Washington State Auditor's Office

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Financial Statements Audit Report

Lewis County Public Hospital District No. 1

(Morton General Hospital)

For the period January 1, 2013 through December 31, 2014

Published November 16, 2015

Report No. 1015554

Washington State Auditor's Office

November 16, 2015

Board of Commissioners
Morton General Hospital
Morton, Washington

Report on Financial Statements

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Morton General Hospital
Lewis County
January 1, 2013 through December 31, 2014

2014-001 The District's internal controls over capital assets are not adequate to ensure accurate financial statement reporting.

Background

Board members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of District management to design and follow internal controls that ensure reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports.

During the prior two audits we have communicated concerns about the District's internal controls over financial reporting.

Description of Condition

During the current audit, we identified the following deficiencies that, when taken together, represent a significant deficiency in controls:

- The District does not have policies and procedures in place, including close supervision and oversight, to ensure capital assets are tracked and monitored and that the information in the general ledger is accurate and complete.
- The District lacks an effective review process to ensure amounts reported on the financial statements agree to supporting records and are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Cause of Condition

Prior District management did not prioritize nor dedicate sufficient resources, such as oversight and review, to ensure controls over its accounting systems and financial reporting was adequate.

The District has also had a significant amount of turnover in the past several years.

Effect of Condition

- The District did not remove 13 items on the capital asset listing that were surplus, missing, or non-existent. This resulted in depreciable capital assets being over reported by $483,581.

- The District capitalized 180 assets that were under the $5,000 capitalization threshold. This resulted in depreciable capital assets being over reported by $296,345.

- The District purchased an ultrasound in 2013 and returned it in 2014. However they did not remove the full cost of the ultrasound from the capital asset listing. This caused depreciable capital assets to be over reported by $12,756.

- The District was unable to provide the location of, or evidence that they owned a piece of land reported on their asset listing. This resulted in land being over stated by $14,246.

After reducing the depreciable capital asset misstated value by $725,672 in accumulated depreciation, the total amount over reported on the financial statements was $67,010.

Since the errors were immaterial, the District did not correct them for fiscal year 2014; however, the District stated they will correct them for fiscal year 2015.

Recommendation

We recommend the District dedicate the necessary time and resources to ensure:

- Policies and procedures are in place, such close supervision and oversight, to ensure assets are tracked and monitored and general ledger balances are valid, accurate, complete and adequately supported.

- A knowledgeable and detailed review of the District’s financial activities, financial statements and supporting schedules to ensure they are complete and accurate.

District’s Response

As noted, the District has undergone significant personnel changes in their Finance department management positions. This has been corrected so that close supervision and oversight is sufficient to ensure that general ledger balances and financial statements are being reported accurately and completely.

Policies and procedures and being produced which are assisting in ensuring that financial statements and supporting schedules are being reported according to generally accepted accounting procedures.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls.

We look forward to working with the District on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System (BARS) Manual - Accounting, Accounting Principles and General Procedures, Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

> When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts

> or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

> a. Significant deficiency: 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.
>
> b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

The *Budgeting, Accounting and Reporting System* (BARS) Manual states in part:

> A physical inventory of the capital assets is necessary to verify that the assets still exist; it also provides updates on the condition of the assets. This information demonstrates that the local government is exercising its custodial responsibility for the asset and is beneficial when establishing an insurance claim because it substantiates both the existence and the condition of the asset near the time of loss or damage.

STATUS OF PRIOR AUDIT FINDINGS

Morton General Hospital
Lewis County
January 1, 2013 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Morton General Hospital. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**
January 1, 2013 through December 31, 2013	1013692	2013-001

Finding Caption:
The District needs to strength internal controls over its operations and financial reporting.

Background:
The District does not have an adequate segregation of duties or oversight and monitoring procedures in place over its accounting systems, journal entries and monthly bank reconciliations.

The District lacks an effective review process to ensure amounts reported on the financial statements, by its contracted certified public accounting (CPA) firm, agree to supporting accounting records and are prepared in accordance with the Budgeting, Accounts and Reporting Systems (BARS) Manual.

Although the District hired a CPA firm to calculate its financial statement estimates, the District does not have procedures in place to ensure the estimates prepared by the CPA firm are properly calculated and accurately reported.

Status of Corrective Action: (check one)

☐ Fully Corrected X Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid

Corrective Action Taken:
As noted previously by management, the District has undergone significant changes in management accounting positions. To alleviate that concern, the District has hired a Controller and CFO who have been reviewing all journal entries and monthly bank reconciliations which are ensuring adequate segregation of duties and oversight of the accounting processes. Policies and procedures are being written to assist the District in this process.

