



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

**Pacific County Public Hospital District
No. 2**

(Willapa Harbor Hospital)

For the period January 1, 2016 through December 31, 2017

Published March 11, 2019

Report No. 1023333





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

March 11, 2019

Board of Commissioners
Willapa Harbor Hospital
South Bend, Washington

Report on Financial Statements

Please find attached our report on Willapa Harbor Hospital's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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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**

**Willapa Harbor Hospital
January 1, 2016 through December 31, 2017**

Board of Commissioners
Willapa Harbor Hospital
South Bend, 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 Willapa Harbor Hospital, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 26, 2019. The District has omitted the management's discussion and analysis information that governmental accounting principles general 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 opinions 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

February 26, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Willapa Harbor Hospital January 1, 2016 through December 31, 2017

Board of Commissioners
Willapa Harbor Hospital
South Bend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Willapa Harbor Hospital, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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 opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Willapa Harbor Hospital, as of December 31, 2017 and 2016, 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

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

Management has omitted the management's discussions and analysis, information that governmental accounting principles general 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 February 26, 2019 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.



Pat McCarthy
State Auditor
Olympia, WA

February 26, 2019

FINANCIAL SECTION

Willapa Harbor Hospital January 1, 2016 through December 31, 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net Position Pension Liability– Willapa Harbor Retirement
Plan – 2017

Schedule of Employer Contributions – Willapa Harbor Retirement Plan – 2017

Schedule of Investment Returns – 2017

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Statements of Net Position
December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,633,751	\$ 1,757,417
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$539,000 and \$585,000, respectively	2,355,829	1,939,851
Estimated third-party payor settlements	385,038	-
Taxes	49,700	52,229
Taxes restricted for debt service	25,101	33,003
Other	49,656	54,831
Inventories	156,465	160,114
Prepaid expenses	42,908	45,685
Total current assets	4,698,448	4,043,130
<i>Noncurrent assets</i>		
Cash and cash equivalents designated for capital acquisitions	130,000	130,000
Cash and cash equivalents restricted for debt service and capital acquisitions	1,338,742	1,487,308
Capital assets, net of accumulated depreciation	2,785,715	3,214,085
Total noncurrent assets	4,254,457	4,831,393
Total assets	8,952,905	8,874,523
<i>Deferred outflows of resources</i>		
Pension plan	397,409	274,855
Deferred charge on debt refunding	21,455	26,875
Total deferred outflows of resources	418,864	301,730
Total assets and deferred outflows of resources	\$ 9,371,769	\$ 9,176,253

See accompanying notes to basic financial statements.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 373,252	\$ 362,582
Current maturities of capital lease obligations	142,313	135,140
Accounts payable	193,204	115,766
Accrued compensation	485,695	491,921
Accrued compensated absences	741,842	716,019
Accrued interest payable	3,952	4,872
Estimated third-party payor settlements	-	82,905
Total current liabilities	1,940,258	1,909,205
<i>Noncurrent liabilities</i>		
Accrued compensated absences	406,594	231,658
Long-term debt, less current maturities	1,155,184	1,522,895
Capital lease obligations, less current maturities	233,255	375,369
Net pension liability	2,993,264	3,097,975
Total noncurrent liabilities	4,788,297	5,227,897
Total liabilities	6,728,555	7,137,102
<i>Deferred inflows of resources, pension plan</i>	226,707	43,232
<i>Net position</i>		
Net investment in capital assets	899,214	840,102
Restricted for debt service	1,363,843	1,520,311
Unrestricted	153,450	(364,494)
Total net position	2,416,507	1,995,919
Total liabilities, deferred inflows of resources, and net position	\$ 9,371,769	\$ 9,176,253

