



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

January 17, 2017

Board of Commissioners
Pullman Regional Hospital
Pullman, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Pullman Regional Hospital's financial statements for the fiscal years ended December 31, 2015 and 2014.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

**Public Hospital District No. 1-A of
Whitman County, Washington
doing business as
Pullman Regional Hospital**

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2015 and 2014



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Pullman, Washington

Report on the Basic Financial Statements

We have audited the accompanying combined financial statements of Public Hospital District No. 1-A of Whitman County, Washington doing business as Pullman Regional Hospital (the District) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Pullman Regional Hospital Foundation (the Foundation), which represents 7 percent, 8 percent, and 3 percent, respectively, of the assets, net position, and revenues of the District at December 31, 2015, and 5 percent, 7 percent, and 4 percent, respectively, of the assets, net position, and revenues of the District at December 31, 2014.

Management's Responsibility for the Basic 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and of its discretely presented component unit as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, 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 3 through 12 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 April 19, 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. We issued a similar report for the year ended December 31, 2014, dated April 20, 2015, which has not been included with the 2015 financial compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 19, 2016

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis
December 31, 2015 and 2014

Our discussion and analysis of Public Hospital District No. 1-A of Whitman County, Washington doing business as Pullman Regional Hospital's (the District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2015 and 2014. Please read it in conjunction with the District's financial statements, which begin on page 13.

Statement of People & Programs

Public Hospital District No. 1-A is a community consisting of:

- Pullman Regional Hospital (wholly owned by PHD 1-A)
- Pullman Regional Hospital Clinic Services, LLC (wholly owned by PHD 1-A)
- Palouse Surgeons, LLC (jointly owned)
- Palouse Specialty Physicians, P.S. (jointly owned)

We are a community of:

- 435 Full-time (261) and Part-time Employees (174)
- 224 Volunteers that served over 16,675 hours
- 132 Members of the Hospital Auxiliary. In 2015, the Auxiliary transferred \$15,178 in support of hospital needs
- 156 Medical Staff (64 in active membership)

As a team we served:

- 1,851 Men, Women, Children, & Newborns as inpatients
- 76,811 Individual outpatient visits

That Totals:

- 4,670 Patient Days (including newborns)
- 452 Babies were delivered
- 576 Equivalent Observation Patient Days
- 13,832 Observation hours of care
- 11,818 Patients entered our Emergency Department
- 93,924 Laboratory tests were performed
- 30,357 Diagnostic Imaging studies completed
- 4,407 Surgical patients, 83% surgical vs. 17% endoscopy

A summary of operations is shown in Table 1.

Table 1: Operating Results

Hospital Based Services	YTD	Budget	Variance	% Variance	Prior Year	Variance	% Variance
Admissions	1,392	1,300	92	7.1%	1,329	63	4.7%
LOS	2.73	2.85	(0.12)	-4.3%	2.93	(0.21)	-7.0%
Patient Days	3,796	3,703	93	2.5%	3,899	(103)	-2.6%
Observation Day Equiv.	648	673	(25)	-3.7%	700	(52)	-7.4%
Adjusted Patient Days	13,851	12,724	1,127	8.9%	13,331	520	3.9%
Average Daily Census	10.4	10.2	0.3	2.5%	10.7	(0.3)	-2.6%
Deliveries	452	430	22	5.1%	424	28.00	6.6%
Rehabilitation Services	12,216	11,840	376	3.2%	10,443	1,773	17.0%
Emergency Visits	11,818	10,100	1,718	17.0%	10,680	1,138	10.7%
Radiology Procedures	30,357	29,515	842	2.9%	29,114	1,243	4.3%
Lab Tests	93,924	91,200	2,724	3.0%	90,218	3,706	4.1%
Clinic (PRHCN)	YTD	Budget	Variance	% Variance	Prior Year	Variance	% Variance
Pediatric Patient Visits	15,597	16,250	(653)	-4.0%	16,262	(665)	-4.1%
Behavioral Health Visits	2,139	2,750	(611)	-22.2%	2,987	(848)	-28.4%



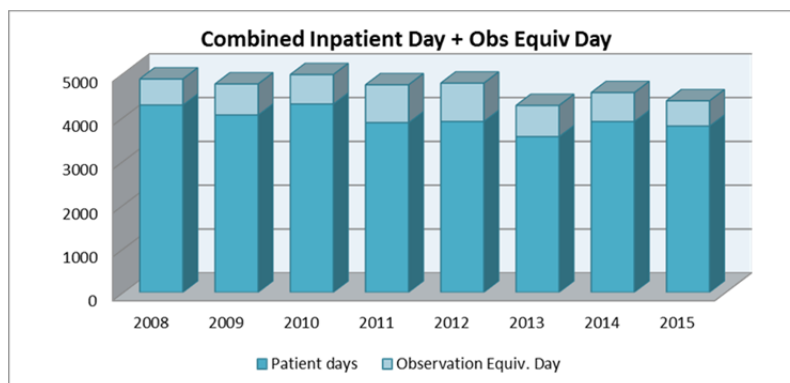
Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