The newly hired Controller and CFO review all accounting work provided by outside accounting agencies to ensure that the services provided are in accordance with standard accounting practices.

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*

Morton General Hospital
Lewis County
January 1, 2013 through December 31, 2014

Board of Commissioners
Morton General Hospital
Morton, 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 Morton General Hospital, Lewis County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2015. The District has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 that we consider to be significant deficiencies.

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*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

November 10, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Morton General Hospital
Lewis County
January 1, 2013 through December 31, 2014

Board of Commissioners
Morton General Hospital
Morton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Morton General Hospital, Lewis County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

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 Morton General Hospital, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

November 10, 2015

FINANCIAL SECTION

Morton General Hospital
Lewis County
January 1, 2013 through December 31, 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position

December 31, 2014 and 2013

Current assets:	**2014**	**2013**
Cash and cash equivalents	$ 1,825,500	$ 1,540,523
Receivables:		
Patient accounts - Net	3,522,819	3,635,983
Taxes	97,430	104,445
Third-party settlement receivable	276,937	1,112,817
Other	56,935	45,095
Inventories	195,173	199,260
Prepaid expenses	127,525	219,386
Total current assets	**6,102,319**	**6,857,509**
Noncurrent assets, cash, and cash equivalents:		
Internally designated, capital acquisition	575,263	574,691
Restricted by debt indenture, debt service fund	472,305	402,833
Restricted for capital acquisitions	1,343	1,342
Net noncurrent assets, cash, and cash equivalents	**1,048,911**	**978,866**
Capital assets:		
Land	971,399	971,399
Construction in progress	654,751	22,157
Depreciable capital assets - Net of accumulated depreciation	12,470,451	13,963,855
Total capital assets - Net of accumulated depreciation	**14,096,601**	**14,957,411**
Other assets	162,835	169,208
TOTAL ASSETS	**21,410,666**	**22,962,994**
Current liabilities:		
Current maturities of long-term debt	831,236	795,661
Current portion of capital lease obligations	92,225	231,373
Warrants payable	-	624,708
Accounts payable	886,688	477,340
Payroll and related	172,306	511,813
Accrued vacation	705,061	625,134
Patient trust funds	6,024	25,303
Current portion of unearned revenue	40,953	40,953
Total current liabilities	2,734,493	3,332,285
Noncurrent liabilities:		
Long-term debt - Net of current maturities	11,907,027	12,753,925
Capital lease obligations - Net of current portion	15,504	118,911
Total noncurrent liabilities	11,922,531	12,872,836
Other liabilities:		
Unearned revenue - Net of current portion	40,954	81,907
Total liabilities	**14,697,978**	**16,287,028**
Net Position:		
Net Invested in capital assets	1,251,952	1,058,883
Restricted:		
Restricted for debt service	472,305	402,833
Expendable for capital acquisitions	1,343	1,342
Unrestricted	4,987,088	5,212,906
Total net position	**6,712,688**	**6,675,964**
TOTAL LIABILITIES AND NET POSITION	**21,410,666**	**22,962,994**

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2014 and 2013

Operating revenues:	**2014**	**2013**
Net patient service revenue	21,213,305	21,741,082
Other	646,116	562,262
Total operating revenues	**21,859,421**	**22,303,344**
Operating expenses:		
Salaries and wages	11,862,977	12,245,687
Employee benefits	3,613,447	3,449,888
Professional fees	1,029,086	787,802
Supplies	1,996,338	1,986,229
Purchased services	1,339,334	1,596,724
Utilities	341,829	324,366
Insurance	190,820	189,460
Rent	344,549	389,083
Other	516,586	566,051
Depreciation and amortization	1,662,179	1,574,114
Total operating expenses	**22,897,145**	**23,109,404**
Loss from operations	**-1,037,724**	**-806,060**
Nonoperating revenues (expenses):		
Property taxes	1,571,975	1,597,184
Interest expense	-596,357	-629,657
Interest revenue	92,301	99,861
Gain on disposal of assets	6,543	2,500
Grants and contributions	9,317	4,221
Other	-9,331	-22,109
Total nonoperating revenues (expenses)	**1,074,448**	**1,052,000**
Increase in net position, excess of revenues over expenses	**36,724**	**245,940**
Net position - Beginning of year	6,675,964	6,430,024
Net position - End of year	**6,712,688**	**6,675,964**