See accompanying notes to basic financial statements.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$530,000 and \$475,000, respectively	\$ 19,154,360	\$ 18,580,425
Grants	36,903	30,259
Electronic health records incentive payments	79,119	-
Other	157,133	178,045
Total operating revenues	19,427,515	18,788,729
<i>Operating expenses</i>		
Salaries and wages	11,071,695	10,625,019
Employee benefits	3,347,263	3,261,161
Professional fees	1,122,131	1,004,484
Supplies	1,180,205	1,269,135
Purchased services	1,298,911	1,227,374
Utilities	311,505	284,251
Repairs and maintenance	96,766	107,690
Depreciation and amortization	676,466	929,877
Insurance	92,158	109,742
Leases and rentals	109,069	108,524
Other	573,853	511,877
Total operating expenses	19,880,022	19,439,134
<i>Operating loss</i>	(452,507)	(650,405)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	702,158	843,549
Taxation for bond principal and interest	229,599	455,854
Contributions	1,207	6,163
Interest income	26,795	13,816
Interest expense	(86,664)	(102,917)
Total nonoperating revenues (expenses), net	873,095	1,216,465
<i>Change in net position</i>	420,588	566,060
<i>Net position, beginning of year</i>	1,995,919	1,429,859
Net position, end of year	\$ 2,416,507	\$ 1,995,919

See accompanying notes to basic financial statements.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 18,270,439	\$ 18,772,797
Receipts from electronic health records incentive payments	79,119	-
Receipts from operating grants	36,903	30,259
Receipts from other revenue	162,308	123,214
Payments to and on behalf of employees	(14,268,215)	(13,482,397)
Payments to suppliers and contractors	(4,700,734)	(4,601,067)
Net cash provided by (used in) operating activities	(420,180)	842,806
<i>Cash flows from noncapital financing activities</i>		
Taxation for maintenance and operations	704,687	842,326
Noncapital contributions	1,207	6,163
Net cash provided by noncapital financing activities	705,894	848,489
<i>Cash flows from capital and related financing activities</i>		
Taxation for bond principal and interest	237,501	457,076
Purchase of capital assets	(248,096)	(346,284)
Principal paid on capital lease obligations	(134,941)	(215,814)
Principal paid on long-term debt	(362,582)	(548,538)
Interest paid on long-term debt	(76,623)	(92,687)
Net cash used in capital and related financing activities	(584,741)	(746,247)
<i>Cash flows from investing activities, interest received</i>	26,795	13,816
<i>Net increase (decrease) in cash and cash equivalents</i>	(272,232)	958,864
<i>Cash and cash equivalents, beginning of year</i>	3,374,725	2,415,861
Cash and cash equivalents, end of year	\$ 3,102,493	\$ 3,374,725

See accompanying notes to basic financial statements.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 1,633,751	\$ 1,757,417
Noncurrent assets:		
Designated for capital acquisitions	130,000	130,000
Restricted for debt service and capital acquisitions	1,338,742	1,487,308
Total cash and cash equivalents	\$ 3,102,493	\$ 3,374,725
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (452,507)	\$ (650,405)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for bad debts	529,517	475,348
Depreciation and amortization	676,466	929,877
Decrease (increase) in:		
Patient accounts receivable	(945,495)	(625,511)
Estimated third-party payor settlements	(385,038)	379,573
Other receivables	5,175	(54,831)
Inventories	3,649	(1,957)
Prepaid expenses	2,777	15,436
Deferred outflows of resources, pension plan	(122,554)	(267,700)
Increase (decrease) in:		
Accounts payable	77,438	8,531
Accrued compensation	1,342,969	1,117,196
Estimated third-party payor settlements	(82,905)	(37,038)
Net pension liability	(104,711)	509,131
Accrued compensated absences	(1,148,436)	(947,677)
Deferred inflows of resources, pension plan	183,475	(7,167)
Net cash provided by (used in) operating activities	\$ (420,180)	\$ 842,806

Noncash Capital and Related Financial Activity

During the years ended December 31, 2017 and 2016, the District entered into capital lease obligations of \$-0- and \$168,720, respectively, for equipment.