PHD NO. 1-A OF WHITMAN COUNTY STATEMENT OF REVENUE AND EXPENSES FOR PERIOD ENDING December 31, 2015 (CONSOLIDATED STATEMENT)							
	CURRENT YEAR 2015			PRIOR YEAR 2014			%
	*PRH	**PRCN, LLC	TOTAL	*PRH	**PRCN, LLC	TOTAL	Variance
TOTAL NET REVENUE	58,378,060	2,720,907	61,098,967	55,001,811	2,806,595	57,808,406	5.7%
OPERATING EXPENSES:							
SALARIES & WAGES	25,444,122	2,453,276	27,897,398	24,501,746	2,012,470	26,514,216	5.2%
BENEFITS	5,595,361	484,724	6,080,085	5,072,223	439,966	5,512,189	10.3%
SUPPLIES	11,652,544	105,531	11,758,075	11,046,502	80,575	11,127,077	5.7%
DEPRECIATION AND AMORTIZATION	2,497,628	55,498	2,553,126	2,619,848	81,047	2,700,895	-5.5%
ALL OTHER	10,917,691	927,573	11,845,264	10,001,794	1,214,278	11,216,072	5.6%
TOTAL OPERATING EXPENSES	56,107,346	4,026,602	60,133,948	53,242,113	3,828,336	57,070,449	5.4%
NET OPERATING INCOME	2,270,714	(1,305,695)	965,019	1,759,698	(1,021,741)	737,957	30.8%
NON-OPER INCOME/EXPENSE:							
TAXATION	1,188,079	-	1,188,079	613,325	-	613,325	93.7%
CONTRIBUTIONS	42,531	-	42,531	148,569	-	148,569	100.0%
JOINT VENTURE LLC NON-OPERATING GAINS/(LOSS)	(847,184)	-	(847,184)	(823,328)	-	(823,328)	2.9%
CONTRIBUTIONS FROM PRH TO PRCN	(1,690,000)	1,690,000	-	(985,000)	985,000	-	0.0%
OTHER NONOPERATING REVENUES (EXPENSES), NET	(305,477)	5,154	(300,323)	(761,323)	(1,851)	(763,174)	-60.6%
TOTAL NON-OPERATING	(1,612,051)	1,695,154	83,103	(1,807,757)	983,149	(824,608)	-110.1%
CAPITAL CONTRIBUTIONS/EXTRAORDINARY ITEMS	645,824	-	645,824	470,009	-	470,009	37.4%
CHANGE IN NET POSITION	1,304,487	389,459	1,693,946	421,950	(38,592)	383,358	341.9%

*PRH = Pullman Regional Hospital
**PRCN, LLC = Pullman Regional Hospital Clinic Network, LLC (Palouse Pediatrics, Palouse Behavioral Health, & Central Billing Office)

Financial Highlights

- The District's net position increased \$1,693,946 in 2015, and increased \$383,358 in 2014.
- The District passed a maintenance and operational levy moving forward in 2015, in which \$578,988 was assessed.
- The District implemented a Center of Excellence program for total knee procedures on the Palouse. As part of this effort, the District implemented a physician preference items (PPI) solution. The PPI resulted in a savings on joint arthroplasty costs of \$925,742.
- Acute care - Inpatient day volumes were higher than budget with patient days at 3,796 compared to the 3,703 projected. This represents a positive variance of 93 patient days. Compared to 2014's patient day volumes Pullman Regional was down 103 patient days, as a result of exclusively lower swing bed days.

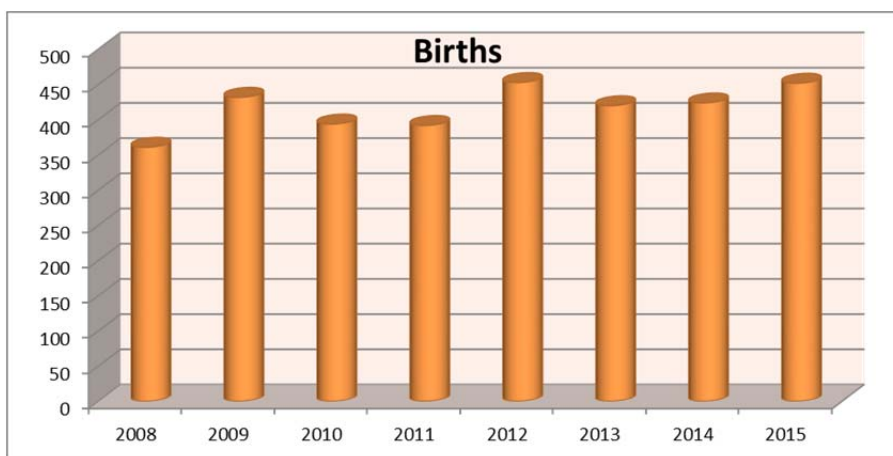


Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Financial Highlights (continued)

- BirthPlace – BirthPlace had 452 deliveries for the year compared to 424 in 2014. Below is a brief review of delivery methods for 2015 and a historical look at total births since 2008:

Delivery Method	2013	2014	2015
Normal (Spontaneous)	63.6%	62.5%	61.7%
Cesarean	32.4%	33.0%	33.6%
Vacuum	4.0%	4.5%	4.6%



- Emergency Department – Overall revenue was up 14% from budget. Volumes were up 11% from 2014. A brief historical review is provided below:

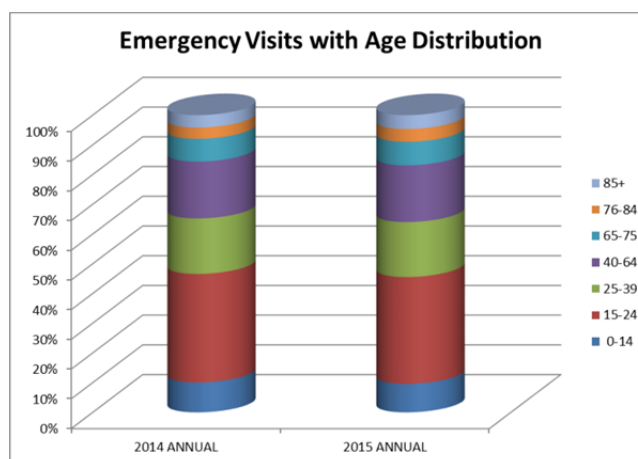
PULLMAN REGIONAL HOSPITAL
EMERGENCY DEPARTMENT STATISTICS REPORT

Census: Total
Census: Average Daily

Volume % by Shift 0700-1500
Volume % by Shift 1500-2300
Volume % by Shift 2300-0700

Admissions * Total
Admissions as a % of visits

2011 Annual	2012 Annual	2013 Annual	2014 Annual	2015 Annual
9,706	10,322	9,637	10,680	11,818
27	28	26	29	32
39%	40%	38%	38%	41%
45%	44%	45%	45%	44%
16%	16%	16%	17%	15%
1,098	1,123	1,026	1,144	1,104
11.31%	10.88%	10.65%	10.71%	9.34%



Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Using This Annual Report

The District's financial statements consist of three statements — a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District, but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the District's finances begins on page 7. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