Statements of Cash Flows

Years Ended December 31, 2014 and 2013	2014	2013
Cash flows from operating activities:		
Cash received from patient services	22,109,556	19,815,037
Cash received from other operating revenues	646,116	562,262
Cash paid for salaries and benefits	(15,736,004)	(15,619,295)
Cash paid for supplies, professional fees, and other operating expenses	(5,897,233)	(5,346,420)
Net cash provided by (used in) operating activities	**1,122,435**	**(588,416)**
Cash flows from noncapital financing activities:		
Cash received from tax revenue for operations	843,515	862,527
Cash received from donations and other nonoperating revenue	9,292	4,221
Net cash provided by noncapital financing activities	**852,807**	**866,748**
Cash flows from capital and related financing activities:		
Proceeds from disposal of capital assets	6,556	2,500
Principal payments on long-term debt and capital leases	(1,038,213)	(1,378,455)
Interest paid	(596,357)	(629,657)
Payments for purchase of capital assets	(810,651)	(1,144,081)
Cash received from tax revenue	735,475	721,575
Net cash used in capital and related financing activities	**(1,703,190)**	**(2,428,118)**
Cash flows from investing activities:		
Interest received	92,301	99,861
Other nonoperating revenue used	(9,331)	(22,102)
Net cash provided by investing activities	**82,970**	**77,759**
Net increase (decrease) in cash and cash equivalents	**355,022**	**(2,072,027)**
Cash and cash equivalents - Beginning of year	2,519,389	4,591,416
Cash and cash equivalents - End of year	**2,874,411**	**2,519,389**
Reconciliation of loss from operations to net cash used in by operating activities:		
Loss from operations	-1,037,724	(806,060)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	1,662,179	1,574,114
Provision for bad debts	1,218,797	1,413,352
Change in operating assets and liabilities:		
Receivables:		
Patient accounts - Gross	(1,105,633)	(2,065,184)
Other	(11,840)	15,504
Third-party settlements	794,927	(1,112,817)
Inventories	4,087	(13,571)
Prepaid expenses	91,861	(33,176)
Warrants payable	(624,708)	319,515
Accounts payable	390,069	220,527
Payroll and related expenses	(339,507)	46,748
Accrued vacation	79,927	29,532
Third-party settlements - payable	-	(176,900)
Total adjustments	**2,160,159**	**217,644**
Net cash provided by (used in) operating activities	**1,122,435**	**(588,416)**
Noncash investing and financing activities		
Capital lease obligations	-	145,530

Lewis County Public Hospital District No. 1 d/b/a Morton General Hospital

Morton, Washington

Financial Statements

Years Ended December 31, 2014 and 2013

Note 1 Summary of Significant Accounting Policies

The Entity

Lewis County Public Hospital District No. 1 (the "District") owns and operates Morton General Hospital, a 25-bed acute care hospital and two Medicare certified rural health clinics. The District provides health care services to patients in the Morton, Washington market. The services provided include acute care hospital, long term swing bed care services, emergency room, physician's clinic, and the related ancillary procedures (lab, x-ray, etc.) associated with those services.

The District is a municipal corporation governed by an elected five-member board. It was created on December 2, 1976 by the voters of Lewis County, to operate, control, and manage all matters concerning the County's healthcare functions.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accounting records of the District are maintained in accordance with methods 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*.

The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when 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.

Tax Status

The District operates under the laws of the State of Washington for Washington municipal corporations. As organized, the District is a nonprofit corporation as described in section 501(c)(3) of the Internal Revenue Code and is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents.

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 co-pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowance for uncollectable accounts which reflect management's best estimate of the amounts that will not be collected. The carrying amounts of patient accounts receivables are reduced by allowances that reflect managements' best estimate of the amounts that will not 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 from uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowances for uncollectable accounts.

In evaluating the collectability 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 uncollectable accounts and provision for bad debts. Management regularly reviews data from the major payor sources revenue in evaluating the sufficiency of the allowance for uncollectable 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 uncollectable 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 discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable accounts.

Inventories

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

Noncurrent Assets

Such assets include certain cash and other assets whose use is limited under debt indentures, trust agreements, and by the Board of Commissioners for future bond principal and interest payments and future acquisition and replacement of property, buildings, equipment, and other purposes, including unrestricted earnings on those funds.

Capital Assets

Such assets are stated at cost. The District's policy is to capitalize all capital asset expenditures exceeding $5,000. Expenditures for maintenance and repairs not exceeding the capitalization amount are charged to operations as incurred, betterments and major renewals exceeding the amount are capitalized. When such assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts, and the resulting gain or loss is classified in non-operating gains and losses. Donated items are recorded at fair market value at the date of contribution and are subsequently considered as being on the basis of cost.
Depreciation and amortization have been computed on the straight-line method over the following estimated useful service lives:

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

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may 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 circumstance is outside the normal life cycle of the capital asset. Such events or changes 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 statements of revenue and expenses and changes in net position. No impairment losses were recorded in 2014 and 2013.