See accompanying notes to basic financial statements.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements
Years Ended December 31, 2017 and 2016

1. Reporting Entity, Related Organization, and Summary of Significant Accounting Policies:

a. Reporting Entity:

Pacific County Public Hospital District 2 (the District) owns and operates Willapa Harbor Hospital, Pacific Family Health Center, and South Bend Walk-in Clinic, a critical access hospital, rural health clinic, and physicians' clinic, respectively, in South Bend, Washington.

The District provides healthcare services to patients in north Pacific County. The services provided include an acute care hospital, inpatient and outpatient surgery, emergency room, primary care physician, and the related ancillary procedures (laboratory, imaging, therapy, etc.).

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The District is a municipal corporation governed by an elected five-member board of commissioners.

b. Related Organization:

Willapa Independent Senior Housing doing business as Alder House (the Corporation), formed in 1994, is a separate tax-exempt Washington corporation. The Corporation is not considered an entity that must be consolidated with the District for financial statement purposes. The Corporation owns and operates an assisted living facility for the elderly. The Corporation is governed by a five-member board of which three are community members, one is a District commissioner, and one is the District's administrator. The District has agreed to lease land adjacent to its facilities for \$100 per month for 52 years. The Corporation is not considered a component unit of the District.

c. Summary of Significant Accounting Policies:

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

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

Cash and cash equivalents – All cash receipts are deposited directly to the District's depository accounts with the Pacific County Treasurer. Periodically, such cash is transferred to the operating accounts and the warrants are issued by the County Treasurer against these accounts. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of fewer than 90 days as cash and cash equivalents.

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

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

1. Reporting Entity, Related Organization, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued):

Assets limited as to use – Assets limited as to use include assets set aside by the Board of Commissioners for specific purposes over which the Board retains control and could subsequently use for other purposes.

Compensated absences – The District’s employees earn annual leave (vacation, sick leave, and holiday) at varying rates depending on the number of hours worked and years of service. Employees accrue annual leave from the date of hire but may not utilize it until they have completed a ninety-day probationary period. Annual leave earned, but not used, is paid upon termination. The related liability is accrued during the period in which it is earned.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation 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. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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

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

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

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

Subsequent events – The District has evaluated subsequent events through December 19, 2018, the date on which the financial statements were available to be issued.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

2. Deposits and Investments:

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

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, or by collateral held in multiple financial institution collateral pools 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 types of investments.

Concentration of credit risk – The risk of 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 specific policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – The risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Amounts invested in the Washington State Local Government Investment Pool as of December 31, 2017 and 2016, were approximately \$3,100,000 and \$3,375,000, respectively.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

3. Patient Accounts Receivable:

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

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	2017	2016
Patients and their insurance carriers	\$ 1,865,672	\$ 1,745,866
Medicare	1,015,327	738,669
Medicaid	13,665	39,908
Total patient accounts receivable	2,894,664	2,524,443
Less allowance for uncollectible accounts	538,835	584,592
Patient accounts receivable, net	\$ 2,355,829	\$ 1,939,851

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

4. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least three years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives have been estimated as follows:

Land improvements	8-25 years
Buildings	5-40 years
Fixed and major movable equipment	3-25 years

Capital assets additions, retirements, transfers, and balances are as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 34,261	\$ -	\$ -	\$ -	\$ 34,261
Construction in progress	-	3,635	-	-	3,635
Total capital assets not being depreciated	34,261	3,635	-	-	37,896
<i>Capital assets being depreciated</i>					
Land improvements	200,810	-	-	-	200,810
Buildings	7,127,073	-	-	-	7,127,073
Fixed equipment	569,761	-	-	-	569,761
Major movable equipment	4,267,496	244,461	-	-	4,511,957
Total capital assets being depreciated	12,165,140	244,461	-	-	12,409,601
<i>Less accumulated depreciation for</i>					
Land improvements	179,323	15,459	-	-	194,782
Buildings	5,005,221	295,433	-	-	5,300,654
Fixed equipment	449,647	14,829	-	-	464,476
Major movable equipment	3,351,125	350,745	-	-	3,701,870
Total accumulated depreciation	8,985,316	676,466	-	-	9,661,782
Total capital assets being depreciated, net	3,179,824	(432,005)	-	-	2,747,819
Capital assets, net of accumulated depreciation	\$ 3,214,085	\$ (428,370)	\$ -	\$ -	\$ 2,785,715