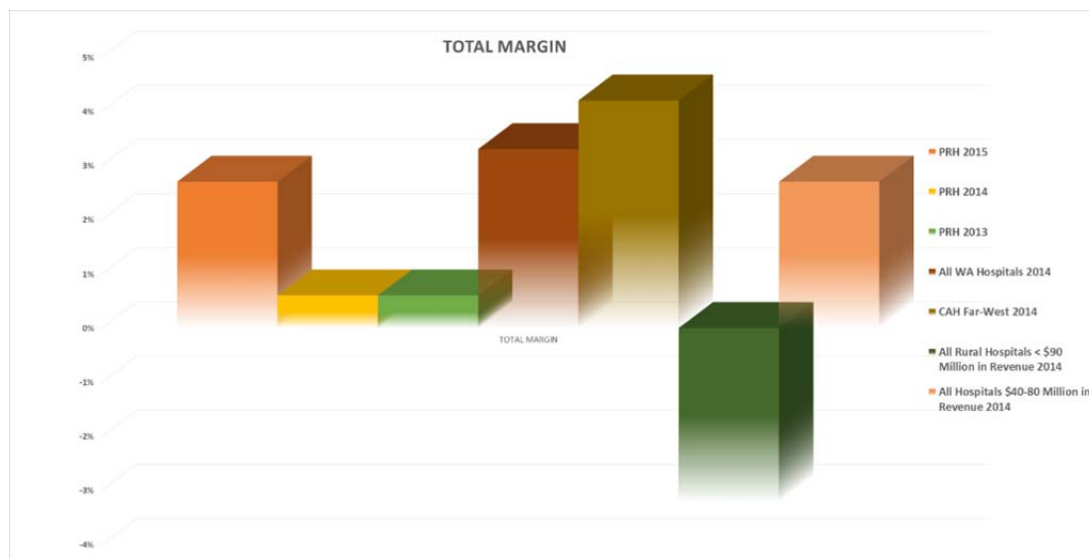
These two statements report the District's net position and changes in net position. One can think of the District's net position (the difference between assets and liabilities) as a way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. When reviewing, also consider other nonfinancial factors, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as the local economic factors to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as, "Where did cash come from?"; "What was cash used for?"; and "What was the change in cash balance during the reporting period?"

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the Combined Statement of Net Position on pages 13 and 14. A simple chart on the Total Margin is presented below:

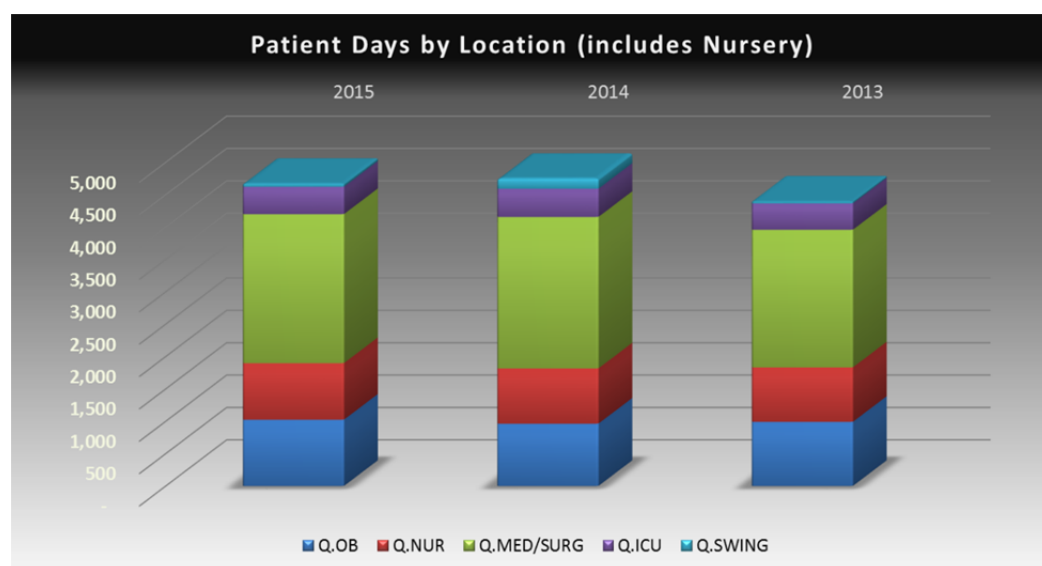


Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Table 2: Assets, Deferred Outflows of Resources, Liabilities, and Net Position