Accrued Vacation

Accrued vacation is comprised of absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

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

Net Position

Net position of the District is classified in three components. Net invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures, if any. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The District's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the District's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenues

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

Budgets

The budget is prepared on an annual basis for approval by the Board of Commissioners. The budget is based on historical information and an estimated percentage increase over the prior year for inflationary purposes.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Grants and Contributions

From time to time, the District received grants from the State of Washington as well as contributions from individual and private organizations. Revenue 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. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

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 records unearned revenue for a portion of the payment received under the Medicare EHR program. The unearned revenue is being amortized and recognized as revenue over five years, which is the period the software would have been depreciated and cost reimbursed through the cost report.

Reclassifications

Certain reclassifications of 2013 amounts have been made in the accompanying financial statements to conform to 2014 presentation.

Note 2 Compliance

Management believes the District is in substantial compliance with current laws and regulations through the year ended December 31, 2014.

Note 3 Cash and Cash Equivalents

The Revised Code of Washington, Chapter 39, authorized municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. All final decisions regarding the purchase and sale of investment securities remain with the District Board. The District maintains an investment policy designed to maximize return and limit the following types of risks:

> *Custodial credit risk* – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.
>
> *Credit risk* – The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a policy specifically requiring or limiting investments of type.
>
> *Concentration of credit risk* – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification

(investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

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

The District's cash and cash equivalents are as follows:

	2014	2013
Cash in bank	$ 70,180	$ 488,040
Cash held by County Treasurer	2,804,231	2,031,349
Total	$ 2,874,411	$ 2,519,389
Carrying value	$ 2,874,411	$ 2,519,389

Note 4 Patients Accounts Receivable

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 Lewis County. No single patient comprises more than five percent of the total receivable at year-end.

	2014		2013	
Receivable from patients and their insurance carriers	$ 3,087,602	51%	$ 3,781,069	67%
Receivable from Medicare	1,856,032	30%	1,368,614	24%
Receivable from Medicaid	1,154,981	19%	524,722	9%
Total patient accounts receivable	6,098,615	100%	5,674,405	100%
Less - Allowance for uncollectible amounts and contractual adjustments	(2,575,796)		(2,038,422)	
Patient accounts receivable - Net	$ 3,522,819		$ 3,635,983	

The District's self-pay write-off's decreased $194,555 from $1,413,352 in 2013 to $1,218,797 in 2014. The District has not changed its charity care or uninsured discount policies during 2013 and 2014. The District does not maintain a material allowance for bad debts from third party payors, nor did it have significant write-offs from third-party payors.

Note 5 Net Patient Service Revenue

The following table sets forth the detail of patient service revenue – net of contractual adjustments, discounts and provision for bad debts for the years ended December 31:

	2014	2013
Gross patient service revenue	$ 30,673,243	$ 28,917,992
Less adjustments to gross paitent service		
Contractual adjustments	8,241,141	5,763,558
Provision for bad debts	1,218,797	1,413,352
Total adjustments	9,459,938	7,176,910
Net patient service revenue	$ 21,213,305	$ 21,741,082

The District's percentage of net patient service revenue by payor is as follows for the years ended December 31:

	2014	2013
Medicare and Medicare Advantage Plans	61%	65%
Medicaid and Medicaid HMO Plans	7%	12%
Other third-party payors	30%	22%
Self-Pay	3%	1%
Totals	100%	100%

Note 6 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, health 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 $118,804 and $302,587 for the years ended December 31, 2014 and 2013, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated $93,000 and $253,000 for the years ended December 31, 2014 and 2013, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing charity care.

Note 7 Taxes

Property taxes are levied by the District and collected by the Lewis 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 February 15, on property values listed as of the prior January 1. 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.

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 $0.75 per $1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Furthermore, tax levies must be authorized by the vote of the residents of Lewis County.

Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as non-operating revenues. No allowance for doubtful taxes receivable is considered necessary. The District received approximately 4.75% and 5.08% of its financial support from property taxes for the years ended December 31, 2014 and 2013, respectively. The funds were used as follows:

	2014	2013
Levied to support operations	$ 836,500	$ 875,609
Levied for debt service	735,475	721,575
Total	$ 1,571,975	$ 1,597,184

Note 8 Reimbursement Arrangements with Third-Party Payors

Hospital

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Medicare - The Hospital is designated as a critical access hospital (CAH). Under this designation, inpatient and outpatient hospital services rendered to Medicare program beneficiaries are paid based upon a cost-reimbursement methodology, with the exception of certain lab and mammography services, which remain on a fee schedule. Professional services provided by physicians and other clinicians are reimbursed based on prospectively determined fee schedules.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after the submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Others - The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital on these agreements includes prospectively determined rates per discharge, discounts from established rates, and other payment methods.

