



Washington State Auditor's Office

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Financial Statements Audit Report

San Juan County Public Hospital

District No. 1

(Inter Island Medical Center and San Juan Emergency Medical Services)

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

Published May 23, 2016

Report No. 1016693





Washington State Auditor's Office

May 23, 2016

Board of Commissioners
Inter Island Medical Center and San Juan Emergency Medical Services
Friday Harbor, Washington

Report on Financial Statements

Please find attached our report on the Inter Island Medical Center and San Juan Emergency Medical Services' financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses	4
Summary Schedule Of Prior Audit Findings	12
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	13
Independent Auditor’s Report On Financial Statements	16
Financial Section.....	19
About The State Auditor’s Office.....	49

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Inter Island Medical Center and San Juan Emergency Medical Services San Juan County January 1, 2013 through December 31, 2014

2014-001 The District's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.

Background

It is the responsibility of District management to design, implement and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting.

Our office issued a finding over financial statement preparation and controls in the prior audit and our current audit identified the same significant deficiencies in controls over financial statement reporting. These deficiencies affect the District's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- District staff did not adequately research or seek technical guidance on how to appropriately record transactions on the financial statements.
- There is a lack of oversight by the District to ensure accounting information and journal entries provided by the Certified Public Accounting (CPA) firm are accurate and to ensure the journal entries prepared by the CPA firm are adequately supported.
- 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) and the Budgeting, Accounting and Reporting System (BARS) Manual.

Cause of Condition

The District has not committed the necessary time and resources to ensure staff understand proper accounting procedures to prepare the financial statements and to perform a detailed review of journal entries prepared by the CPA firm.

Effect of Condition

The District did not submit its annual report prior to the statutory deadline. The 2014 report was submitted 116 days late.

We identified the following errors in the financial statements received for audit that were not detected by District management:

- Under-reported the following:
 - Net investment in capital assets by \$444,893 in 2013 and \$162,731 in 2014.
 - Depreciation expense and accumulated depreciation by \$32,610 in 2014.
 - Operating expenses and non-operating revenues by \$18,000 due to incorrect reporting of a sale of supplies in 2013.
 - Ending cash and cash equivalents on statement of cash flows by \$11,785 in 2014.
- Over-reported the following:
 - Unrestricted net position by \$444,893 in 2013 and \$195,341 in 2014 due to under-reporting of net investment in capital assets in 2013 and 2014 as well as depreciation expense in 2014 as noted above.
 - Non-operating revenue and non-operating expenses by \$165,835 in 2014 due to incorrect reporting of the sale of a building.
- Missclassified the following:
 - Operating expenses as non-operating expenses of \$741,541 in 2013 and \$1,485,082 in 2014.

The District corrected all of the above errors.

The following errors were not corrected:

- Inaccurately reported negative \$56,498 of Patient Revenue in 2013.
- Over-reported cash and cash equivalents by \$38,518 in 2013.

Additionally:

- The District did not implement required governmental accounting standards (GASB Statement 63 or GASB Statement 65). The District subsequently implemented these standards.
- The District's allowance for doubtful accounts estimate was not supported by historical collections rates and was not re-evaluated for reasonableness.

During our audit, we also noted other errors in the financial statements that individually were not significant but when taken together impair the understandability of the financial report. The errors required us to perform additional audit procedures to ensure they were corrected.

These deficiencies in internal controls make it reasonably possible that additional misstatements could continue to occur and not be prevented or detected by the District in the future.

Recommendation

We recommend the District:

- Provide adequate training to staff responsible for financial accounting and reporting, and adequately research and seek technical guidance for transactions to ensure compliance with reporting requirements.
- Establish an adequate review of accounting information and journal entries provided by the CPA firm to ensure the information is accurate, complete and adequately supported.
- Establish 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) and the Budgeting, Accounting and Reporting System (BARS) Manual.

District's Response

After the 2011-2012 audit extreme effort was made to meet with the CPA several times throughout the year and at year end to go over the financials and the year-end adjusting entries. The EMS Chief, Executive Assistant, and Superintendent met with the CPA about information turned into him to prepare the financials several times a year. They considered him the expert and provided him with the 2011/2012 audit reports to review the findings going forward. The county was also frequently asked about bars numbers classifications before posting. The State

Auditor's Office was consulted many times throughout the years for advice on certain transactions. MRSC was also consulted many times about transactions and advice.

Accounting transactions are not always black and white and can differ among authorities and that was the case with the operating versus non-operating expense of the large subsidy amount to PeaceHealth and the negative patient revenue. During the 2013-2014 Audit when working with the current CPA it was determined he was not the best CPA to keep preparing the financials, and that is when a new CPA was called in to take over the accounting representation. He has much more audit and financial statement preparation experience. The Superintendent worked with the new CPA, and was able to get the financials in better order during this audit. He has been contracted to take over the accounting duties going forward. The Superintendent will consult with the CPA all year, and during the state report writing each year to have an accurate report. EMS was without a Chief for almost a year and that made it difficult to have oversight and guidance that was customarily provided and job duties were multiplied leaving less time for oversight, and the reason the audit report was so late.

In past audits it was told that if there were no transactions in a category that they should not be listed on the financials. The accounting standards GASB 63 and 65 did not have any amount in deferred inflows and deferred outflows thus they were not listed. The accounting firm is busy with tax returns through April 15th. The financials are usually not ready until mid-May. The State Annual Report is due the end of May. That leaves little time to prepare the annual report. While attending a bars class recently it was learned that the report was not final until the next audit began and corrections could be made to the filed report. Quite a few of the errors could have been prevented with more time to prepare the report. To make matters more complicated, the CPA passed away suddenly while working with our new CPA so the one on one transition was halted. San Juan Island EMS has a new Chief now, and more review of their accounting practices is being undertaken with the new CPA so the next audit will have all practices corrected. Also this allows the Superintendent to focus back on the core duties of financial oversight rather than day to day activities of San Juan Island EMS.

A review of the accounting program is also underway to find a program that works best with the county system. Beginning January 1, 2016, the District also has three new commissioners with oversight experience combined with two experienced commissioners that will greatly enhance controls over District functions and financials.

With all of the above implementations and a full staff, the San Juan County Public Hospital District No. 1 is confident that the finding regarding the financial

statement preparation and controls will be corrected. With some of the problems being a onetime occurrence, the next financials should be reliable and controls in place. The District also wants to acknowledge the work of its case auditors in working with the District on ways to improve the validity of the statements. More was learned from these case auditors in this audit than previous audits conducted. The time spent with them was a feeling of collaboration, instruction, and the best interest of the District rather than one of condemnation and lack of instruction.

Auditor's Remarks

We appreciate the District's commitment to resolving the issues noted above and we will follow-up during our next scheduled audit.

Applicable Laws and Regulations

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines material weakness and significant deficiency as follows:

a. 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.

b. 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.

Government Auditing Standards, July 2007 Revision – Section 5.11, provides that auditors should report significant deficiencies and material weaknesses in internal control.

RCW 43.09.200, Local government accounting -- Uniform system of accounting, states:

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.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230, Local government accounting -- Annual reports -- Comparative statistics, states:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or

arrangement; together with such other information as may be required by the state auditor.

The reports shall be certified as to their correctness by the state auditor, the state auditor's deputies, or other person legally authorized to make such certification.

Their substance shall be published in an annual volume of comparative statistics at the expense of the state as a public document.

Budget Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section C, Internal control, states in part:

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
- Only valid transactions are recorded and reported.
- All transactions occurred during the period are recorded and reported.

- Transactions are recorded and reported at properly valued and calculated amounts.
- Recorded and reported transactions accurately reflect legal rights and obligations.
- Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules in accordance with the stated basis of accounting.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Inter Island Medical Center and San Juan Emergency Medical Services
San Juan 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 Inter Island Medical Center and San Juan Emergency Medical Services. The State Auditor’s Office has reviewed the status as presented by the District.