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

4. Capital Assets (continued):

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 34,261	\$ -	\$ -	\$ -	\$ 34,261
Construction in progress	404,963	72,665	-	(477,628)	-
Total capital assets not being depreciated	439,224	72,665	-	(477,628)	34,261
<i>Capital assets being depreciated</i>					
Land improvements	202,422	13,388	(15,000)	-	200,810
Buildings	6,663,572	-	(12,327)	475,828	7,127,073
Fixed equipment	553,778	15,983	-	-	569,761
Major movable equipment	5,004,959	412,968	(1,152,231)	1,800	4,267,496
Total capital assets being depreciated	12,424,731	442,339	(1,179,558)	477,628	12,165,140
<i>Less accumulated depreciation for</i>					
Land improvements	180,353	13,970	(15,000)	-	179,323
Buildings	4,739,194	278,354	(12,327)	-	5,005,221
Fixed equipment	431,693	17,954	-	-	449,647
Major movable equipment	3,883,757	619,599	(1,152,231)	-	3,351,125
Total accumulated depreciation	9,234,997	929,877	(1,179,558)	-	8,985,316
Total capital assets being depreciated, net	3,189,734	(487,538)	-	477,628	3,179,824
Capital assets, net of accumulated depreciation	\$ 3,628,958	\$ (414,873)	\$ -	\$ -	\$ 3,214,085

5. Defined Benefit Retirement Plan:

Plan description – The Pacific County Hospital District 2 – Willapa Harbor Retirement Plan (the Plan) was a single employer defined benefit pension plan. The Plan is administered by Principal Financial Group. Actuarial valuations for the Plan are performed annually. Benefit provisions were established and can be amended by the Board of Commissioners.

The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

Benefits provided – Effective December 31, 2006, no new participants could enter the Plan. Prior to December 31, 2006, all full-time employees of the District age 21 or older with more than six months of eligible service were eligible to participate in the Plan on the first day of the month which coincides with, or next following, their first day of employment.

Pension provisions include death benefits for the surviving spouse. The Plan does not provide a monthly income for disabled participants; however, under certain conditions, employees who become disabled may be eligible to receive their full retirement at age 55 even though they were unable to work up to the retirement age. Benefits vest at 100 percent after six years of service.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Defined Benefit Retirement Plan (continued):

Employees covered by the Plan as of June 30, 2017 and 2016, were as follows:

	2017	2016
Active plan members	14	14
Inactive plan members entitled to but not yet receiving benefits	5	8
Inactive plan members or beneficiaries currently receiving benefits	25	23
	44	45

Contributions – The Plan has not been terminated or settled as defined by accounting principles generally accepted in the United States of America because the Plan participants have received neither lump-sum nor annuity contracts in exchange for their rights to receive pension benefits. Since the Plan has been frozen, there is no annual required contribution, but the unfunded portion (the District’s liability) is actuarially calculated each year.

No contributions were required (required contribution rate of zero) during the plan years ended June 30, 2017 and 2016. Contributions of \$210,000 and \$-0- were made to the Plan by the District in the 2017 and 2016 plan year, respectively. The Board of Commissioners established, and has the authority to amend the District’s obligation to contribute, but statutory requirements make the District liable for the unfunded portion of the Plan.