Other Nonacute Services

Physician and Professional Services - Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology. Under federal law, the rural health clinics are also entitled to receive a wraparound payment for the difference between the cost and the amount paid by Medicaid managed-care plans. All other physician and professional services rendered to Medicare and Medicaid beneficiaries are paid based on prospectively determined fee schedules.

Accounting for Medicare and Medicaid Contractual Arrangements

The Hospital is reimbursed for cost-reimbursable items at interim rates with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying consolidated financial statements. The Hospital's cost reports have been audited by the Medicare fiscal intermediaries through December 31, 2013. The Hospital's Medicaid cost reports have been audited through December 31, 2012.

Electronic Health Record Incentive Funding

During the year ended December 31, 2012, the Hospital received $204,766 in EHR incentive payments from the Medicare program. The hospital received no additional EHR incentive payments during the years ended December 31, 2014 and December 31, 2013. Based on the District's policy, $40,953 was recognized in both 2014 and 2013, respectively, and was included in other operating revenue in the accompanying statements of revenues, expenses, and changes in net position.

The Hospital received Medicaid EHR incentive payments totaling $173,039 and $216,299, during the years ended December 31, 2014 and 2013, respectively. The Medicaid EHR incentive payment is recognized as other operating revenue the year it is received.

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations.

Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the District, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services (CMS) has implemented a project using recovery audit contractors (RAC) as part of CMS's further efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and that 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 District may either accept or appeal the RAC's findings. RAC reviews of the District's Medicare claims are anticipated; however, the outcomes of such reviews are unknown, and any financial impact cannot be reasonably estimated at December 31, 2014.

Note 9 Capital Assets

Capital asset additions, transfers from construction in progress, retirements and balances for the year ended December 31, 2014, are as follows:

	Balance January 1, 2014	Transfers/ Additions	Retirements	Balance December 31, 2014
Land	$ 971,399	$ -	$ -	$ 971,399
Construction in progress	22,157	632,595	-	654,751
Total nondepreciable assets	993,556	632,595	-	1,626,150
Land improvements	1,449,696	-	-	1,449,696
Buildings and improvements	16,962,810	13,424	-	16,976,234
Equipment	7,378,250	164,632	-	7,542,882
Total depreciable assets	25,790,756	178,056	-	25,968,812
Total assets before depreciation	26,784,312	810,651	-	27,594,962
Less accumulated depreciation for:				
Land improvements	552,056	91,902	-	643,958
Buildings and improvements	7,352,471	854,448	-	8,206,919
Equipment	3,922,374	725,110	-	4,647,484
Total accumulated depreciation	11,826,901	1,671,460	-	13,498,361
Capital assets - Net	$ 14,957,411	$ (860,809)	$ -	$ 14,096,601

Construction in progress includes the electronic health record (EHR) project estimated to be complete in 2015 in addition to other hospital projects.

Capital asset additions, transfers from construction in progress, retirements and balances for the year ended December 31, 2013, are as follows:

	Balance January 1, 2013	Transfers/ Additions	Retirements	Balance December 31, 2013
Land	$ 935,399	$ 36,000	$ -	$ 971,399
Construction in progress	158,874	(136,717)	-	22,157
Total nondepreciable assets	1,094,273	(100,717)	-	993,556
Land improvements	1,449,580	116	-	1,449,696
Buildings and improvements	16,550,845	411,965	-	16,962,810
Equipment	6,400,003	978,247	-	7,378,250
Total depreciable assets	24,400,428	1,390,328	-	25,790,756
Total assets before depreciation	25,494,701	1,289,611	-	26,784,312
Less accumulated depreciation for:				
Land improvements	460,088	91,968	-	552,056
Buildings and improvements	6,501,935	850,536	-	7,352,471
Equipment	3,281,480	640,894	-	3,922,374
Total accumulated depreciation	10,243,503	1,583,398	-	11,826,901
Capital assets - Net	$ 15,251,198	$ (293,787)	$ -	$ 14,957,411

Note 10 Long-Term Debt

The District issued a Limited Tax General Obligation Bonds on April 1, 1996, for the purpose of refunding the 1978, 1990, and 1991 (callable portion) Limited Tax General Obligation Bonds; Unlimited Tax General Obligation Bond, dated December 1, 2002, for the purpose of expanding, modernizing, and equipping Morton General Hospital and the District's clinics; Limited Tax General Obligation Bonds dated February 18, 2005, also for the purpose of expanding, modernizing, and equipping Morton General Hospital, Limited Tax General Obligation Bonds, dated October 28, 2010, also for the purpose of expanding, modernizing, and equipping Morton General Hospital and refunding the 1996 Limited Tax General Obligation Bonds; Unlimited Tax General Obligations Refunding Bonds, dated December 1, 2012, for the purpose of refunding the 2002 Unlimited Tax General Obligation Bonds.