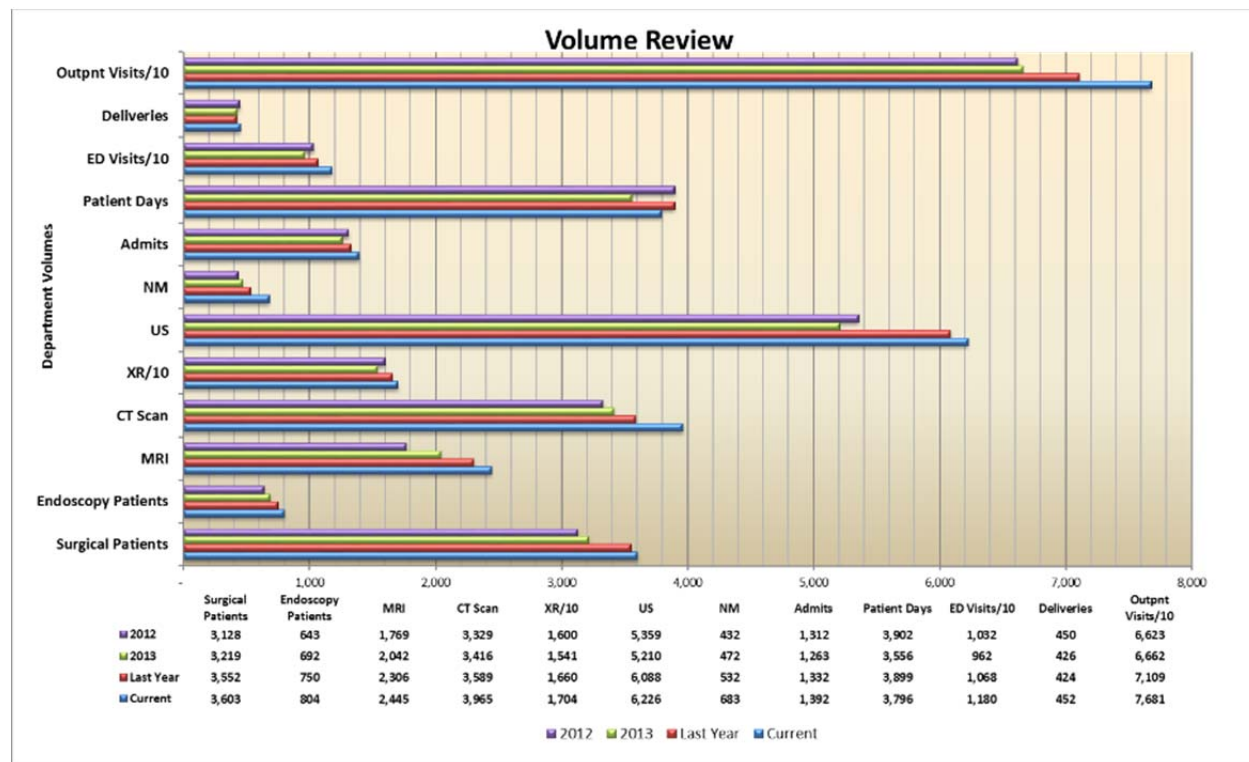
	2015	2014	2013
<i>Assets and deferred outflows of resources</i>			
Current assets	\$ 20,709,512	\$ 20,411,460	\$ 18,454,063
Capital assets, net	22,855,715	23,841,590	26,041,232
Other noncurrent assets	1,473,471	1,181,382	2,514,640
Total assets	45,038,698	45,434,432	47,009,935
Deferred outflows of resources	245,035	276,081	91,676
Total assets and deferred outflows of resources	\$ 45,283,733	\$ 45,710,513	\$ 47,101,611
<i>Liabilities</i>			
Current liabilities	\$ 5,700,479	\$ 7,041,186	\$ 5,525,977
Noncurrent liabilities	12,555,445	13,335,464	16,625,129
Total liabilities	18,255,924	20,376,650	22,151,106
<i>Net position</i>			
Net investment in capital assets	9,624,844	9,987,180	8,093,601
Restricted	889,532	500,345	1,848,840
Unrestricted	16,513,433	14,846,338	15,008,064
Total net position	27,027,809	25,333,863	24,950,505
Total liabilities and net position	\$ 45,283,733	\$ 45,710,513	\$ 47,101,611

Table 3: Summary of Hospital Statistics



Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Table 4: Statistical Review



Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Operating Results and Changes in the District's Net Position

In 2014, the District's net position increased by \$383,358, as shown in Table 5.

Table 5: Operating Results and Changes in Net Position

	2015	2014	2013
<i>Operating revenues</i>			
Net patient service revenue	\$ 59,735,997	\$ 55,765,698	\$ 50,671,068
Other operating revenue	1,362,970	2,042,708	1,344,837
Total operating revenues	61,098,967	57,808,406	52,015,905
<i>Operating expenses</i>			
Salaries and benefits	33,977,483	32,026,405	30,754,204
Supplies	11,758,075	11,127,077	9,333,721
Depreciation	2,553,126	2,700,895	2,618,126
Other operating expenses	11,807,305	11,158,567	10,099,408
Total operating expenses	60,095,989	57,012,944	52,805,459
<i>Operating income (loss)</i>	1,002,978	795,462	(789,554)
<i>Nonoperating revenues (expenses)</i>			
Taxation for bond principal and interest	609,091	613,325	606,821
Taxation for maintenance and operations	578,988	-	-
Interest income	11,543	9,272	92,442
Interest expense	(522,199)	(1,001,864)	(850,558)
Gain (loss) on disposal of capital assets	3,388	(3,327)	1,271,969
Other, net	(635,667)	(499,519)	(216,541)
Total nonoperating revenues (expenses), net	45,144	(882,113)	904,133
Excess revenues over expenses (expenses over revenues) before capital contributions	1,048,122	(86,651)	114,579
<i>Capital contributions</i>	645,824	470,009	237,424
Change in net position	1,693,946	383,358	352,003
Net position, beginning of year	25,333,863	24,950,505	24,598,502
Net position, end of year	\$ 27,027,809	\$ 25,333,863	\$ 24,950,505

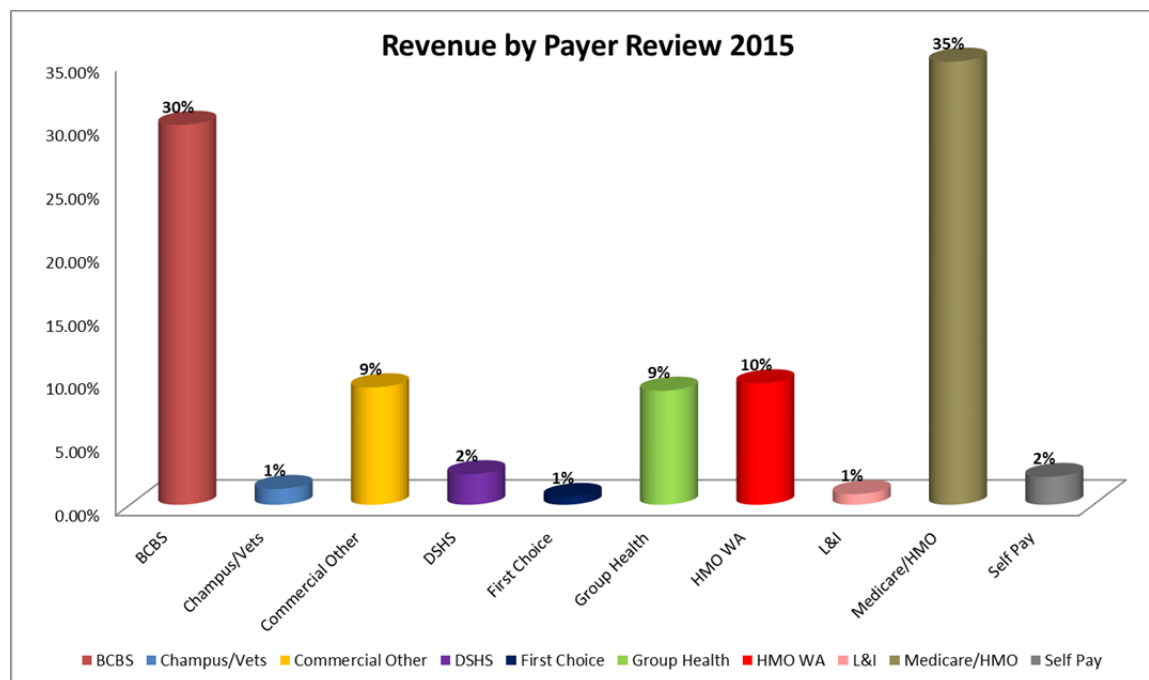
Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Operating Income

The first component of the overall change in the District's net position is its operating income. The operating gain for 2015 was \$1,002,978 compared to operating gain in 2014 of \$795,462. For fiscal year 2015, the District had a year to date average daily census of 10.4 patients per day as compared to 10.2 budgeted and 10.7 last year. The occupancy rate for the year was at 41.6% compared to last year's rate of 42.7% (does not include observation patients). Observation hours were significantly lower than 2014 by 2,017 hours, or 12.7%.