Net Pension Liability – The District’s net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability in the June 30, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases, including inflation	3.0%
Investment rate of return, net of plan investment expenses, including inflation	6.5%

The actuarial assumptions used in the June 30, 2017 and 2016, valuations were based on the results of actuarial studies for the periods July 1, 2016 through June 30, 2017, and July 1, 2015 through June 30, 2016. In addition, mortality rates were based on the RP-2000 Combined Healthy Unisex Tables for Males and Females.

The Plan used the *Individual Entry Age Normal Cost Method*. This method determines the contribution levels for the Plan. Contribution levels comprise two components:

- Normal Cost
- Amortization Payments

The normal cost is the ongoing annual cost assigned to the coming plan year by the funding method. Under the *Individual Entry Age Normal Cost Method*, the cost assigned to each individual active participant is the level percentage of compensation needed each year from the participant’s plan entry date through the participant’s entire expected career in order to fund all future benefits. The sum of these individual costs equals the normal cost. If the active participant group characteristics remain nearly the same from year to year, the normal cost amount can be expected to remain approximately level from year to year.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Defined Benefit Retirement Plan (continued):

Net Pension Liability (continued) –

Amortization payments are calculated as the amounts needed to fund the unfunded actuarial accrued liability, together with interest, in equal annual installments over a rolling amortization period equal to the average expected remaining service period for active plan participants.

The unfunded actuarial accrued liability is determined on the valuation date by calculating the individual entry age normal accrued liability at that date and subtracting the actuarial value of assets, but no less than zero.

The target allocation and best estimates of arithmetic real rates of return for each major asset class at June 30, 2017, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	66%	6.5%
Fixed income	33%	6.5%
Guaranteed interest	1%	6.5%
Total	100%	

Discount rate – Assuming employees continue to contribute 4 percent of pay and the District contributes the lesser of the actuarially determined contribution and \$300,000 per year beginning with the June 30, 2017, plan year, the Plan's projected fiduciary net position is insufficient to make all projected future benefit payments of current plan participants. Projected benefit payments expected to be paid after funds become insufficient were discounted based on the Fidelity General Obligation AA-20-year Bond index.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Defined Benefit Retirement Plan (continued):

Changes in the District's Net Pension Liability – Changes in the District's net pension liability for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Change in total pension liability		
Total pension liability at beginning of year	\$ 6,431,563	\$ 6,158,062
Service cost at beginning of year	34,117	41,957
Interest	410,164	392,992
Differences between expected and actual experience	167,493	106,845
Change in assumptions	-	(11,978)
Benefit payments, including refunds of employee contributions	(289,489)	(256,315)
Total pension liability at end of year	6,753,848	6,431,563
Change in plan fiduciary net position		
Plan fiduciary net position at beginning of year	3,333,588	3,569,218
Contributions - employer	210,000	-
Contributions - employees	52,299	51,391
Net investment income (loss)	463,897	(21,035)
Benefit payments, including refunds of employee contributions	(289,489)	(256,315)
Administrative expenses	(9,711)	(9,671)
Plan fiduciary net position at end of year	3,760,584	3,333,588
Net pension liability	\$ 2,993,264	\$ 3,097,975
Plan fiduciary net position as a percent of total pension liability	55.68%	51.83%
Net pension liability as a percent of covered payroll		
Covered-employee payroll	\$ 1,307,475	\$ 1,284,775
Net pension liability as a percent of covered payroll	228.93%	241.13%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Discount Rate	Net Pension Liability
1% decrease	5.50%	\$ 3,654,861
Current discount rate	6.50%	\$ 2,993,264
1% increase	7.50%	\$ 2,426,481

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Defined Benefit Retirement Plan (continued):

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources – The District recognized pension expense of \$316,210 and \$264,264 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (226,707)
Changes in assumptions and other inputs	217,409	-
The District's contributions subsequent to the measurement date	180,000	-
Total	\$ 397,409	\$ (226,707)

The \$180,000 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended December 31, 2017.

