excess of revenues over expenses	677	995	880
Net position: beginning of year	<u>13,462</u>	<u>12,467</u>	<u>11,587</u>
Net position: end of year	<u>\$ 14,139</u>	<u>\$ 13,462</u>	<u>\$ 12,467</u>

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

The district received an electronic health record (EHR) incentive payment from the Medicaid program in 2013 of \$284,351 and received a payment from both the Medicare and Medicaid programs in 2012, totaling \$611,432. Medicare's payments are based on the value of electronic health record related capital assets purchased in the year of payment. The District did not purchase any EHR assets in 2013. These payments are recorded as other operating income. The District reported a loss from operations of \$96,000 in 2013 compared to income from operations in 2012 of \$352,000. This reduction in the EHR payments received are one reason for this decline.

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

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

The District had capital assets net of accumulated depreciation of approximately \$8,734,000 at the end of 2013 compared to \$9,094,000 at end of 2012, 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.

Debt Administration

District has outstanding debt of approximately \$2,273,000 at the end of 2013, compared to \$2,596,000 at the end of 2012. In February 2012, the District issued new LTGO 2012 bonds. 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.

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, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 1,994,459	\$ 1,726,518
Receivables:		
Patients accounts, less allowance for uncollectible accounts of \$772,000 and \$825,000 respectively	2,860,708	2,820,600
Third party settlements payable	(259,097)	(149,170)
Taxes receivable	39,498	40,419
Other receivables	167,282	71,042
Inventories	373,617	339,428
Prepaid expenses	153,256	210,894
Patient trust funds	5,623	4,282
Total current assets	<u>5,335,346</u>	<u>5,064,013</u>
Noncurrent assets		
Cash and cash equivalents		
Internally designated for capital acquisitions	4,769,965	4,394,849
Internally designated for debt service	110,043	108,866
Total noncurrent cash and cash equivalents	<u>4,880,008</u>	<u>4,503,715</u>
Capital assets not being depreciated		
Land	479,792	479,792
Construction in progress	113,070	90,452
Capital assets being depreciated		
Improvements to land	336,763	336,763
Buildings	14,883,636	14,873,145
Equipment	7,818,245	7,858,197
Less: accumulated depreciation	(14,897,059)	(14,544,051)
Total capital assets, net	<u>8,734,447</u>	<u>9,094,298</u>
Total noncurrent assets	<u>13,614,455</u>	<u>13,598,013</u>
Total assets	<u>\$ 18,949,801</u>	<u>\$ 18,662,026</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, 2013 and 2012