Additionally, Table 6 provides a review of the revenue distribution by primary payer to Pullman Regional Hospital.

Table 6: Revenue Distribution By Payer Review



Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Nonoperating Revenues and Expenses

Nonoperating revenues (expenses) consist primarily of taxation for bond principal and interest on the outstanding District Unlimited Tax General Obligation (UTGO) Bonds, interest income and expenses, and lease income and expenses. It also includes the gain or loss associated with joint venture investments held on the equity basis due to a decrease in the carrying value of these investments.

The District has embarked on a project entitled "Community Health 2020". "Community Health 2020" is a plan to make Pullman Regional Hospital self-determining and self-sustaining. It builds on the quality and service we deliver as a public district hospital and creates a community partnership committed to sustaining a healthcare system that we can control locally in a time of healthcare transformation. As part of this effort, in 2015, the Pullman Regional Hospital Foundation change in net assets increased \$206,824, and increased \$995,121 in 2014.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the District had \$22,855,715 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At year end, the District had \$12,555,445 in long-term debt and capital lease obligations, excluding current maturities. This is a decrease of \$780,019, or 5.8%, from 2014.

Other Economic Factors

Public Hospital District No. 1-A, Whitman County, Washington, is located in the southeastern portion of Whitman County (the County). The County is located in eastern Washington and has a 2015 estimated population of 47,000. The District owns and operates Pullman Regional Hospital, Pullman Regional Hospital Clinic Network, LLC (the PRHCN, LLC), is a 40% owner in Palouse Surgeons, LLC, and a 45% owner in Palouse Specialty Physicians, PS., a joint venture with Gritman Medical Center (Moscow, ID) and Whitman Hospital & Medical Center (Colfax, WA).

Pullman, Washington is situated only six miles west of the Idaho border. Pullman is part of the wheat-producing agricultural area known as the Palouse region. Historically a pea and lentil farming area, the city is also a bustling college town owing to the presence and strong local prominence of Washington State University (WSU). The estimated median household income for Pullman was \$24,125. The main employers in Pullman are Washington State University, Schweitzer Engineering, and Pullman Regional Hospital. Compared to the rest of the country, Pullman's cost of living index was 111 (higher than average, U.S. average is 100). Through the 1990's, Pullman's population grew by approximately 5%; since then, there has been a steady growth of approximately 1%.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Management's Discussion and Analysis (Continued)
December 31, 2015 and 2014

Contacting the District's Financial Department

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District's financial department at: Pullman Regional Hospital Administration, 835 S.E. Bishop Boulevard, Pullman, Washington 99163, email administration@pullmanregional.org or visit us at www.pullmanregional.org.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Combined Statements of Net Position
December 31, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 11,438,662	\$ 10,002,207
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$727,000 and \$1,078,000, respectively	6,577,889	7,849,979
Estimated third-party payor settlements	200,000	133,000
Other	160,906	375,350
Inventories	1,653,689	1,567,801
Prepaid expenses	678,366	483,123
Total current assets	20,709,512	20,411,460
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted for capital acquisition	350,000	-
Cash and cash equivalents restricted for debt service	500,411	473,864
Taxes receivable restricted for debt service	39,121	26,481
Capital assets, net	22,855,715	23,841,590
Investments	583,939	681,037
Total noncurrent assets	24,329,186	25,022,972
Total assets	45,038,698	45,434,432
<i>Deferred outflows of resources, deferred charge on debt refunding</i>	245,035	276,081
Total assets and deferred outflows of resources	\$ 45,283,733	\$ 45,710,513

See accompanying notes to combined basic financial statements.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Combined Statements of Net Position (Continued)
December 31, 2015 and 2014

LIABILITIES AND NET POSITION	2015	2014
<i>Current liabilities</i>		
Accrued interest payable	\$ 173,128	\$ 12,544
Accounts payable	2,261,027	2,962,995
Accrued compensation and related liabilities	2,165,351	2,860,164
Electronic health records incentive payment	353,640	-
Estimated third-party payor settlements	-	423,000
Current maturities of long-term debt and capital lease obligations	747,333	782,483
Total current liabilities	5,700,479	7,041,186
<i>Noncurrent liabilities</i>		
Long-term debt and capital lease obligations, less current maturities	12,555,445	13,335,464
Total liabilities	18,255,924	20,376,650
<i>Net position</i>		
Net investment in capital assets	9,624,844	9,987,180
Restricted	889,532	500,345
Unrestricted	16,513,433	14,846,338
Total net position	27,027,809	25,333,863
Total liabilities and net position	\$ 45,283,733	\$ 45,710,513

See accompanying notes to combined basic financial statements.