Audit Period: 1/1/2011 - 12/31/2012	Report Ref. No.: 1011586	Finding Ref. No.: 1
Finding Caption: The District’s internal controls over financial reporting are inadequate to ensure accurate reporting.		
Background: Our audit identified significant deficiencies in internal controls over financial reporting, which included staff not adequately researching or seeking technical guidance on how to appropriately record transactions on the financial statements, lack of oversight to ensure accounting information provided by the certified public accountant (CPA) firm is accurate and supported, and lack of an effective review of the prepared financial statements to detect significant errors.		
Status of Corrective Action: (check one)		
<input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The District researched transactions with MRSC, the County and its CPA. The District went to BARS training classes presented by the State Auditor’s Office and had meetings with the CPA to explain transactions. However, the deficiencies in controls have not been corrected to prevent a repeat financial statement finding.</i>		

**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**

**Inter Island Medical Center and San Juan Emergency Medical Services
San Juan County
January 1, 2013 through December 31, 2014**

Board of Commissioners
Inter Island Medical Center and San Juan Emergency Medical Services
Friday Harbor, 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 Inter Island Medical Center and San Juan Emergency Medical Services, San Juan 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 May 11, 2016.

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*.

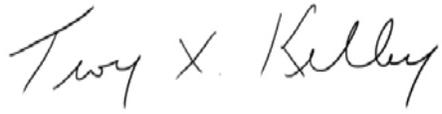
DISTRICT'S RESPONSE TO FINDINGS

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.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in black ink and is positioned above the typed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 11, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Inter Island Medical Center and San Juan Emergency Medical Services San Juan County January 1, 2013 through December 31, 2014

Board of Commissioners
Inter Island Medical Center and San Juan Emergency Medical Services
Friday Harbor, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Inter Island Medical Center and San Juan Emergency Medical Services, San Juan 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 19.

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 Inter Island Medical Center and San Juan Emergency Medical Services, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2016 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

May 11, 2016

FINANCIAL SECTION

**Inter Island Medical Center and San Juan Emergency Medical Services
San Juan County
January 1, 2013 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014
Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Net Position – 2013
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2013
Statement of Cash Flows – 2014
Statement of Cash Flows – 2013
Notes to Financial Statements – 2014
Notes to Financial Statements – 2013

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT No. 1
dba INTER ISLAND MEDICAL CENTER and
SAN JUAN ISLAND EMERGENCY MEDICAL SERVICES
Friday Harbor, Washington

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion analysis provides an overview of the financial position and financial activities of San Juan County Public Hospital No. 1(District) for the year ended December 31, 2014. Please read it in conjunction with the district's financial statements and notes, which follow this section.

Financial Highlights

From 2013 to 2014:

The District increased its total revenue by \$216,720 (4% from 2013)

The District increased its total net position by \$236,492 (7% from 2013)

The District increased its total assets by \$194,024 (3% from 2013)

The District increased its total non-operating revenue by \$183,295 (6% from 2013)

The District increased its total operating expense by \$144,143 3% from 2013)

The District increased its non-operating expenses by \$35,092 (22% from 2013)

Overview of the Financial Statements

The District's financial statements consist of: a Statement of Net Position; a Statement of Revenues, Expenses and Change in Fund Net Position; and a Statement of Cash Flows. The Statement of Net Position includes all of the district's assets and liabilities, using the accrual method of accounting. The Statement of Revenues, Expenses and Changes in Fund Net Position reports all of the revenues and expenses during the time period indicated. The District's Statement of Cash flows shows the cash generated by operating activities, cash from non-capital financing activities, and cash used for or generated by capital and related financing activities.

Condensed comparative financial data

Statement of Net Position	<u>2014</u>	<u>2013</u>
Assets		
Capital assets (note 4.)	\$ 2,334,057	\$2,635,438
Assets, other	\$ <u>3,127,286</u>	<u>\$2,631,880</u>
Total Assets	\$ 5,461,342	\$5,267,318
Liabilities		
Long-term liabilities (note 7.)	\$ 1,845,202	\$1,897,774
Liabilities, other	\$ <u>186,793</u>	<u>\$ 176,690</u>
Total Liabilities	\$ 2,031,995	\$2,074,464
Net Position:		
Net Investment in Capital Assets	\$ 431,832	\$ 682,418
Unrestricted	\$ <u>2,997,515</u>	<u>\$2,510,436</u>
Total Net Position	\$ 3,429,347	\$3,192,854
Statement of Revenues, Expenses, and Changes in Fund Net Position		
Operating Revenues		
Patient fee revenue	\$ 1,999,718	\$ 1,958,735
Revenue, other	<u>28,526</u>	<u>36,084</u>
Total Operating Revenues	\$ 2,028,244	\$ 1,994,819
Non-operating revenue		
Property taxes	\$ 2,542,036	\$ 2,606,005
Donations	1,255	121,000
Non-operating revenue, other	<u>665,930</u>	<u>298,921</u>
Total Non-operating Revenue	\$ 3,209,221	\$ 3,025,926
Total Revenues	\$ <u>5,237,465</u>	\$ <u>5,020,745</u>
Expenses		
Operating expenses	\$ 4,810,141	\$ 4,665,997
Non-operating expenses	<u>190,833</u>	<u>155,741</u>
Total Expenses	<u>5,000,973</u>	<u>4,821,738</u>
Change in Net Position	\$ 236,491	\$199,007
Total Net Position – beginning of the year	\$ <u>3,192,854</u>	\$ <u>2,955,329</u>
Prior Period Adjustment		38,519
Total Net Position – end of the year	\$ <u>3,429,345</u>	\$ <u>3,192,854</u>

Financial Position

The district's overall financial position increased slightly by 7% in 2014, which was the second full year of the District's operation without the Inter Island Medical Center clinic in operation. The Inter Island Medical Center only had operational costs of the vacant building, salary of Superintendent, Commissioners Fees, and the subsidy payment of the portion of tax revenues agreed upon to Peace Health. The subsidy payment to Peace Island Medical Center was \$1,485,082 for the first half of the year, which included half of 2013 payment paid in 2014. There was also some additional patient fee revenue from the outstanding accounts receivable from the Inter Island Medical Center. Even though operating revenues were slightly down the district was able to increase its total net position by \$236,491 or 7%.

Capital Assets and Long-Term Debt

In 2014 EMS and IIMC had \$1,845,202 in long term liabilities. See Note 5 in the Notes to Financial Statements for changes in Long-Term liabilities. This is from their general obligation bond payable for the new EMS building. There were no long term liabilities for the Inter Island Medical Center. See Note 6 in the Notes to Financial Statements for summary of Long-Term Debt which only consisted of EMS General Bond Debt.

Due to IIMC closing its doors on November 26, 2012, there were no capital purchases by IIMC in 2014. EMS had leased its old building to Islands Museum of Art in 2013 which they then bought for \$567,980 in 2014. This purchase significantly raised the non-operating revenues of both EMS and the San Juan County Public Hospital District #1.

Significant Items

On September 1, 2012, the San Juan County Public Hospital District was awarded another HRSA Telemedicine Grant for four years with a total value of \$999,441 which is approximately \$249,860 each year. It is a federal tele-health network grant, which will include San Juan County Public Hospital District #1, St. Joseph Medical Center, Peace Island Medical Center, United General Hospital, Ketchikan Medical Center, and Prince of Wales Clinic. The network grant will focus on creating a strong, sustainable, tele-health network to insure continuation of delivery of tele-health services in target communities in Northwest Washington and Southeast Alaska. On September 1, 2014, the grant entered into its third year which awarded was \$263,018 with carry over money from the second year.

With the passage of the Affordable Care Act there changes continued to happen to the EMS payor mix. Many of the catastrophic plans that many patients had were no longer being offered and were being cancelled. Many of the lower income families were now able to qualify for Medicaid. Medicaid increased 8% in EMS payor mix. Medicaid only covers about a third of the cost of an ambulance or medical flight. These changes resulted in lower insurance payments and a decrease in EMS accounts receivable. This is

just the start of the Affordable Care Act enactments and a close eye will need to be kept on this negative trend in payor mix.