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Accounts payable	\$ 686,761	\$ 874,809
Accrued compensation and related expenses	902,010	811,538
Compensated absences	656,652	636,760
Unearned grant and other revenue	287,098	277,159
Patient trust fund liability	5,623	4,282
Current maturities of long-term debt	<u>334,022</u>	<u>323,485</u>
Total current liabilities	<u>2,872,166</u>	<u>2,928,033</u>
Noncurrent Liabilities		
Long-Term Debt, net of current maturities	1,938,738	2,272,760
Total liabilities	<u>4,810,904</u>	<u>5,200,793</u>
Net position		
Net investment in capital assets	6,461,687	6,498,052
Unrestricted	<u>7,677,210</u>	<u>6,963,181</u>
Total net position	<u>14,138,897</u>	<u>13,461,233</u>
Total liabilities and net position	<u>\$ 18,949,801</u>	<u>\$ 18,662,026</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$932,603 and \$932,738, respectively	\$ 25,446,110	\$ 23,883,194
Other operating revenues		
Pro share revenues	350,000	349,120
Electronic health record incentive payments	284,351	611,432
Cafeteria	134,836	136,272
Other	91,441	80,768
Total operating revenues	<u>26,306,738</u>	<u>25,060,786</u>
Operating Expenses		
Salaries and wages	14,179,544	13,837,273
Employee benefits	3,756,845	3,757,255
Professional fees	888,688	733,059
Medical supplies	1,734,850	1,288,511
Other supplies	770,869	780,255
Utilities	442,451	444,090
Purchased services, information technology	967,911	927,114
Purchased services, other	1,522,558	938,927
Insurance	255,394	249,393
Other	751,308	654,092
Depreciation and amortization	1,132,172	1,099,198
Total operating expenses	<u>26,402,590</u>	<u>24,709,167</u>
Income from Operations	(95,852)	351,619
Nonoperating Revenues (Expenses)		
Property taxes	420,434	415,263
Interest income	16,024	16,541
Interest expense	(72,779)	(130,762)
Grants and contributions	484,914	462,486
Other nonoperating revenue (expense)	(75,077)	(120,161)
Total nonoperating revenues (expenses), net	<u>773,516</u>	<u>643,367</u>
Excess of revenues over expenses	<u>677,664</u>	<u>994,986</u>
Net position, beginning of year	<u>13,461,233</u>	<u>12,466,247</u>
Net position, end of year	<u>\$ 14,138,897</u>	<u>\$ 13,461,233</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 25,515,929	\$ 23,780,861
Receipts from other operating revenues	764,388	1,119,455
Payments for salaries and benefits	(17,826,025)	(17,512,328)
Payments to suppliers, contractors and others	<u>(7,240,720)</u>	<u>(6,172,941)</u>
Net cash provided by operating activities	<u>1,213,572</u>	<u>1,215,047</u>
Cash Flows from Noncapital Financing Activities		
Taxation for operations	421,355	415,969
Cash received from grants and contributions	494,853	718,748
Cash paid for nonoperating expenses	<u>(75,077)</u>	<u>(120,161)</u>
Net cash provided by noncapital financing activities	<u>841,131</u>	<u>1,014,556</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of investments in property	-	65,000
Proceeds from issuances of long-term debt	-	2,400,000
Principal paid on long-term debt	(323,485)	(1,888,135)
Interest paid on long-term debt	(72,779)	(135,949)
Payments for capital assets	<u>(1,030,229)</u>	<u>(413,723)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,426,493)</u>	<u>27,193</u>
Cash Flows from Investing Activities		
Interest Received	<u>16,024</u>	<u>16,541</u>
Net Cash provided by investing activities	<u>16,024</u>	<u>16,541</u>
Net Increase in Cash and Cash Equivalents	644,234	2,273,337
Cash and Cash Equivalents, beginning of year	<u>6,230,233</u>	<u>3,956,896</u>
Cash and Cash Equivalents, end of year	<u>\$ 6,874,467</u>	<u>\$ 6,230,233</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Income from Operations	\$ (95,852)	\$ 351,619
Adjustment to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation and amortization	1,132,172	1,099,198
Provision for bad debts	932,603	932,738
(Increase) decrease in current assets		
Receivables		
Patient accounts, net	(972,711)	(578,646)
Third party settlements	109,927	(456,425)
Other receivables	(96,240)	(58,137)
Inventories	(34,189)	(33,001)
Prepaid expenses	57,638	(83,358)
Increase (decrease) in current liabilities		
Accounts payable	73,664	(41,208)
Employee compensation and related liabilities	90,472	42,144
Compensated absences	16,088	40,123
Net cash provided by operating activities	<u>\$ 1,213,572</u>	<u>\$ 1,215,047</u>

The accompanying notes are an integral part of these financial statements

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

Notes to the Financial Statements December 31, 2013 and 2012

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 the western portion of Bonner County, Idaho. The services provided include acute care, skilled nursing, assisted living, emergency room, physician and surgical services, plus related ancillary procedures.

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 the Financial Statements December 31, 2013 and 2012

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 does not have any material component units requiring disclosure. Therefore, the District adopted GASB Statement No. 61 in 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 in 2012. 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. 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 the Financial Statements December 31, 2013 and 2012

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 \$0.374 per \$1,000 in 2013 and \$0.358 per \$1,000 in 2012, and on total assessed valuation of \$1,132,438,000 in 2013 and \$1,128,880,000 in 2012, respectively.

The District received total property tax revenues, which includes the regular levy and additional supplements throughout the year, of \$420,434 or approximately 1.6% of its financial support in 2013 and \$415,263 or approximately 1.6% of its financial support in 2012. 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 the Financial Statements December 31, 2013 and 2012

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, 2012	596,704	40,056	636,760
Year Ended December 31, 2013	636,760	19,892	656,652

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 the Financial Statements December 31, 2013 and 2012

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 \$284,351 in 2013 and \$355,438 in 2012. The District became eligible for payments from the Medicare program in 2012 and received \$0 in 2013 and \$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 the Financial Statements December 31, 2013 and 2012

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 \$138,000 and \$189,000 in 2013 and 2012, respectively.

Reclassifications

Certain reclassifications of the 2012 amounts have been made in the financial statements to conform to the 2013 presentation. These reclassifications had no effect on the previously reported net position or change in net position.

Note 2 – Designated Net Position

Of the \$7,677,210 and \$6,963,181 of unrestricted net position reported in 2013 and 2012, respectively, \$4,769,965 and \$4,394,849 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 the Financial Statements December 31, 2013 and 2012

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

	2013	2012
Investments with the state investment pool	-	-
General bank accounts	6,981,700	6,344,661
Total cash and cash equivalents	6,981,700	6,344,661

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 2013 or 2012.

Patient accounts receivable reported as current assets by the District as December 31, 2013 and 2012, consisted of the following.