Pullman Regional Hospital Foundation
Discretely Presented Component Unit
Statements of Financial Position – Discretely Presented Component Unit
December 31, 2015 and 2014

ASSETS	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 171,799	\$ 39,095
Investments	1,016,520	870,914
Grant revenue receivable	18,041	-
Promises to give, net of allowances	702,060	762,083
Total current assets	1,908,420	1,672,092
<i>Noncurrent assets</i>		
Property and equipment, net	3,010	3,734
Assets limited or restricted as to use:		
Cash and cash equivalents	50,468	23,359
Investments	837,737	588,763
Contributions receivable from charitable trusts	282,811	-
Land and equipment held for resale, temporarily restricted	-	155,946
Total noncurrent assets	1,174,026	771,802
Total assets	\$ 3,082,446	\$ 2,443,894
LIABILITIES AND NET ASSETS	2015	2014
<i>Current liabilities</i>		
Accounts payable	\$ 52,082	\$ -
Deferred revenue	119,247	86,941
Current portion of promises to give	718,093	245,615
Total current liabilities	889,422	332,556
<i>Noncurrent liabilities</i>		
Promises to give, less current portion	124,525	249,663
Total liabilities	1,013,947	582,219
<i>Net assets</i>		
Unrestricted	199,293	444,670
Temporarily restricted	524,774	430,041
Permanently restricted	1,344,432	986,964
Total net assets	2,068,499	1,861,675
Total liabilities and net assets	\$ 3,082,446	\$ 2,443,894

See accompanying notes to combined basic financial statements.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Combined Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$1,469,000 and \$1,654,000, respectively	\$ 59,735,997	\$ 55,765,698
Grants	52,030	414,890
Electronic health records incentive payment (payback)	(353,640)	680,411
Other	1,664,580	947,407
Total operating revenues	61,098,967	57,808,406
<i>Operating expenses</i>		
Salaries and wages	27,897,398	26,514,216
Employee benefits	6,080,085	5,512,189
Professional fees	4,386,422	4,240,072
Supplies	11,758,075	11,127,077
Utilities	719,405	729,170
Repairs and maintenance	1,666,887	1,437,995
Depreciation and amortization	2,553,126	2,700,895
Rent	1,555,827	1,486,238
Insurance	271,631	348,766
Other	3,207,133	2,916,326
Total operating expenses	60,095,989	57,012,944
<i>Operating income</i>	1,002,978	795,462
<i>Nonoperating revenues (expenses)</i>		
Taxation for bond principal and interest	609,091	613,325
Taxation for maintenance and operations	578,988	-
Contributions	42,531	148,569
Loss on investment in joint venture	(847,184)	(823,328)
Rental operations	168,986	175,240
Interest income	11,543	9,272
Interest expense	(522,199)	(1,001,864)
Gain (loss) on disposal of capital assets	3,388	(3,327)
Total nonoperating revenues (expenses), net	45,144	(882,113)
Excess revenues over expenses (expenses over revenues) before capital contributions	1,048,122	(86,651)
<i>Capital contributions</i>	645,824	470,009
Change in net position	1,693,946	383,358
Net position, beginning of year	25,333,863	24,950,505
Net position, end of year	\$ 27,027,809	\$ 25,333,863

See accompanying notes to combined basic financial statements.

Pullman Regional Hospital Foundation
Discretely Presented Component Unit
Statements of Activities – Discretely Presented Component Unit
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted net assets		
Support and revenue		
Contributions	\$ 942,155	\$ 1,009,460
Grants	238,579	399
Special event revenue, net of related expenses of \$61,393 and \$69,446, respectively	108,003	32,624
Investment income	43,774	57,585
Investment gains (losses)	(45,196)	19,200
Net assets released from restrictions	145,004	207,617
Total support and revenue	1,432,319	1,326,885
Expenses		
Program services	636,865	418,507
Management and general	642,828	352,092
Fundraising	398,003	375,119
Total expenses	1,677,696	1,145,718
Increase (decrease) in unrestricted net assets	(245,377)	181,167
Temporarily restricted net assets		
Contributions for a specific purpose	344,549	354,475
Investment income	10,214	15,620
Investment gains (losses)	(12,502)	2,949
Net assets released from restrictions	(247,528)	(205,490)
Increase in temporarily restricted net assets	94,733	167,554
Permanently restricted net assets		
Contributions for a specific purpose	362,332	635,735
Investment gains (losses)	(4,864)	12,792
Net assets released from restrictions	-	(2,127)
Increase in permanently restricted net assets	357,468	646,400
Increase in net assets	206,824	995,121
Net assets, beginning of year	1,861,675	866,554
Net assets, end of year	\$ 2,068,499	\$ 1,861,675

See accompanying notes to combined basic financial statements.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Combined Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 60,518,087	\$ 56,565,095
Receipts from other revenue	1,620,011	1,038,447
Receipts from grants	311,043	414,890
Payments to or on behalf of employees	(34,672,296)	(31,941,266)
Payments to suppliers and contractors	(24,548,479)	(20,712,614)
Receipts from electronic health records incentive payment	-	505,391
Net cash provided by operating activities	3,228,366	5,869,943
<i>Cash flows from noncapital financing activities</i>		
Contributions received	42,531	148,569
Taxes received for maintenance and operations	578,988	-
Net cash provided by noncapital financial activities	621,519	148,569
<i>Cash flows from capital and related financing activities</i>		
Property taxes for bond principal and interest	596,451	611,523
Principal paid on long-term debt	(785,490)	(13,938,875)
Interest paid	(360,248)	(1,274,130)
Purchase of capital assets	(1,567,251)	(865,377)
Proceeds from issuance of long-term debt	-	10,000,000
Proceeds from sale of capital assets	3,388	570,393
Capital contributions	645,824	470,009
Net cash used in capital and related financing activities	(1,467,326)	(4,426,457)
<i>Cash flows from investing activities</i>		
Interest income	11,543	9,272
Rental receipts	188,410	194,664
Cash contributed to joint ventures	(769,510)	(857,989)
Net cash used in investing activities	(569,557)	(654,053)
Net increase in cash and cash equivalents	1,813,002	938,002
Cash and cash equivalents, beginning of year	10,476,071	9,538,069
Cash and cash equivalents, end of year	\$ 12,289,073	\$ 10,476,071

See accompanying notes to combined basic financial statements.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Combined Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 11,438,662	\$ 10,002,207
Cash and cash equivalents restricted for capital acquisition	350,000	-
Cash and cash equivalents restricted for debt service	500,411	473,864
Total cash and cash equivalents	\$ 12,289,073	\$ 10,476,071
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>		
Operating income	\$ 1,002,978	\$ 795,462
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation and amortization	2,553,126	2,700,895
Provision for bad debts	1,468,555	1,654,345
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(196,465)	(2,589,869)
Estimated third-party payor settlements	(67,000)	759,000
Other	214,444	91,040
Electronic health records incentive payment	-	377,901
Inventories	(85,888)	(71,660)
Prepaid expenses	(195,243)	110,145
Increase (decrease) in liabilities:		
Accounts payable	(701,968)	1,534,545
Accrued compensation and related liabilities	(694,813)	85,139
Electronic health records incentive payment	353,640	-
Estimated third-party payor settlements	(423,000)	423,000
Net cash provided by operating activities	\$ 3,228,366	\$ 5,869,943

See accompanying notes to combined basic financial statements.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements
Years Ended December 31, 2015 and 2014

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies:

a. Reporting Entity

Public Hospital District No. 1-A of Whitman County, Washington doing business as Pullman Regional Hospital (the District) operates a 25-bed critical access hospital in Pullman, Washington, as provided for under the laws of the state of Washington for Washington State municipal corporations. The Board of Commissioners consists of seven community members elected to six-year terms. As organized, the District is exempt from payment of federal income taxes.