In 2013, there continued to be a 6% decrease in patient volume for San Juan County Emergency Medical Services due to the opening of Peace Island Medical Center although the numbers were slowly beginning to level out. Some patients were driving themselves to the Emergency Room instead of calling 911. While patients were admitted to the Emergency Room there were less flights necessary to fly patients off the island due to a 24/7 staffed Emergency Room and more testing equipment.

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT No. 1
dba **INTER ISLAND MEDICAL CENTER and**
SAN JUAN ISLAND EMERGENCY MEDICAL SERVICES
Friday Harbor, Washington

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion analysis provides an overview of the financial position and financial activities of San Juan County Public Hospital No. 1(District) for the year ended December 31, 2013. Please read it in conjunction with the district's financial statements and notes, which follow this section.

Financial Highlights

From 2012 to 2013:

The District decreased its total operating revenue by \$1,993,046 (49% from 2012)

The District decreased its total revenue by \$2,107,962 (29% from 2012)

The District decreased its total expenses by \$1,316,155 (21% from 2012)

The District decreased its total operating expense by 1,384,087 (22% from 2012)

The District decreased is total liabilities by \$51,276 (2% from 2012)

The District increased its total net position by \$237,526 (8% from 2012)

The District increased its total assets by \$186,249 (3% from 2012)

The District increased its non-operating expenses by \$67,932 (77% from 2012)

The District increased its donations by \$42,432.00 (54% from 2012)

Overview of the Financial Statements

The District's financial statements consist of: a Statement of Net Position; a Statement of Revenues, Expenses and Change in Fund Net Position; and a Statement of Cash Flows. The Statement of Net Position includes all of the district's assets and liabilities, using the accrual method of accounting. The Statement of Revenues, Expenses and Changes in Fund Net Position reports all of the revenues and expenses during the time period indicated. The District's Statement of Cash flows shows the cash generated by operating activities, cash from non-capital financing activities, and cash used for or generated by capital and related financing activities.

Condensed comparative financial data

Statement of Net Position

	<u>2013</u>	<u>2012</u>
Assets		
Capital assets (note 4.)	\$ 2,635,438	\$ 2,821,189
Assets, other	\$ <u>2,631,880</u>	\$ <u>2,259,880</u>
Total Assets	\$ 5,267,318	\$ 5,081,069
Liabilities		
	<u>2013</u>	<u>2012</u>
Long-term liabilities (note 7.)	\$ 1,897,774	\$ 1,953,020
Liabilities, other	\$ <u>176,690</u>	\$ <u>172,720</u>
Total Liabilities	\$ 2,074,464	\$ 2,125,740
Net Position:		
Net Investment in Capital Assets	\$ 682,418	\$ 868,169
Unrestricted	\$ <u>2,510,436</u>	\$ <u>2,087,160</u>
Total Net Position	\$ 3,192,854	\$ 2,955,329

Statement of Revenues, Expenses, and Changes in Fund Net Position

Operating Revenues		
	<u>2013</u>	<u>2012</u>
Patient fee revenue	\$ 1,958,735	\$ 3,756,771
Revenue, other	<u>36,084</u>	<u>231,093</u>
Total Operating Revenues	\$ 1,994,819	\$ 3,987,865
Nonoperating revenue		
Property taxes	\$ 2,606,005	\$ 2,768,579
Donations	121,000	78,568
Nonoperating revenue, other	<u>298,921</u>	<u>293,695</u>
Total Nonoperating Revenue	\$ 3,025,926	\$ 3,140,842
Total Revenues	\$ <u>5,020,745</u>	\$ <u>7,128,707</u>
Expenses		
Operating expenses	\$ 4,665,997	\$ 6,050,084
Nonoperating expenses	<u>155,741</u>	<u>87,809</u>
Total Expenses	<u>4,821,738</u>	<u>6,137,893</u>
Change in Net Position	\$ 199,007	\$ 990,815
Total Net Position – beginning of the year	\$ <u>2,955,329</u>	\$ <u>1,964,514</u>
Prior Period Adjustment	38,519	
Total Net Position – end of the year	\$ <u>3,192,854</u>	\$ <u>2,955,329</u>

Financial Position

The district's overall financial position increased slightly in 2013 which was the first full year of the District's operation without the Inter Island Medical Center clinic in operation. The Inter Island Medical Center only had operational costs of the vacant building, salary of Superintendent, hourly wage of accounts receivable clean up, and the subsidy payment of the portion of tax revenues agreed upon to Peace Health. The subsidy payment to Peace Island Medical Center was \$741,541 for the first half of the year. There was also some additional patient fee revenue from the outstanding accounts receivable from the Inter Island Medical Center. Total district revenue decreased by \$2,107,962 or 29% from 2012 mainly due to decreasing tax revenue from the EMS tax levy and decreasing accounts receivable due to the changing nature of the payor mix due to the Affordable Care Act. The district was able to lower its total expenses by \$1,316,155 or 21% by watching each line item of expenses closely. This watchful eye on expenses also decreased operating expense by \$1,384,087 or 22%. The district increased its donations by \$42,432 or 54% largely due to the Inter Island Healthcare Foundations' generous donation to help the Inter Island Medical Center pay off any outstanding debts of the Inter Island Medical Center. Even though revenues were down the district was able to increase its total net position by \$237,526 or 8%.

Capital Assets and Long-Term Debt

In 2013 EMS had \$1,897,774 in long term liabilities. See Note 5 in the Notes to Financial Statements for changes in Long-Term Liabilities. This is from their general obligation bond payable for the new EMS building. There were no long term liabilities for the Inter Island Medical Center. See Note 6 in the Notes to Financial Statements for summary of Long-Term Debt which only consisted of EMS General Bond Debt.

Due to IIMC closing its doors on November 26, 2012, there were no capital purchases by IIMC in 2013. IIMC sold \$25,000 of medical equipment to Peace Island Medical Center and disposed of \$359,988.44 of medical equipment 2013. It also disposed of \$8,607.23 of furniture and equipment. There was a net loss of \$4,512.56 due to the disposal of the medical equipment and the furniture and fixtures. EMS leased its old building to Islands Museum of Art. The Inter Island Medical Center will eventually be sold or leased. See Note 4 in the Notes to Financial Statements for a summary of changes in Capital Assets.

Significant Items

On September 1, 2012, the San Juan County Public Hospital District was awarded another HRSA Telemedicine Grant for four years with a total value of \$999,441 which is approximately \$249,860 each year. It is a federal tele-health network grant which will include San Juan County Public Hospital District #1, St. Joseph Medical Center, Peace Island Medical Center, United General Hospital, Ketchikan Medical Center, and Prince of Wales Clinic. The network grant will focus on creating a strong, sustainable, tele-health network to insure continuation of delivery of tele-health services in target

communities in Northwest Washington and Southeast Alaska. On September 1, 2013, the grant entered into its second year.

With the passage of the Affordable Care Act there were changes beginning to happen to the EMS payor mix. Many of the catastrophic plans that many patients had were no longer being offered and were being cancelled. Many of the lower income families were now able to qualify for Medicaid. Medicaid does not cover the cost of an ambulance or medical flight. These changes resulted in lower insurance payments and a decrease in EMS accounts receivable. This is just the start of the Affordable Care Act enactments and a close eye will need to be kept on this negative trend in payor mix.

In 2013, there was a 5% decrease in patient volume calls for San Juan County Emergency Medical Services due to the opening of Peace Island Medical Center.