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

Schedule of changes in noncurrent liabilities for the year ended December 31, 2014, is as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Amounts Due Within One Year
Bonds and notes payable:					
2005 Limited Tax General Obligation Bonds	$ 2,120,000	$ -	$ (135,000)	$ 1,985,000	$ 140,000
2008 Note Payable Security State Bank	37,443	-	(7,058)	30,385	7,636
2010 Limited Tax General Obligation Bonds	5,065,000	-	(65,000)	5,000,000	70,000
2012 Unlimited Tax General Obligation Bonds	6,135,000	-	(555,000)	5,580,000	580,000
2012 Note Payable - Land and House	67,200	-	(33,600)	33,600	33,600
Add - Unamoritized premiums	140,133	-	(16,986)	123,147	-
Less - Unamortized discounts	(15,190)	-	1,321	(13,869)	-
Total bonds and notes payable	13,549,586	-	(811,323)	12,738,263	831,236
Capital lease obligations:					
Mammography Equipment	28,550	-	(28,550)	-	-
Endoscopy Equipment	28,446	-	(28,446)	-	-
Diagnostic Equipment	97,720	-	(50,780)	46,940	39,650
Glidescope Equipment	4,872	-	(4,872)	-	-
PacsScan Equipment	9,378	-	(5,812)	3,566	3,566
IV Equipment	30,978	-	(17,425)	13,553	13,554
Versacare Beds	51,176	-	(23,835)	27,341	21,331
X-Ray Equipment	27,696	-	(13,590)	14,106	11,902
Stryker SmartPump Equipment	6,481	-	(4,258)	2,223	2,223
Toshiba 16 CT	64,987	-	(64,987)	-	-
Total capital lease obligations	350,284	-	(242,555)	107,729	92,225
Total long-term liabilities	$ 13,899,870	$ -	$ (1,053,878)	$ 12,845,992	$ 923,461

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

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Amounts Due Within One Year
Bonds and notes payable:					
2005 Limited Tax General Obligation Bonds	$ 2,250,000	$ -	$ (130,000)	$ 2,120,000	$ 135,000
2008 Note Payable Security State Bank	43,974	-	(6,531)	37,443	7,061
2010 Limited Tax General Obligation Bonds	5,125,000	-	(60,000)	5,065,000	65,000
2012 Unlimited Tax General Obligation Bonds	6,670,000	-	(535,000)	6,135,000	555,000
2012 Note Payable - Land and House	100,800	-	(33,600)	67,200	33,600
2012 Note Payable - Riffe Clinic Building	352,500	-	(352,500)	-	-
Add - Unamoritized premiums	157,119	-	(16,986)	140,133	-
Less - Unamortized discounts	(16,511)	-	1,321	(15,190)	-
Total bonds and notes	14,682,882	-	(1,133,296)	13,549,586	795,661
Capital lease obligations:					
Mammography Equipment	62,622	-	(34,072)	28,550	28,550
Endoscopy Equipment	62,513	-	(34,067)	28,446	28,446
Diagnostic Equipment	141,409	-	(43,689)	97,720	45,003
Glidescope Equipment	16,680	-	(11,808)	4,872	4,872
PacsScan Equipment	14,462	-	(5,084)	9,378	5,353
IV Equipment	46,222	-	(15,244)	30,978	16,050
Versacare Beds	71,930	-	(20,754)	51,176	21,950
X-Ray Equipment	39,800	-	(12,104)	27,696	12,527
Stryker SmartPump Equipment	9,941	-	(3,460)	6,481	3,635
Toshiba 16 CT	-	145,530	(80,543)	64,987	64,987
Total capital lease obligations	465,579	145,530	(260,825)	350,284	231,373
Total long-term liabilities	$ 15,148,461	$ 145,530	$ (1,394,121)	$ 13,899,870	$ 1,027,034

The terms and the due dates of the District's long-term debt at December 31, 2014 and 2013, follow:

Unlimited Tax General Obligation Bonds, dated December 1, 2002, in the original amount of $9,800,000, ranging in principal payments annually of $310,000 in 2007 to $865,000 in 2022. Semi-annual interest payments at a varying rate of 4.00% to 5.25% are due in June and December each year. This bond debt was extinguished in 2012 using proceeds from the issuance of the 2012 UTGO bonds.

Limited Tax General Obligation Bonds (refunding) (tax exempt), dated February 18, 2005, in the original amount of $3,000,000, principal payments due twice annually at June 1 and December 1 in varying amounts from $100,000 in 2007 to $225,000 in 2025 plus interest at the rate of 4.69%.