	2013	%	2012	%
Receivable from patients and their insurance carriers	\$ 1,908,117	53%	\$ 2,053,616	56%
Receivable from Medicare	1,004,270	28%	749,733	21%
Receivable from Medicaid	720,320	20%	842,251	23%
Total patient accounts receivable	3,632,707	100%	3,645,600	100%
Less allowance for uncollectible amounts	(772,000)		(825,000)	
Patient Accounts receivable, net	\$ 2,860,707		\$ 2,820,600	

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 the Financial Statements December 31, 2013 and 2012

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,	
	2013	2012
Patient service revenue (net of contractual adjustments and discounts)		
Medicare	9,854,038	9,800,811
Medicaid	8,242,966	8,026,752
Other third-party payors	4,642,443	4,851,051
Uninsured (self pay)	2,899,948	2,900,790
Contract pharmacies	1,430,096	-
	<u>27,069,490</u>	<u>25,579,404</u>
Less:		
Charity care	690,777	763,472
Provision for bad debts	932,603	932,738
Net patient service revenue	<u><u>25,446,110</u></u>	<u><u>23,883,194</u></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 the Financial Statements December 31, 2013 and 2012

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 \$479,000 and \$523,000 in 2013 and 2012, respectively.

Note 6 – Capital Assets

Capital asset additions, transfers from construction in progress, retirements and balances as of December 31, 2013, are as follows:

	Balance December 31, 2012	Additions/ Transfers	Retirements	Balance December 31, 2013
<u>Non-Depreciable Assets</u>				
Land	\$ 479,792			\$ 479,792
Construction in Progress	90,452	22,618		113,070
Total Non-Depreciable Assets	570,244	22,618	-	592,862
<u>Depreciable Assets</u>				
Land Improvements	336,763			336,763
Buildings and Improvements	14,873,145	10,491		14,883,636
Equipment	7,858,197	739,215	(779,167)	7,818,245
Total Depreciable Assets	23,068,105	749,706	(779,167)	23,038,644
Total Assets Before Depreciation	23,638,349	772,324	(779,167)	23,631,506
<u>Less Accumulated</u>				
Depreciation for:		Depreciation		
Land Improvements	260,591	9,916		270,507
Buildings and Improvements	8,140,927	562,493		8,703,420
Equipment	6,142,533	559,766	(779,167)	5,923,132
Total Accumulated Depreciation	14,544,051	1,132,175	(779,167)	14,897,059
Total Capital Assets, net	\$ 9,094,298	\$ (359,851)	\$ -	\$ 8,734,447

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

Notes to the Financial Statements December 31, 2013 and 2012

At December 31, 2013, the District has recorded preliminary design work on a remodeling project for the second floor surgery area. The total cost of this project will be approximately 525,000 and has been authorized for completion by the District's board of commissioners. The District will not require outside financing for this project and it is expected to be completed by June 2014.

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:		<u>Depreciation</u>		
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

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 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.

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

Notes to the Financial Statements December 31, 2013 and 2012

Schedule of changes in long term debt for the fiscal year ended December 31, 2013, is as follows:

	Balance December 31, 2012	Additions	Reductions	Balance December 31, 2013	Amounts Due Within One Year
2012 LTGO Payable	\$ 2,148,671		\$ (315,161)	\$ 1,833,510	\$ 325,573
HFU Loan Payable	447,574		(8,324)	439,250	8,449
Total Noncurrent Liabilities	<u>\$ 2,596,245</u>	<u>\$ -</u>	<u>\$ (323,485)</u>	<u>\$ 2,272,760</u>	<u>\$ 334,022</u>

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>

The terms and due dates of the District's long-term debt at December 31, 2013 and 2012, 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.

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.

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.

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

**Notes to the Financial Statements
December 31, 2013 and 2012**

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

Year Ending December 31,	Bonds and Notes Payable		
	Principal	Interest	Total
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	379,739	16,712	396,451
2019-2023	141,488	40,483	181,971
2024-2028	50,522	25,414	75,936
2029-2033	54,427	21,568	75,995
2034-2038	58,633	17,423	76,056
2039-2043	63,163	12,961	76,124
2044-2048	68,045	8,150	76,195
2049-2052	54,030	2,969	56,999
	<u>\$ 2,272,760</u>	<u>\$ 328,454</u>	<u>\$ 2,601,214</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, 2013 and 2012 of approximately \$680,000 and \$653,000 respectively.

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, 2013 and 2012 of approximately \$456,000 and \$442,000 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.

PEND OREILLE COUNTY PUBLIC HOSPITAL DISTRICT No. 1

Notes to the Financial Statements December 31, 2013 and 2012

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 \$5,000,000 excess professional liability for each occurrence, \$5,000,000 healthcare umbrella liability for each occurrence, and \$5,000,000 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

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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

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