San Juan County Public Hospital District No. 1
dba Inter Island Medical Center And San Juan Island Emergency Medical Services
Statement of Net Position
As of December 31, 2014

ASSETS

	<u>IIMC</u>	<u>EMS</u>	<u>Consolidated</u>
Current Assets:			
Cash and Cash Equivalents	\$ 789,842	\$ 958,423	\$ 1,748,265
Accounts Receivable (net)	45,555	1,333,465	\$ 1,379,020
TOTAL CURRENT ASSETS	<u>835,397</u>	<u>2,291,888</u>	<u>3,127,285</u>
Noncurrent Assets:			
Capital Assets Not Being Depreciated:			
Land	184,670	200,000	384,670
Capital Assets Being Depreciated:			
Buildings and Improvements	711,246	1,863,593	2,574,839
Equipment	194,640	839,570	1,034,210
Less Accumulated Depreciation	(872,521)	(787,140)	(1,659,661)
TOTAL NONCURRENT ASSETS	<u>218,035</u>	<u>2,116,023</u>	<u>2,334,058</u>
TOTAL ASSETS	<u>\$ 1,053,432</u>	<u>\$ 4,407,911</u>	<u>\$ 5,461,343</u>

DEFERRED OUTFLOWS OF RESOURCES

TOTAL DEFERRED OUTFLOWS OR RESOURCE:	-	-	-
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LIABILITIES

Current Liabilities:			
Compensated Absences	-	129,774	129,774
Current Portion General Obligation Bond Payable	-	57,022	57,022
TOTAL CURRENT LIABILITIES	<u>-</u>	<u>186,796</u>	<u>186,796</u>
Noncurrent Liabilities:			
General Obligation Bond Payable	-	1,845,202	1,845,202
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>1,845,202</u>	<u>1,845,202</u>
TOTAL LIABILITIES	-	2,031,998	2,031,998

DEFERRED INFLOWS OF RESOURCES

TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-
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NET POSITION

Net Investment in Capital Assets	218,035	213,799	431,834
Unrestricted	835,397	2,162,114	2,997,511
TOTAL NET POSITION	<u>1,053,432</u>	<u>2,375,913</u>	<u>3,429,345</u>

The notes to financial statements are an integral part of this statement.

San Juan County Public Hospital District No. 1
dba Inter Island Medical Center And San Juan Island Emergency Medical Services
Statement of Net Position
As of December 31, 2013

	<u>IIMC</u>	<u>EMS</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 842,167	\$ 441,191	\$ 1,283,358
Accounts Receivable (net)	45,555	1,302,967	1,348,522
TOTAL CURRENT ASSETS	<u>887,722</u>	<u>1,744,158</u>	<u>2,631,880</u>
Noncurrent Assets:			
Capital Assets Not Being Depreciated:			
Land	184,670	200,000	384,670
Capital Assets Being Depreciated:			
Buildings and Improvements	711,246	2,208,106	2,919,352
Equipment	194,640	866,605	1,061,245
Less Accumulated Depreciation	<u>(839,912)</u>	<u>(889,917)</u>	<u>(1,729,829)</u>
TOTAL NONCURRENT ASSETS	<u>250,644</u>	<u>2,384,794</u>	<u>2,635,438</u>
TOTAL ASSETS	<u>\$ 1,138,366</u>	<u>\$ 4,128,952</u>	<u>\$ 5,267,318</u>
LIABILITIES			
Current Liabilities:			
Compensated Absences	\$ -	\$ 121,444	\$ 121,444
Current Portion General Obligation Bond Payable	<u>-</u>	<u>55,246</u>	<u>55,246</u>
TOTAL CURRENT LIABILITIES	-	176,690	176,690
Noncurrent Liabilities:			
General Obligation Bond Payable	<u>-</u>	<u>1,897,774</u>	<u>1,897,774</u>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 2,074,464</u>	<u>\$ 2,074,464</u>
NET POSITION			
Net Investment in Capital Assets	\$ 250,644	\$ 431,774	\$ 682,418
Unrestricted	<u>887,722</u>	<u>1,622,714</u>	<u>2,510,436</u>
TOTAL NET POSITION	<u>\$ 1,138,366</u>	<u>\$ 2,054,488</u>	<u>\$ 3,192,854</u>

The notes to financial statements are an integral part of this statement.

San Juan County Public Hospital District No. 1
dba Inter Island Medical Center And San Juan Island Emergency Medical Services
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Fiscal Year Ended December 31, 2014

	<u>IIMC</u>	<u>EMS</u>	<u>Total</u>
Operating Revenues:			
Patient Revenue (net)	\$ 2,340	\$ 1,997,378	\$ 1,999,718
Program Fees	-	28,526	28,526
Total Operating Revenue	<u>2,340</u>	<u>2,025,904</u>	<u>2,028,244</u>
Operating Expenses:			
Salaries & Wages	96,594	1,365,489	1,462,083
Employee Benefits	2,564	489,582	492,146
Professional Services	18,797	137,272	156,069
Supplies, Medical	-	93,774	93,774
Utilities	16,863	14,626	31,489
Depreciation	32,609	102,936	135,545
Leases and Rentals	1,489	-	1,489
Insurance	9,133	43,779	52,912
Office and Administrative	5,743	89,860	95,603
Contract Services	2,717	771,215	773,932
Peace Island Subsidy	1,485,082	-	1,485,082
Repair & Maintenance	<u>2,012</u>	<u>28,005</u>	<u>30,017</u>
Total Operating Expenses	<u>1,673,603</u>	<u>3,136,538</u>	<u>4,810,141</u>
Operating Income (Loss)	(1,671,263)	(1,110,634)	(2,781,897)
Non-operating Revenues (Expenses):			
Property Taxes	1,586,893	955,143	2,542,036
Gain of Capital Asset Disposition	-	402,145	402,145
Non-Capital Grants	121,519	3,953	125,472
Other Non-operating Revenues	3,220	136,348	139,568
Other Non-operating Expenses	<u>(125,303)</u>	<u>(65,530)</u>	<u>(190,833)</u>
Total Non-operating Revenues (Expenses)	<u>1,586,329</u>	<u>1,432,059</u>	<u>3,018,388</u>
Change in Fund Net Position	(84,934)	321,425	236,491
Fund Net Position - Beginning of Year	<u>1,138,366</u>	<u>2,054,488</u>	<u>3,192,854</u>
Fund Net Position - End of Year	<u>\$ 1,053,432</u>	<u>\$ 2,375,913</u>	<u>\$ 3,429,345</u>

The notes to financial statements are an integral part of this statement.

San Juan County Public Hospital District No. 1
dba Inter Island Medical Center And San Juan Island Emergency Medical Services
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Fiscal Year Ended December 31, 2013

	<u>IIMC</u>	<u>EMS</u>	<u>Total</u>
Operating Revenues:			
Patient Revenue (net)	\$ (56,498)	\$ 2,015,233	\$ 1,958,735
Facility Rents	830	-	830
Program Fees	-	35,254	35,254
Total Operating Revenue	<u>(55,668)</u>	<u>2,050,487</u>	<u>1,994,819</u>
Operating Expenses:			
Salaries & Wages	118,391	1,293,403	1,411,794
Employee Benefits	1,856	435,514	437,370
Professional Services	24,724	262,432	287,156
Supplies, Medical	975	126,137	127,112
Utilities	21,387	18,958	40,345
Depreciation	40,936	113,302	154,238
Leases and Rentals	1,563	-	1,563
Insurance	194,970	42,084	237,054
Office and Administrative	12,620	111,440	124,060
Miscellaneous Expense	-	59,463	59,463
Contract Services	21,685	945,845	967,530
Peace Island Subsidy	741,541	-	741,541
Repair & Maintenance	2,020	74,752	76,772
Total Operating Expenses	<u>1,182,668</u>	<u>3,483,330</u>	<u>4,665,998</u>
Operating Income (Loss)	(1,238,336)	(1,432,843)	(2,671,179)
Non-operating Revenues (Expenses):			
Property Taxes	1,605,836	1,000,169	2,606,005
Gains/Losses on Capital Assets	(4,513)	-	(4,513)
Non-Capital Grants	169,857	1,272	171,129
Other Non-operating Revenues	147,961	100,832	248,793
Other Non-operating Expenses	(91,576)	(59,652)	(151,228)
Total Non-operating Revenues (Expenses):	<u>1,827,565</u>	<u>1,042,621</u>	<u>2,870,186</u>
Change in Fund Net Position	589,229	(390,222)	199,007
Fund Net Position - Beginning of Year	549,137	2,406,192	2,955,329
Prior Period Adjustment	-	38,518	38,518
Fund Net Position - End of Year	<u>\$ 1,138,366</u>	<u>\$ 2,054,488</u>	<u>\$ 3,192,854</u>

The notes to financial statements are an integral part of this statement.