Promissory Note to Security State Bank, dated July 31, 2008, in the original amount of $67,378, for the purchase of property near the hospital, principal payments due monthly in varying amounts from $371 to $807 plus interest at an annual rate of 7.75%. A final principal payment of $794 plus any accrued interest is due on July 31, 2018.

Limited Tax General Obligation Bonds (refunding) (tax exempt), and Limited Tax General Obligation Bonds (federally taxable) dated October 28, 2010, in the original amount of $5,200,187, used for an addition and remodel of the hospital, principal payments due annually at December 1 in varying amounts from $35,000 in 2011 to $495,000 in 2035 plus interest at various rates from 6.675% and 6.875%.

Unlimited Tax General Obligation Bond (refunding) (tax exempt) dated December 1, 2012, in the original amount of $7,265,000, used to refund the 2002 Unlimited Tax General Obligation Bonds, principal payments due twice annually at June 1 and December 1 in varying amounts from $535,000 in 2013 to $815,000 in 2022, plus interest at various rates of 2.00% to 4.00%.

Promissory Note to the seller of a house and land in Morton, Washington, dated August 8, 2012, in the original amount of $100,800, principal payments due annually in the amount of $33,600 for three years ending in 2015 plus interest at an annual rate of 4.00%.

Promissory Note to Key Bank/Proximus Temporis LLC, dated December 31, 2012, in the original amount of $352,500, used for the purchase of a clinic building, principal payments due monthly in varying amounts starting at $3,876 in January 2013, with a balloon payment of $336,996 in April 2013 plus interest at 5%.

Capital lease obligation, collateralized by a future purchase of leased Mammography equipment with a cost of $130,815, dated November 2010, due in monthly installments of $3,043 including interest of 5.5%.

Capital lease obligation, collateralized by leased Endoscopy equipment with a cost of $132,695, dated November 2010, due in monthly installments of $2,966 including interest of 3.4%.

Capital lease obligation, collateralized by leased Diagnostic equipment with a cost of $218,206, dated

March 2011, due in monthly installments of $3,945 including interest of 3.2%.

Capital lease obligation, collateralized by leased Glidescope equipment with a cost of $34,755, dated June 2011, due in monthly installments of $1,009 including interest of 2.8%.

Capital lease obligation, collateralized by leased PacsScan equipment with a cost of $20,460, dated October 2011, due in monthly installments of $477 including interest of 5.6%.

Capital lease obligation, collateralized by leased IV equipment with a cost of $61,877, dated December 2011, due in monthly installments of $1,442 including interest of 5.6%.

Capital lease obligation, collateralized by leased Versacare Beds with a cost of $86,750, dated April 2012, due in monthly installments of $2,022 including interest of 5.62%.

Capital lease obligation, collateralized by leased X-Ray equipment with a cost of $49,574, dated March 2012, due in monthly installments of $1,107 including interest of 3.44%.

Capital lease obligation, collateralized by leased Stryker SmartPumps with a cost of $10,780, dated October 2012, due in monthly installments of $323 including interest of 4.93%.

Advance Refunding

The District issued $7,265,000 in Unlimited Tax General Obligation bonds (“2012 UTGO bonds”) with interest rates ranging from 2.0% to 4.0% in December 2012. The proceeds were used to advance refund $6,970,000 of outstanding 2002 Unlimited Tax General Obligation bonds (“2002 UTGO bonds”), which had interest rates ranging from 4.0% to 5.25%. Net proceeds of $7,347,678 were derived from the issuance of the 2012 UTGO bonds at par, including a $169,858 premium, and after payment of $87,180 in underwriting fees. $7,293,912 of the net proceeds was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds, and $53,766 was used for issuance and other costs. As a result, the 2002 UTGO bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The proceeds transferred to the escrow agent included funds for the call of the 2002 UTGO bonds at par plus accrued interest at December 1, 2012. The District advance refunded the 2002 UTGO bonds to reduce its total debt service payments by approximately $760,000 and obtain an economic gain (difference between the present values of the old and new debt service payments) of $675,030.

A schedule of future debt service payments is as follows:

	Bonds and Notes Payable		
Year Ending December 31	Principal	Interest	Total
2015	831,236	565,363	1,396,599
2016	843,258	536,982	1,380,240
2017	883,934	508,373	1,392,307
2018	920,557	478,455	1,399,012
2019	970,000	440,922	1,410,922
Thereafter	8,180,000	3,724,023	11,904,023
Total	$ 12,628,985	$ 6,254,118	$ 18,883,103

	Capitalized Lease		
Year Ending December 31	Principal	Interest	Total
2015	92,225	2,910	95,135
2016	15,504	94	15,598
Total	$ 107,729	$ 3,004	$ 110,733

Note 11 Commitments – Non-cancellable Operating Leases

The District leases building space in Morton, Washington to unrelated parties for their medical practices. The lease term was through June 2015 with monthly payments of $2,494 and is subject to annual rent increases of three to seven percent per year. The lease was renewed on similar terms.