The reporting entity of the District also includes the consolidated financial information of Pullman Regional Hospital Clinic Network, LLC (PRHCN). PRHCN owns and operates the District's physician practices. The practices operated under this entity include Palouse Pediatrics, PLLC and Palouse Behavioral Health, LLC. The District provides financial oversight and support of these practices, appoints PRHCN's management, and is responsible for any losses incurred by these entities.

As required by accounting principles generally accepted in the United States of America, the financial statements present the District — the primary government — and its component unit. The component unit discussed below is included in the District reporting entity because of the significance of its operations and financial relationships with the District.

Pullman Regional Hospital Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized in 1981 to assist the District in fundraising. Although, the District does not control the Foundation, the majority of resources or income that the Foundation holds and invests is used for the benefit of the District. Additionally, the District employs certain personnel who work for the Foundation.

b. The Foundation

The Foundation provided contributions of approximately \$314,000 and \$600,000 to the District in 2015 and 2014, respectively.

The District has committed to provide yearly operational support to the Foundation in the amount of \$250,000 as part of a new Vision project. The yearly commitment is for five years, beginning in 2013 and extending through 2017. In turn the Foundation has pledged to make the following contributions to the District, which are recorded as promises to give in the Foundation's financial statements for the year ended December 31, 2015:

- Community Health Vision 2020 of \$625,000, annual installments of \$125,000 beginning January 2013, discounted at .62% and .22%, maturing in 2017.
- 2015 Highest Needs pledge of \$71,164, quarterly installments of \$17,791 beginning March 2015, discounted at .22%, maturing December 2015.
- 2015 and 2016 Innovation Director pledge of \$50,000, quarterly installments of \$12,500 beginning March 2015 and 2016, discounted at .62% and .22%, maturing December 2015 and 2016, respectively.
- 2016 Highest Needs pledge of \$546,500, quarterly installments of \$136,625 beginning March 2016, discounted at .62%, maturing December 2016.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements
Years Ended December 31, 2015 and 2014

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies
(continued):

b. The Foundation (continued)

The Foundation has recorded a long-term liability in the amount of \$124,525, and a current liability in the amount of \$718,093 relating to these pledges. The District has not recorded these pledges as receivables.

Fair value measurements – The Foundation defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. The Foundation classifies its investments based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Investments – The fair values of investments measured on a recurring basis using quoted prices in active markets for identical values (Level 1) are as follows:

		2015		2014
Mutual Funds	\$	1,854,257	\$	1,459,677

Investments are comprised of the following:

U.S. Stocks	42.70%
Foreign Stocks	18.80%
U.S. Bonds	25.40%
Foreign Stocks	3.80%
Cash and cash equivalents	9.30%
	100.00%

Assets held in charitable trusts – Assets held in charitable trusts are Level 3 fair value measurements, and consisted of the following types of investments at December 31, 2015:

		2015		2014
Cash equivalents	\$	12,726	\$	-
Fixed income		158,091		-
Equities		73,248		-
Real estate securities		38,746		-
Assets, at fair market value	\$	282,811	\$	-

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements
Years Ended December 31, 2015 and 2014

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies
(continued):

b. The Foundation (continued)

Endowment Fund – The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

On August 20, 2013, the Endowment for Quality & Access was funded. The Endowment funds segregated by net asset class at December 31, 2015, are as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 1,317,846	\$ 1,317,846
Board-designated funds	66,346	-	66,346
Total endowment funds	\$ 66,346	\$ 1,317,846	\$ 1,384,192

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The earnings from the net assets are available for the specific purpose identified by the donor.

Temporarily restricted net at December 31, 2015 and 2014, are as follows:

	2015	2014
Facility improvement	\$ 13,616	\$ 13,786
Employee education scholarship	22,167	33,633
Medical technology	112,719	138,585
Gaskins Pharmacy Scholarship	41,855	45,853
Innovation	30,318	41,231
Women’s Leadership Guild	21,288	1,007
Endowment	-	155,946
Women’s & Children’s Center	282,811	-
Total temporarily restricted net assets	\$ 524,774	\$ 430,041

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements
Years Ended December 31, 2015 and 2014

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies
(continued):

b. The Foundation (continued)

Temporarily and Permanently Restricted Net Assets (continued) – Permanently restricted net assets at December 31, 2015 and 2014, are as follows:

		2015		2014
Endowment for quality and access	\$	1,317,846	\$	943,679
Roberta McFadden fund		26,586		26,950
Palouse prostate fund		-		16,335
<hr/>				
Total permanently restricted net assets	\$	1,344,432	\$	986,964

Complete audited financial statements for the Foundation can be obtained from the Pullman Regional Hospital Foundation, 835 SE Bishop Blvd., Pullman, Washington 99163.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies
(continued):

c. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

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

Cash and cash equivalents – Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less.

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

Noncurrent cash and cash equivalents – Noncurrent cash and cash equivalents consist of amounts collected under the hospital's special bond tax levy, and amounts externally restricted for capital acquisition.

Investments – Investments include a building that is owned by the District and used as a rental property. Investments also include the District's share of assets of two jointly owned physician practices, Palouse Surgeons, LLC, and Palouse Specialty Physicians, P.S.