San Juan County Public Hospital District No. 1
dba Inter Island Medical Center And San Juan Island Emergency Medical Services
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2014

	<u>IIMC</u>	<u>EMS</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from patients and customers	\$ 2,340	\$ 1,995,406	\$ 1,997,746
Payments to suppliers and contractors	(1,619,633)	(2,406,748)	(4,026,381)
Payments to employees	(21,361)	(618,524)	(639,885)
Net Cash Used by Operating Activities	<u>(1,638,654)</u>	<u>(1,029,866)</u>	<u>(2,668,520)</u>
Cash Flows from Noncapital Financing Activities			
Property taxes	1,586,893	955,143	2,542,036
Noncapital grants and contributions	121,519	3,953	125,472
Other non-operating receipts	3,220	136,348	139,568
Other non-operating expenses	(125,303)	(65,530)	(190,833)
Net Cash Provided by Noncapital Financing Activities	<u>1,586,329</u>	<u>1,029,914</u>	<u>2,616,243</u>
Cash Flows from Capital and Related Financing Activities			
Principle payments of capital debt	-	(50,796)	(50,796)
Proceeds from sale of capital assets	-	567,980	567,980
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>517,184</u>	<u>517,184</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(52,325)	517,232	464,907
Cash and Cash Equivalents - Beginning of Year	<u>842,167</u>	<u>441,191</u>	<u>1,283,358</u>
Cash and Cash Equivalents - End of Year	<u>\$ 789,842</u>	<u>\$ 958,423</u>	<u>\$ 1,748,265</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities			
Operating loss	\$ (1,671,263)	\$ (1,110,634)	\$ (2,781,897)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	32,609	102,936	135,545
Changes in assets and liabilities:			
Accounts receivable	-	(30,498)	(30,498)
Accrued compensated absences	-	8,330	8,330
Net Cash Used by Operating Activities	<u>\$ (1,638,654)</u>	<u>\$ (1,029,866)</u>	<u>\$ (2,668,520)</u>

The notes to the financial statements are an integral part of this statement.

San Juan County Public Hospital District No. 1
dba Inter Island Medical Center And San Juan Island Emergency Medical Services
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2013

	<u>IIMC</u>	<u>EMS</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from patients and customers	\$ 77,534	\$ 2,273,080	\$ 2,350,614
Payments to suppliers and contractors	(1,021,485)	(1,641,111)	(2,662,596)
Payments to employees	(118,564)	(1,734,896)	(1,853,460)
Net Cash Used by Operating Activities	<u>(1,062,515)</u>	<u>(1,102,927)</u>	<u>(2,165,442)</u>
Cash Flows from Noncapital Financing Activities			
Property taxes	1,605,836	1,000,169	2,606,005
Noncapital grants and contributions	169,857	1,272	171,129
Other non-operating receipts	147,961	100,832	248,793
Other non-operating expenses	(91,576)	(59,652)	(151,228)
Net Cash Provided by Noncapital Financing Activities	<u>1,832,078</u>	<u>1,042,621</u>	<u>2,874,699</u>
Cash Flows from Capital and Related Financing Activities			
Principle payments of capital debt		(46,980)	(46,980)
Proceeds from sale of capital assets	27,000	-	27,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>27,000</u>	<u>(46,980)</u>	<u>(19,980)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	796,563	(107,286)	689,277
Cash and Cash Equivalents - Beginning of Year	45,604	509,959	555,563
Perior Period Adjustment	<u>-</u>	<u>38,518</u>	<u>38,518</u>
Cash and Cash Equivalents - End of Year	<u>\$ 842,167</u>	<u>\$ 441,191</u>	<u>\$ 1,283,358</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities			
Operating loss	\$ (1,238,336)	\$ (1,432,843)	\$ (2,671,179)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	40,936	113,302	154,238
Changes in assets and liabilities:			
Accounts receivable	133,202	222,593	355,795
Accrued compensated absences		(5,979)	(5,979)
Payroll liabilities	1,683	-	1,683
Net Cash Used by Operating Activities	<u>\$ (1,062,515)</u>	<u>\$ (1,102,927)</u>	<u>\$ (2,165,442)</u>

The notes to the financial statements are an integral part of this statement.

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
dba INTER ISLAND MEDICAL CENTER and
SAN JUAN ISLAND EMERGENCY MEDICAL SERVICES
Friday Harbor, Washington
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

These notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the San Juan County Public Hospital District No. 1 conform to generally accepted accounting principals (GAAP) as applicable to proprietary funds of governments. The following summary of the most significant policies (including identification of those policies which result in material departures from GAAP.

a. **Reporting Entity**

San Juan County Public Hospital District No. 1 is a junior taxing district of San Juan County providing medical services to county residents within its geographical boundaries. Tax Revenues from the tax levy that supported the Inter Island Medical Center (IIMC) which closed its doors on November 25, 2012 now subsidize Peace Island Medical Center with its emergency care, charity care, and emergency services provided by physician services. San Juan Island Emergency Medical Services (EMS) which provides emergency medical care and ambulance service receives a separate tax levy. EMS became a division of the Hospital District on January 1, 1995.

The District is a municipal corporation governed by an elected five member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. **Basis of Accounting and Presentation**

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 Budgeting, Accounting and Reporting System (BARS) manual.

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 timing of the cash flows. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Property taxes are recognized as revenue in the year received by the San Juan County Treasurer.

c. **Cash and Cash Equivalents**

For the 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 and state pool investments to be cash equivalents.

d. **Receivables**

Accounts receivables of the District are comprised of amounts due for patient services. Allowance for doubtful accounts is estimated based on historical experience for contractual allowance and uncollectible accounts.

Accounts receivables of the hospital district are net of an allowance for doubtful accounts in 2014 of \$1,379,021. Allowance for doubtful accounts was \$1,197,675.24 making gross accounts receivables for the district of \$2,576,696.24 which was an increase from 2013's of \$30,499. This increase of 2% resulted from EMS payor mix leveling off after healthcare changes.

e. Capital Assets

See note 4.

f. Compensated Absences

Inter Island Medical Center has adopted a 'paid time off' concept for vacation and sick leave. Each employee can use all accrued "paid time off" for either purposes with no distinction made between the two.

IIMC closed its doors on November 25, 2012 and had no employees accruing paid time off.

EMS PTO sick leave is accrued and taken during the year. Up to 15 days can be carried over to the next year with a possible 50 days banked. PTO leave benefits of \$129,774 were accrued December 31, 2014, and are to be paid to recipients upon actual claims only or upon resignation, retirement, or death.

g. Net Position Classification

Equity is classified as net position and it is displayed in two components: (1) Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Unrestricted net position – all other assets that do not meet the definition of Net Investment in Capital Assets.

h. Operating Revenues and Expenses

The District's operating statement distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services. They also include payments from federal government for healthcare services rendered to eligible individuals. Other operating revenues include revenue from the District's class registration fees, space rental from Specialists and laboratory service revenues. Non-exchange revenue, including taxes, grants and contributions received for purposes other than capital assets acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide healthcare services.

i. Patient Service Revenues

Revenues from patient services are reported on the full-accrual basis in the period in which services are provided at established rates whether or not collection in full is anticipated. Contractual adjustments, the results of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual allowances include differences between established rates and amounts estimated by management to be collected under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual allowances.

j. Charity Care

With IIMC closed as of November 25, 2012, charity care is one of the three categories of subsidy payments paid to PeaceHealth Peace Island Medical Center. People apply to PeaceHealth for the Charity Care. Patients who apply and receive Medicaid benefits are not eligible for the Charity Care program.

EMS has a new charity care program. EMS reviews its charity cases on a case by case basis when a letter is written describing financial hardship. There is a policy concerning charity care cases. Applications received are reviewed by the billing company, and those who meet the criteria are forwarded to the EMS Chief who makes the determination of what dollar amount is received.

k. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Inter Island Medical Center has no custodial credit risk. EMS uses the Local Government Investment Pool for excess reserves, but is a cash equivalent. The District has no investment policies which impose a custodial credit risk.