Note 12 Retirement Plan

The District has a tax sheltered annuity (TSA) plan that is available to substantially all employees. The deferred compensation plan has been established by the District under section 403(b) of the Internal Revenue Code. The name of the plan is Lewis County Hospital District No. 1 d/b/a Morton General Hospital 403(b) Plan ("the plan"). The plan is a defined contribution plan funded from both employee and employer contributions which are deposited in employee controlled accounts. Employees may contribute to the TSA immediately upon employment. After one year of service with the District, the District will make contributions to the employee's account. The District's contribution is on a matching basis at a rate to be determined annually by the District, and the District maintains sole discretion of how much, if any, it will make as an employer contribution. Employee and employer contributions are 100% vested at the time they are paid. For 2014 and 2013, the amount of pension expense was $466,918 and $482,435 respectively, and the amount of employee contributions to the plan was $683,765 and $651,194 respectively.

Note 13 Risk Management

The District has its professional liability insurance coverage with Lexington Insurance Company. The 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 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 "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 a $5,000,000 annual aggregate limit plus $4,000,000 annual excess coverage per claim with a $4,000,000 annual aggregate. There are no significant deductibles or coinsurance clauses.

No liability has been accrued for future coverage for 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 from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 14 Leases

The District is committed under various leases for equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended December 31, 2014 and 2013, amounted to $480,213 and $389,083 respectively. Minimum future payments under these noncancellable operating leases consisted of the following at December 31, 2014:

2015	$ 249,980
2016	159,152
2017	68,532
2018	2,549
Total minimum lease payments	$ 480,213

Note 15 Self-Insured Plans

Unemployment

The District self-insures for unemployment insurance through the Public Hospital District Unemployment Compensation Fund and for workers' compensation benefits through the Public Hospital District Workers' Compensation Trust. Both are administered by the Washington State Hospital Association. Premiums are charged to operations as they are incurred. Total unemployment insurance expense was $79,977 and $105,230 in 2014 and 2013, respectively, and total workers' compensation benefits expense was $414,706 and $349,642 in 2014 and 2013, respectively.

Note 16 Joint Venture

The District is a partner in the Rural Health Quality Network, LLC, a Washington nonprofit corporation. The network was formed to provide quality development, medical staff support, and peer review services to its members, which are other rural healthcare providers in Washington State. The District's investment in the network is immaterial to the District's financial statements as a whole and is not recorded on the balance sheet. The District's portion of any net receipts from the participation in the network, or any other gains or losses related to the investment of the network are immaterial as a whole are not recorded on these statements.

Financial statements for the Rural Health Quality Network, LLC are available upon request at 300 Elliott Avenue West, Suite 300, Seattle, Washington, 98119-4118.

Note 17 Foundation

Eastern Lewis County Hospital Foundation (the "Foundation") is a legally separate, tax-exempt sponsoring organization of the District. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the District in support of its programs. The Board of the Foundation is not appointed by the District and is self-perpetuating, but does include a District Board member and its administrator. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources or income that the Foundation holds and invests are held for the exclusive benefit of the District.

A condensed balance sheet of the Foundation is as follows:

	(Unaudited)	
	2014	2013
Assets:		
Cash and investments, internally designated for exclusive benefit of the District	$ 89,605	$ 71,020
Liabilities	-	-
Net position - Unrestricted	$ 89,605	$ 71,020

A condensed statement of changes in net position of the Foundation is as follows:

	(Unaudited)	
	2014	2013
Income	$ 55,409	$ 55,346
Expenses	36,824	36,592
Change in net position	$ 18,585	$ 18,754

Complete financial statements for the Foundation can be obtained from the Eastern Lewis County Hospital Foundation, P.O. Box 1132, Morton, Washington 98356-1132.

Lewis County Public Hospital District No. 1 d/b/a Morton General Hospital

Directory of Officials
December 31, 2014 and 2013

	Elected	Term	Expiration
Commissioners	Sheri Hendricks	6	December 31, 2015
	Marc Fisher	6	December 31, 2019
	Kenton Smith	6	December 31, 2017
	Ross Jones	6	December 31, 2015
	Judy Ramsey	6	December 31, 2019
	Appointed		
Administrator	Bob Campbell		
	Mailing Address		
District	Morton General Hospital		
	521 Adams Street		
	Morton, Washington 98356		

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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