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (43,232)
Changes in assumptions and other inputs	244,855	-
The District's contributions subsequent to the measurement date	30,000	-
Total	\$ 274,855	\$ (43,232)

The \$30,000 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,	
2018	\$ 56,234
2019	(13,878)
2020	(1,280)
2021	(50,374)
Total	\$ (9,298)

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

6. Defined Contribution Retirement Plan:

The District contributes to the Willapa Harbor Hospital 403(b) Savings and Retirement Plan (the 403(b) Plan), a deferred compensation retirement plan. This employer-sponsored 403(b) Plan is administered by American Funds. Benefit terms, inclusion contribution requirements, for the 403(b) Plan are established and amended by the District. The District has approved for all participating employees a 1 percent contribution on all eligible compensation. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2017 and 2016, employee contributions to the 403(b) plan were approximately \$602,000 and \$569,000, and the District's contributions to the 403(b) Plan were approximately \$314,000 and \$284,000, respectively.

All contributions to the 403(b) Plan are immediately 100 percent vested.

7. Long-term Liabilities and Capital Lease Obligations:

A schedule of changes in the District's noncurrent liabilities is as follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>Long-term liabilities</i>					
2012 unlimited tax general obligation bonds	\$ 1,865,000	\$ -	\$ (355,000)	\$ 1,510,000	\$ 365,000
Note payable	48,987	-	(7,582)	41,405	8,252
Unamortized bond discount	(28,510)	-	5,541	(22,969)	-
Accrued compensated absences	947,677	1,288,102	(1,087,343)	1,148,436	406,594
<i>Capital lease obligations</i>	510,509	-	(134,941)	375,568	142,313
Total noncurrent liabilities	\$ 3,343,663	\$ 1,288,102	\$ (1,579,325)	\$ 3,052,440	\$ 922,159
	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Long-term liabilities</i>					
2012 unlimited tax general obligation bonds	\$ 2,210,000	\$ -	\$ (345,000)	\$ 1,865,000	\$ 355,000
2011 limited tax general obligation bonds	196,572	-	(196,572)	-	-
Note payable	55,953	-	(6,966)	48,987	7,582
Unamortized bond discount	(34,051)	-	5,541	(28,510)	-
Accrued compensated absences	856,294	1,122,277	(1,030,894)	947,677	231,658
<i>Capital lease obligations</i>	557,603	168,720	(215,814)	510,509	135,140
Total noncurrent liabilities	\$ 3,842,371	\$ 1,290,997	\$ (1,789,705)	\$ 3,343,663	\$ 729,380

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

The terms and due dates of the District's long-term liabilities are as follows:

- Unlimited Tax General Obligation (UTGO) Bonds dated February 2, 2012, in the original amount of \$3,535,000. The bonds are due in varying principal installments from \$365,000 to \$390,000, plus interest varying from 2 percent to 3 percent through November 2021. The District issued the bonds to refund a portion of the outstanding 2001 UTGO Bonds; all previously issued to pay costs of capital improvements and to finance expansion of the District's facilities. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest payments due.

The UTGO Bonds are direct and 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 tax upon the taxable property within the District.

- Note payable to Dr. Hing dated May 10, 2002, in the original amount of \$110,000, payable in monthly installments of \$955, including interest at 8.5 percent through April 2022, secured by property.
- Capital lease obligation payable to BioMerieux dated July 2014, payments of \$768 due monthly, including interest at 6 percent through August 2019, secured by a microbiology analyzer. At December 31, 2017, the capitalized cost and accumulated amortization of the related equipment were \$39,749 and \$18,747, respectively.
- Capital lease obligation payable to Kingsbridge dated September 2014, payments of \$3,151 due monthly, including interest at 6.13 percent through September 2019, secured by a telemetry unit. At December 31, 2017, the capitalized cost and accumulated amortization of the related equipment were \$162,454 and \$94,620, respectively.
- Capital lease obligation payable to Kansas State Bank dated December 2015, payments of \$36,871 due bi-annually, including interest at 4.92 percent through December 2020, secured by an x-ray machine. At December 31, 2017, the capitalized cost and accumulated amortization of the related addition were \$475,829 and \$71,374, respectively.
- Capital lease obligation payable to Everbank dated July 2017, payments of \$3,145 due monthly, including interest at 4.5 percent through September 2021, secured by a mammography machine. At December 31, 2017, the capitalized cost and accumulated amortization of the related equipment were \$167,820 and \$43,759, respectively.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