NOTE 3 – 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 May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every three 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 for Inter Island Medical Center and \$0.50 for EMS. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2014, the IIMC regular tax levy was \$.5829304397 per thousand on a total assessed valuation of \$2,751,834,337 for a regular levy of \$1,604,128.00.

For 2014, the EMS regular tax levy was approximately \$.35000000 per thousand on a total assessed valuation of \$2,751,834,337 or a regular levy of \$963,142.02.

The property taxes are recorded as revenue in the month received by the county treasurer's office.

NOTE 4 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of \$5,000 or more for IIMC and EMS and an estimated useful life in excess of 1 year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets are recorded at cost (where the historical cost is known). Where historical cost is not known, assets are recorded at estimated cost.

Capital assets activities for the years ended December 31, 2014 were as follows:

2014	IIMC	Beginning			Ending
		Balance	Increase	Decrease	
Capital assets not being depreciated:					
	Land	\$ 184,670			\$ 184,670
	Total	184,670			184,670
Capital assets being depreciated:					
	Buildings and improvements	711,246			711,246
	Equipment	194,640			194,640
	Total capital assets being depreciated	905,886			905,886
	Less accumulated depreciation	839,912	32,610		872,521
	Total capital assets being depreciated-Net	65,974	(32,610)		33,364
	Total Capital Assets - Net	\$250,644	(32,610)		\$218,035

2014	EMS	Beginning			Ending
		Balance	Increase	Decrease	
Capital assets not being depreciated:					
	Land	200,000			200,000
Capital assets being depreciated:					
	Buildings and improvements	\$2,208,106		(344,513)	1,863,593
	Equipment	866,605		(27,035)	839,570
	Total capital assets being depreciated	3,074,711		(371,548)	2,703,163
	Less accumulated depreciation	889,917	102,936	(205,713)	787,140
	Total capital assets being depreciated-Net	2,184,794	(102,936)	(165,835)	1,916,023
	Total Capital Assets – Net	\$2,384,794	(102,936)	(165,835)	2,116,023

Capital assets are depreciated using the straight line method over the following estimated useful lives:

ASSET	YEARS
Building	35
Building Improvements	5-35
Vehicles	7
Equipment	5-12

NOTE 5 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

Business-Type Activities	Beginning Balance 01/01/2014	Additions	Deductions	Ending Balance 12/31/2014
Current Portion Gen. Bond	\$ 55,246	\$1,776		\$ 57,022
Gen. Obligation Bond	\$1,897,774		\$52,572	\$1,845,202
Compensated Absences	\$ 121,444	\$8,327		\$ 129,771
Total Liabilities	\$2,074,464	\$10,103	\$52,572	\$2,031,995

NOTE 6 – LONG-TERM DEBT

General Obligation Bonds issued for 2012:

The San Juan County Public Hospital District No. 1 issues general obligation bonds to finance the purchase of the new San Juan Island Emergency Services Building and the acquisitions of construction of the new San Juan Island Emergency Services Building. The general obligation bonds are direct obligations and pledge the full faith and credit of the district.

The general obligation bonds currently outstanding ending 2013 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Amount of Installment</u>
Purchase EMS Bldg.	\$3.125%	\$2,000,000	\$9,693.81

General obligation bond debt service requirements to maturity as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
2015	57,022.10	59,303.62	1,840,751.72
2016	58,692.46	57,633.26	1,782,059.26
2017	60,742.11	55,583.61	1,721,317.15
2018	62,694.86	53,630.86	1,658,622.29
2019	64,710.40	51,615.32	1,593,911.89
*2020-2022	200,667.24	138,616.11	1,393,244.65

*Amortization schedule for first ten years, to be re-amortized on the reset date

NOTE 7 – THIRD PARTY CONTRACTUAL AGREEMENTS

IIMC closed its operations on November 25, 2012 thus terminating any third party contractual agreements. EMS has seven third party contracts. An agreement with Island Air, Inc to provide fixed wing air ambulance services to persons in San Juan County, an agreement with San Juan County Sheriff’s office to provide dispatch service for 911 calls, an agreement with Inland Northwest Health Services/Northwest Medstar to provide air ambulance dispatch services, Intermedix which handles the accounts receivable collections and accounts, Dr. Michal Sullivan which is the county’s Medical Director, West Coast Adjusters which monitors collections on accounts receivable, Physio Control agreement for monitors, and Revel agreement for ventilator.

NOTE 8 EMPLOYEE PENSION PLANS

Inter Island Medical Center is closed and does not offer any employee benefit plans.

Substantially all EMS full-time employees participate in a statewide retirement system administered by the Washington State Department of Retirement Systems, referred to as PERS plan2. This is a cost-sharing multiple-employer public employee defined benefit plan. DRS mailing address is DRS, PO Box 48380, Olympia, WA 98504-8380. Phone number is 1-800-547-6657.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the legislature.

The required contribution rates expressed as a percentage of current-year covered payroll contributions as of September 1, 2009 through current dates are as follows:

Employee	09/01/09 – 06/30/11.....	= 3.90%
Employee	07/01/11 - 08/31/11	= 4.59%
Employee	09/01/11 - current	= 4.64%
Employer	01/01/08 - 06/30/09.....	= 8.31%
Employer	07/01/09 - 08/31/09.....	= 5.29%
Employer	09/01/09 – 06/30/11.....	= 5.31%
Employer	07/01/11 – 08/31/11	= 7.07%
Employer	09/01/11 – 03/31/12	= 7.25%
Employer	04/01/12 – 06/30/12	= 7.08%
Employer	07/01/12 – 06/30/13	= 7.21%*
Employer	07/01/13 – 08/31/13	= 9.19%
Employer	09/01/13 - current	= 9.21%**

*rate includes an administrative expense of .16%

**rate includes an administrative expense of .18%

Both EMS and the employees made the required contributions. The EMS required contributions for the years ending December 31 were as follows:

2014	\$110,113
2013	\$83,906
2012	\$50,626
2011	\$62,448
2010	\$24,285
2009	\$31,687
2008	\$31,924
2007	\$19,171

NOTE 9 – ACCOUNTS RECEIVABLE PAYOR MIX

The San Juan County Public Hospital District No. 1 grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. No single patient comprises more than 5 percent of total receivables at year end.

The mix of patient receivables for IIMC at December 31, 2014 was not calculated since IIMC has been closed since November 25, 2012. The previous years were as follows:

	*2013	2010	2011	2012
Medicare	8.00%	28.52%	28.68%	30.07%
Medicaid	1.00%	6.30%	4.33%	3.78%
Contracted Insurance Carriers	15.00%	34.10%	38.73%	35.84%
Insurance and third party payers	7.00%	21.30%	8.70%	19.66%
Patients self-pay	65.00%	9.30%	9.01%	10.51%
L & I	4.00%	.48%	.55%	.14%

*The patient mix in 2013 for the Inter Island Medical Center was the mix of patients left on the accounts receivable after close of operation on November 25, 2012, and therefore not comparable to the patient mix in 2010, 2011, and 2012 when the Medical Center was in operations.

The mix of patient receivables for EMS at December 31, 2014 was as follows:

	2011	2012	2013	2014
Medicare	40.00%	49.00%	50.00%	50%
Medicaid	6.00%	8.00%	9.00%	18%
Contracted Insurance Carriers	34.00%	25.00%	24.00%	24%
Unknown	18.00%	18.00%	16.00%	8%
L & I	1.00%	0.00%	1.00%	1%

In 2014, EMS saw its Medicare mix stayed the same percentage. The Medicaid mix also jumped another 9% due to more patients enrolling in the Affordable Care Act insurance programs and qualifying for the low cost insurance. Unknown pay mix went down 8% due to more people enrolling in insurance exchange.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years. VFIS is our District's liability carrier. VFIS provides the portion of insurance that was left after the Inter Island Medical Center closed operations on November 25, 2012. Because the clinic operations have ceased insurance coverage could be decreased. There is still coverage on the buildings, business personal property, business income, extra expense, and Board and Officer Coverage. . No payments were made or expenses incurred related to risk management in 2014 for the Inter Island Medical Center portion.