UTGO Bond debt is due as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 365,000	\$ 39,738	\$ 404,738
2019	375,000	31,525	406,525
2020	380,000	22,150	402,150
2021	390,000	11,700	401,700
	\$ 1,510,000	\$ 105,113	\$ 1,615,113

Capital lease obligations are due as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 142,313	\$ 16,203	\$ 158,516
2019	133,871	8,768	142,639
2020	71,598	3,018	74,616
2021	27,786	524	28,310
	\$ 375,568	\$ 28,513	\$ 404,081

Note payable is due as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 8,252	\$ 3,203	\$ 11,455
2019	8,982	2,473	11,455
2020	9,776	1,679	11,455
2021	10,640	815	11,455
2022	3,755	67	3,822
	\$ 41,405	\$ 8,237	\$ 49,642

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

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

Aggregate annual principal and interest payments over the terms of long-term liabilities and capital lease obligations are due as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 515,565	\$ 59,144	\$ 574,709
2019	517,853	42,766	560,619
2020	461,374	26,847	488,221
2021	428,426	13,039	441,465
2022	3,755	67	3,822
	\$ 1,926,973	\$ 141,863	\$ 2,068,836

8. Net Patient Service Revenue:

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

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 11,188,769	\$ 11,181,306
Medicaid	175,138	38,956
Other third-party payors	7,680,159	7,449,700
Patients	1,012,173	771,597
340B contract pharmacy	9,440	-
	20,065,679	19,441,559
Less:		
Charity care	381,802	385,786
Provision for bad debts	529,517	475,348
Net patient service revenue	\$ 19,154,360	\$ 18,580,425

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

8. Net Patient Service Revenue (continued):

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

- *Medicare* – The District has been designated a critical access hospital and Pacific Family Health Center, a rural health clinic by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Medicaid swing-bed services are reimbursed on a prospectively set rate per day. Medicaid rural health clinic services are paid on a prospectively set rate per visit. Physician services are reimbursed on a fee schedule.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$218,000, and decreased by approximately \$27,000, in the years ended December 31, 2017 and 2016, respectively, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016, were approximately \$247,000 and \$259,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 or 2016.

9. Property Taxes:

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 on property values listed as of the prior July 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.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

9. Property Taxes (continued):

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

The District's levies are comprised of the following:

	2017		
	Levy Rate	Assessed Value	Total Levy Amount
Unlimited tax general obligation			
bond levy	0.212049	\$ 669,392,452	\$ 141,944
M&O levy	0.707305	682,123,463	482,336

	2016		
	Levy Rate	Assessed Value	Total Levy Amount
Unlimited tax general obligation			
bond levy	0.395012	\$ 639,443,865	\$ 252,588
M&O levy	0.730896	650,156,794	475,197

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made. The District also received additional tax funding from timber and other taxes totaling approximately \$301,000 and \$572,000, in 2017 and 2016, respectively.

10. Contingencies:

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

Medical malpractice claims – The District has its professional liability insurance coverage with Washington Casualty Company. The policy provides protection on a “claims made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover “prior acts.” Current coverage is for \$1,000,000 per claim, subject to a \$5,000,000 annual limit, plus an additional \$1,000,000 of annual excess coverage. There is no deductible on this policy.

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

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

10. Contingencies (continued):

Risk transfer pools – The District has a self-insured workers’ compensation plan for its employees. The District is a part of the Public Hospital District Workers’ Compensation Trust which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual workers’ compensation claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$36,000 and \$51,000, in 2017 and 2016, net of approximately \$127,000 and \$114,000 dividend received in 2017 and 2016, respectively.

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 charged to unemployment expense were approximately \$15,000 and \$29,000 in 2017 and 2016, respectively.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

11. Concentrations:

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

The mix of receivables from patients was as follows:

	2017	2016
Medicare	39 %	32 %
Medicaid	1	2
Other third-party payors	35	31
Patients	25	35
	100 %	100 %

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

11. Concentrations (continued):

Physicians – The District is dependent on local physicians, nurse practitioners, and physician assistants in its services area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of providers providing these services or changes in their utilization patterns may have an adverse effect on hospital services.

Collective bargaining unit – The District has two collective bargaining agreements with the Office and Professional Employees International Union Local No. 8 (OPEIU) and the United Staff Nurses Union, Local 141 (USNU).

Effective July 1, 2017, the District renewed its contract with the OPEIU for its office and professional employees. The contract is effective through July 1, 2020.

Effective January 1, 2017, the District renewed its contract with the USNU for its nurses. The contract is effective through December 31, 2020.

As of December 31, 2017 and 2016, approximately 75 percent and 76 percent, respectively, of the Hospital's employees were represented by the union under these collective bargaining agreements with the OPEIU and USNU.

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Schedules of Changes in Net Pension Liability
Pacific County Public Hospital District 2 – Willapa Harbor Retirement Plan
Last 10 Years *

	2017	2016	2015
Change in total pension liability			
Total pension liability at beginning of year	\$ 6,431,563	\$ 6,158,062	\$ 5,953,700
Service cost at beginning of year	34,117	41,957	46,568
Interest	410,164	392,992	380,567
Differences between expected and actual experience	167,493	106,845	17,233
Change in assumptions	-	(11,978)	-
Benefit payments, including refunds of employee contributions	(289,489)	(256,315)	(240,006)
Total pension liability at end of year	6,753,848	6,431,563	6,158,062
Change in plan fiduciary net position			
Plan fiduciary net position at beginning of year	3,333,588	3,569,218	3,481,859
Contributions - employer	210,000		
Contributions - employees	52,299	51,391	54,382
Net investment income (loss)	463,897	(21,035)	282,654
Benefit payments, including refunds of employee contributions	(289,489)	(256,315)	(240,006)
Administrative expenses	(9,711)	(9,671)	(9,671)
Plan fiduciary net position at end of year	3,760,584	3,333,588	3,569,218
Net pension liability	\$ 2,993,264	\$ 3,097,975	\$ 2,588,844
Plan fiduciary net position as % of total pension liability	55.68%	51.83%	57.96%
Net pension liability as % of covered payroll			
Covered-employee payroll	\$ 1,307,475	\$ 1,284,775	\$ 1,359,550
Net pension liability as % of covered payroll	228.93%	241.13%	190.42%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2017 (measurement date).

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Schedule of Employer Contributions
Pacific County Public Hospital District 2 – Willapa Harbor Retirement Plan
Last 10 Years *

Years Ending December 31,	Actuarially determined contribution	Actual employer contribution	Contribution deficiency (excess)	Covered payroll	Contribution as percentage of covered payroll
2015	\$ 402,698	\$ -	\$ 402,698	\$ 1,359,550	0%
2016	456,815	-	456,815	1,284,775	0%
2017	471,606	210,000	261,606	1,307,475	16%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2017 (measurement date).

Pacific County Public Hospital District 2
doing business as Willapa Harbor Hospital
Schedule of Investment Returns
Pacific County Public Hospital District 2 – Willapa Harbor Retirement Plan
Last 10 Years *

Years ending December 31,	Rate of Return
2015	8.36%
2016	-0.61%
2017	14.22%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30, 2017 (measurement date).

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
Website	www.sao.wa.gov