EMS has a comprehensive Risk Management program in place which includes a 12 Officer Member Committee which reviews all operations for safety and compliance issues and a full time staff member designated as the Safety Officer. EMS insurance carrier VFIS provides a broad range of services for Risk Management including Emergency Vehicle Operations, Patient care and handling, Call Documentation, and HR policies and procedures. EMS has four active Quality Assurance committees and direct and expert oversight of the agency from full time staff and an EMS trained emergency physician. The Chief is a designated "Chief EMS Officer" through the Center for Public Safety Excellence and a certified medical transport executive through AAMS. This designation is the National Benchmark for EMS Administrative excellence. EMS is nationally accredited by CAMTS. All policies and procedures are annually reviewed and updated. EMS had no claims against it in 2011, 2012, 2013, and 2014. There was one settlement to a flight patient for \$7,197 for the billing company failure to promptly bill resulting in the patient to have to pay \$7,197 out of pocket because the billing did not go to his deductible first.

NOTE 11 – ACCOUNTING CHANGES

Summary of Statement No. 65 Items Previously Reported as Assets and Liabilities (Issued 03/12)

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Note 12 – Subsequent Events

There is still ongoing questioning from the ACLU about the religious affiliations of Peace Island Medical Center ran by PeaceHealth. It has Catholic ties and the ACLU is trying to maintain that public tax dollars can't be spent with the tax subsidy the district is giving Peace Island Medical Center for district resident's health services. The subsidy agreement was approved by the State Auditor's Office and the Attorney General's office before it was put in place. Due to those approvals, the district does not feel legal action and a win for ACLU jeopardizes the agreement. If by some small chance the ACLU prevailed in a legal decision, there would need to be a restructuring of medical services.

In early October of 2015, the Office of the Attorney General served San Juan Island EMS a Civil Investigative Demand focusing on Medicaid flight claims for air ambulance services for patients. Since we live on an island there are more patients flown off the island then Medicaid sees flown on the mainland. San Juan Island EMS and San Juan Public Hospital District #1 hired attorney James Fredman of Foster Pepper PLLC to represent our legal interests during this investigation. Once all the facts are presented, the district is confident that there will be a positive outcome to the investigation.

On February 17, Island Air, Inc., EMS vendor for the flight program of airplanes and pilots, gave thirty day written notice to terminate the contract between San Juan Island EMS and Island Air, Inc. The final termination date will be March 31, 2016. The San Juan Island EMS and MedEvac program will terminate on that same date. Active memberships in the fixed wing program will be prorated and refunded to the members of the MedEvac Program. San Juan Island EMS will have to revise its 2016 budget without the air program revenue and expenses associated with it. At this point the final financial impact is unknown. San Juan Island EMS will become a ground 911 response only.

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
dba INTER ISLAND MEDICAL CENTER and
SAN JUAN ISLAND EMERGENCY MEDICAL SERVICES
Friday Harbor, Washington
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

These notes are an integral part of the accompanying financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the San Juan County Public Hospital District No. 1 conform to generally accepted accounting principals (GAAP) as applicable to proprietary funds of governments. The following summary of the most significant policies (including identification of those policies, which result in material departures from GAAP):

a. **Reporting Entity**

San Juan County Public Hospital District No. 1 is a junior taxing district of San Juan County providing medical services to county residents within its geographical boundaries. Tax Revenues from the tax levy that supported the Inter Island Medical Center (IIMC) which closed its doors on November 25, 2012 now subsidize Peace Island Medical Center with its emergency care, charity care, and emergency services provided by physician services. San Juan Island Emergency Medical Services (EMS) which provides emergency medical care and ambulance service receives a separate tax levy. EMS became a division of the Hospital District on January 1, 1995.

The District is a municipal corporation governed by an elected five member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. **Basis of Accounting and Presentation**

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 Budgeting, Accounting and Reporting System (BARS) manual.

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 timing of the cash flows. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Property taxes are recognized as revenue in the year received by the San Juan County Treasurer.

c. **Cash and Cash Equivalents**

For the 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 and state pool investments to be cash equivalents.

d. **Receivables**

Accounts receivables of the District are comprised of amounts due for patient services. Allowance for doubtful accounts is estimated based on historical experience for contractual allowance and uncollectible accounts.

Accounts receivables of the hospital district are net of an allowance for doubtful accounts in 2013 of \$1,348,522. Allowance for doubtful accounts was \$1,171,843 making gross accounts receivables for the district of \$2,520,365, which was a decrease from 2012's of \$355,795. This decrease of 21% resulted from EMS having a negative change in payor mix and decrease in flight call volume.

e. Capital Assets

See note 4.

f. Compensated Absences

Inter Island Medical Center has adopted a 'paid time off' concept for vacation and sick leave. Each employee can use all accrued "paid time off" for either purposes with no distinction made between the two.

IIMC closed its doors on November 25, 2012 and had no employees accruing paid time off.

EMS PTO sick leave is accrued and taken during the year. Up to 15 days can be carried over to the next year with a possible 50 days banked. PTO leave benefits of \$121,444 were accrued December 31, 2013, and are to be paid to recipients upon actual claims only or upon resignation, retirement, or death.

g. Net Position Classification

Equity is classified as net position and it is displayed in two components: (1) Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Unrestricted net position – all other assets that do not meet the definition of Net Investment in Capital Assets.

h. Operating Revenues and Expenses

The District's operating statement distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services. They also include payments from federal government for healthcare services rendered to eligible individuals. Other operating revenues include revenue from the District's class registration fees, space rental from Specialists and laboratory service revenues. Non-exchange revenue, including taxes, grants and contributions received for purposes other than capital assets acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide healthcare services.

i. Patient Service Revenues

Revenues from patient services are reported on the full-accrual basis in the period in which services are provided at established rates whether or not collection in full is anticipated. Contractual adjustments, the results of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual allowances include differences between established rates and amounts estimated by management to be collected under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual allowances.

j.

Charity Care

IIMC provided care to patients who meet certain criteria under charity care policy without charge or at an amount less than established rates. IIMC maintains records to identify and monitor the level of charity care provided. The records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charges associated with charity care for the year ending December 31, 2013 were \$ 792.08, which was a small portion carried over from 2012 closing of operations. Patients who apply and receive Medicaid benefits are not eligible for the Charity Care program.

EMS has a new charity care program. EMS reviews its charity cases on a case by case basis when a letter is written describing financial hardship. There is a policy concerning charity care cases.

Applications received are reviewed by the billing company, and those who meet the criteria are forwarded to the EMS Chief who makes the determination of what dollar amount is received.

k. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Inter Island Medical Center has no custodial credit risk. EMS uses the Local Government Investment Pool for excess reserves, but is a cash equivalent. The District has no investment policies which impose a custodial credit risk.

NOTE 3 – PROPERTY TAXES

2013	IIMC	<u>Beginning</u>			<u>Ending</u>
		<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Capital assets not being depreciated:					
Land		\$ 184,670			\$ 184,670
Total		184,670			184,670
Capital assets being depreciated:					
Buildings and improvements		711,246			711,246
Equipment		563,236		(368,596)	194,640
Total capital assets being depreciated		1,274,482		(368,596)	905,886
Less accumulated depreciation		1,136,059	40,936	(337,083)	839,912
Total capital assets being depreciated Net		138,423	(40,936)	(31,513)	65,974
Total Capital Assets - Net		<u>\$323,093</u>	<u>(40,936)</u>	<u>(31,513)</u>	<u>250,644</u>
2013	EMS				
Capital assets not being depreciated:					
Land		<u>200,000</u>			<u>200,000</u>
Capital assets being depreciated:					
Buildings and improvements		\$2,208,106			2,208,106
Equipment		866,605			866,605
Total capital assets being depreciated		3,074,711			3,074,711
Less accumulated depreciation		776,615	113,302		889,917
Total capital assets being depreciated-Net		2,298,096	(113,302)		2,184,794
Total Capital Assets – Net		<u>\$2,498,096</u>	<u>(113,302)</u>		<u>2,384,794</u>

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 May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every three 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 for Inter Island Medical Center and \$0.50 for EMS. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2013, the IIMC regular tax levy was \$.5649436952 per thousand on a total assessed valuation of \$2,808,658,391 for a regular levy of \$1,586,733.85.

For 2013, the EMS regular tax levy was approximately \$.35000000 per thousand on a total assessed valuation of \$2,808,658,391 or a regular levy of \$983,030.44.

The property taxes are recorded as revenue in the month received by the county treasurer's office.

NOTE 4 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of \$5,000 or more for IIMC and EMS and an estimated useful life in excess of 1 year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets are recorded at cost (where the historical cost is known). Where historical cost is not known, assets are recorded at estimated cost.

Capital assets activities for the years ended December 31, 2013 were as follows:

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>ASSET</u>	<u>YEARS</u>
Building	35
Building Improvements	5-35
Vehicles	7
Equipment	5-12

NOTE 5 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

Business-Type Activities

	Beginning Balance 01/01/2013	Additions	Deductions	Ending Balance 12/31/2013
Current Portion Gen. Bond	\$ 46,980	\$8,266		\$ 55,246
Gen. Obligation Bond	\$1,953,020		\$55,246	\$1,897,774
<u>Compensated Absences</u>	<u>\$ 127,423</u>		<u>\$ 5,979</u>	<u>\$ 121,444</u>
Total Liabilities	\$2,127,423	\$8,266	\$61,225	\$2,074,464

NOTE 6 – LONG-TERM DEBT

General Obligation Bonds issued for 2012:

The San Juan County Public Hospital District No. 1 issues general obligation bonds to finance the purchase of the new San Juan Island Emergency Services Building and the acquisitions of construction of the new San Juan Island Emergency Services Building. The general obligation bonds are direct obligations and pledge the full faith and credit of the district.

The general obligation bonds currently outstanding ending 2013 are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Amount of Installment</u>
Purchase EMS Bldg.	3.125%	\$2,000,000	\$9,693.81

General obligation bond debt service requirements to maturity as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
2014	55,246.04	61,079.68	1,897,773.82
2015	57,022.10	59,303.62	1,840,751.72
2016	58,692.46	57,633.26	1,782,059.26
2017	60,742.11	55,583.61	1,721,317.15
2018	62,694.86	53,630.86	1,658,622.29
*2019-2022	200,667.24	138,616.11	1,393,244.65

*Amortization schedule for first ten years, to be re-amortized on the reset date

NOTE 7 – THIRD PARTY CONTRACTUAL AGREEMENTS

IIMC closed its operations on November 25, 2012 thus terminating any third party contractual agreements. EMS has seven third party contracts. An agreement with Island Air, Inc to provide fixed wing air ambulance services to persons in San Juan County, an agreement with San Juan County Sheriff’s office to provide dispatch service for 911 calls, an agreement with Inland Northwest Health Services/Northwest Medstar to provide air ambulance dispatch services, Intermedix which handles the accounts receivable collections and accounts, Dr. Michal Sullivan which is the county’s Medical Director, West Coast Adjusters which monitors collections on accounts receivable, Physio Control agreement for monitors, and Revel agreement for ventilator.

NOTE 8 EMPLOYEE PENSION PLANS

Inter Island Medical Center is closed and does not offer any employee benefit plans.

Substantially all EMS full-time employees participate in a statewide retirement system administered by the Washington State Department of Retirement Systems, referred to as PERS plan2. This is a cost-sharing multiple-employer public employee defined benefit plan. DRS mailing address is DRS, PO Box 48380, Olympia, WA 98504-8380. Phone number is 1-800-547-6657.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the legislature.

The required contribution rates expressed as a percentage of current-year covered payroll contributions as of September 1, 2009 through current dates are as follows:

Employee	09/01/09 – 06/30/11.....	= 3.90%
Employee	07/01/11 - 08/31/11	= 4.59%
Employee	09/01/11 - current	= 4.64%
Employer	01/01/08 - 06/30/09.....	= 8.31%
Employer	07/01/09 - 08/31/09.....	= 5.29%
Employer	09/01/09 – 06/30/11.....	= 5.31%
Employer	07/01/11 – 08/31/11	= 7.07%
Employer	09/01/11 – 03/31/12	= 7.25%
Employer	04/01/12 – 06/30/12	= 7.08%
Employer	07/01/12 – 06/30/13	= 7.21%*
Employer	07/01/13 – 08/31/13	= 9.19%
Employer	09/01/13 - current	= 9.21%**

*rate includes an administrative expense of .16%

**rate includes an administrative expense of .18%

Both EMS and the employees made the required contributions. The EMS required contributions for the years ending December 31 were as follows:

2013	\$83,906
2012	\$50,626
2011	\$62,448
2010	\$24,285
2009	\$31,687
2008	\$31,924
2007	\$19,171

NOTE 9 –ACCOUNTS RECEIVABLE PAYOR MIX

The San Juan County Public Hospital District No. 1 grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. No single patient comprises more than 5 percent of total receivables at year end.

The mix of patient receivables for IIMC at December 31, 2013 was as follows:

	*2013	2010	2011	2012
Medicare	8.00%	28.52%	28.68%	30.07%
Medicaid	1.00%	6.30%	4.33%	3.78%
Contracted Insurance Carriers	15.00%	34.10%	38.73%	35.84%
Insurance and third party payers	7.00%	21.30%	8.70%	19.66%
Patients self-pay	65.00%	9.30%	9.01%	10.51%
L & I	4.00%	.48%	.55%	.14%

*The patient mix in 2013 for the Inter Island Medical Center was the mix of patients left on the accounts receivable after close of operation on November 25, 2012 and therefore not comparable to the patient mix in 2010, 2011, and 2012 when the Medical Center was in operations.

The mix of patient receivables for EMS at December 31, 2013 was as follows:

	2011	2012	2013
Medicare	40.00%	49.00%	50.00%
Medicaid	6.00%	8.00%	9.00%
Contracted Insurance Carriers	34.00%	25.00%	24.00%
Unknown	18.00%	18.00%	16.00%
L & I	1.00%	0.00%	1.00%

In 2013, EMS saw its Medicare mix jump another 1% due to the island's aging population. They moved from a contracted insurance carrier to Medicare. The Medicaid mix also jumped another 1% due to more patients enrolling in the Affordable Care Act insurance programs and qualifying for the low cost insurance.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years. VFIS is our District's liability carrier. VFIS provides the portion of insurance that was left after the Inter Island Medical Center closed operations on November 25, 2012. Because the clinic operations have ceased insurance coverage could be decreased. There is still coverage on the buildings, business personal property, business income, extra expense, and Board and Officer Coverage. . No payments were made or expenses incurred related to risk management in 2013 for the Inter Island Medical Center portion.

EMS has a comprehensive Risk Management program in place which includes a 12 Officer Member Committee which reviews all operations for safety and compliance issues and a full time staff member designated as the Safety Officer. EMS insurance carrier VFIS provides a broad range of services for Risk Management including Emergency Vehicle Operations, Patient care and handling, Call Documentation, and HR policies and procedures. EMS has four active Quality Assurance committees and direct and expert oversight of the agency from full time staff and an EMS trained emergency physician. The Chief is a designated "Chief EMS Officer" through the Center for Public Safety Excellence and a certified medical transport executive through AAMS. This designation is the National Benchmark for EMS Administrative excellence. EMS is nationally accredited by CAMTS. All policies and procedures are annually reviewed and updated. EMS had no claims against it in 2011, 2012, and 2013.

NOTE 11 – ACCOUNTING CHANGES

Summary of Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Issued 06/11)

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Note 12 – PRIOR PERIOD ADJUSTMENT

There was a prior period adjustment of \$38,518 which consisted of three checking accounts that were not under the county treasurer's office. One was a pay pal account for Medevac Memberships and classes, one was for the health reimbursements account, and one was for Wells Fargo miscellaneous service accounts.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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