Compensated absences – Nonexempt District employees, whose position is budgeted for 16 hours per pay period, earn personal leave time for subsequent use or for payment. Time is earned at varying rates depending on years of service. Personal leave time that is unused at the end of the employee's anniversary year will be cashed out at the lesser of their actual personal leave time remaining or 15% of the total year's accrual. Any personal leave time in excess of 15% of the total year's accrual at the end of the anniversary year will be lost. The estimated amount of personal leave time payable is expensed and reported as a component of accrued compensation and related liabilities in the statements of net position. Exempt employees are not subject to specific personal leave requirements, but are instead expected to work hours necessary to accomplish the duties assigned under their job description.

Employees also earn sick leave benefits at varying rates depending on hours worked. Employees may accumulate sick leave up to a maximum of 992 hours. At the end of every year in which an employee's accrued sick leave exceeds 480 hours, they have the choice of cashing out all excess hours. The hours greater than 480 will be paid at 30% of the employee's year-end base wage. Unused sick pay is not paid out upon termination of employment.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Compensated absences (continued) – PRHCN employees earn paid time off at varying rates, based on years of service. Accumulated paid time off is paid out upon termination of employment. The estimated amount of personal leave time payable is expensed and reported as a component of accrued compensation and related liabilities in the statements of net position.

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

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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

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

Reclassifications – Certain reclassifications have been made to the 2014 financial statements to conform to the classifications used in the 2015 financial statements, with no effect on previously reported change in net position.

Subsequent events – The District has evaluated subsequent events through April 19, 2016, the date on which the financial statements were available to be issued.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

2. Bank Deposits and Investments:

The District's deposits are covered by the Federal Deposit Insurance Corporation up to \$250,000 at December 31, 2015 and 2014, or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The District's deposits in banks were fully insured in 2015 and 2014. Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2015 and 2014, were \$7,193,039 and \$6,349,241, respectively.

3. Property Taxes:

The Whitman County (the County) Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior July 1. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

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

A special Unlimited Tax General Obligation (UTGO) bond levy was authorized in 2015 and 2014. For 2015, the District's UTGO bond levy was \$0.39 per \$1,000 on total assessed property of \$1,565,871,059, for a total of \$614,802. For 2014, the District's UTGO bond levy was \$0.41 per \$1,000 on total assessed property of \$1,510,142,161, for a total of \$614,601.

A maintenance and operations levy (the levy) was approved by the voters of the District for the 2015 tax year. In 2015, the levy was \$.37 per \$1,000 on total assessed property of \$1,569,845,813, for a total levy of \$580,843. In 2014 there was not a levy.

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

4. Patient Accounts Receivable:

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

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

	2015	2014
Receivables from patients and other insurance carriers	\$ 3,950,356	\$ 5,230,136
Receivables from Premera Blue Cross	1,288,576	1,578,415
Receivables from Medicare	1,512,894	1,365,830
Receivables from Medicaid	553,459	753,825
Total patient accounts receivable	7,305,285	8,928,206
Less allowance for uncollectible accounts	727,396	1,078,227
Patient accounts receivable, net	\$ 6,577,889	\$ 7,849,979

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

5. Capital Assets:

All capital assets, other than land and construction in progress, are being depreciated or amortized (in the case of capital leases), using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Amortization from equipment under capital leases is included in depreciation and amortization in the financial statements. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. Useful lives have been estimated as follows:

Land improvements	5-40 years
Buildings	5-40 years
Fixed equipment	3-25 years
Movable equipment	3-20 years

The District capitalizes assets whose costs exceed \$5,000, and with an estimated useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation or amortization is removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues or expenses.

Capital asset activity was as follows:

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 1,094,803	\$ -	\$ -	\$ -	\$ 1,094,803
Land held for future expansion	718,502	-	-	-	718,502
Construction in progress	873,932	106,317	-	(43,714)	936,535
Total capital assets not being depreciated	2,687,237	106,317	-	(43,714)	2,749,840
<i>Capital assets being depreciated</i>					
Land improvements	2,397,047	-	(12,568)	-	2,384,479
Buildings	13,735,696	154,488	(28,473)	43,714	13,905,425
Fixed equipment	14,819,680	37,238	(6,069)	-	14,850,849
Movable equipment	13,340,682	1,269,208	(1,230,222)	-	13,379,668
Total capital assets being depreciated	44,293,105	1,460,934	(1,277,332)	43,714	44,520,421
<i>Less accumulated depreciation for</i>					
Land improvements	1,416,601	98,266	(12,568)	-	1,502,299
Buildings	3,623,572	178,881	(28,473)	-	3,773,980
Fixed equipment	9,246,633	747,591	(6,069)	-	9,988,155
Movable equipment	8,851,946	1,528,388	(1,230,222)	-	9,150,112
Total accumulated depreciation	23,138,752	2,553,126	(1,277,332)	-	24,414,546
Total capital assets being depreciated, net	21,154,353	(1,092,192)	-	43,714	20,105,875
Capital assets, net	\$ 23,841,590	\$ (985,875)	\$ -	\$ -	\$ 22,855,715

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

5. Capital Assets (continued):

	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
<i>Capital assets not being depreciated</i>					
Land	\$ 1,094,803	\$ -	\$ -	\$ -	\$ 1,094,803
Land held for future expansion	718,502	-	-	-	718,502
Construction in progress	977,999	216,577	(50,802)	(269,842)	873,932
Total capital assets not being depreciated	2,791,304	216,577	(50,802)	(269,842)	2,687,237
<i>Capital assets being depreciated</i>					
Land improvements	2,397,047	-	-	-	2,397,047
Buildings	13,657,060	18,632	(6,334)	66,338	13,735,696
Fixed equipment	14,795,132	-	-	24,548	14,819,680
Movable equipment	13,615,279	839,764	(1,293,317)	178,956	13,340,682
Total capital assets being depreciated	44,464,518	858,396	(1,299,651)	269,842	44,293,105
<i>Less accumulated depreciation for</i>					
Land improvements	1,287,262	129,339	-	-	1,416,601
Buildings	3,539,977	89,929	(6,334)	-	3,623,572
Fixed equipment	8,354,875	891,758	-	-	9,246,633
Movable equipment	8,032,476	1,589,869	(770,399)	-	8,851,946
Total accumulated depreciation	21,214,590	2,700,895	(776,733)	-	23,138,752
Total capital assets being depreciated, net	23,249,928	(1,842,499)	(522,918)	269,842	21,154,353
Capital assets, net	\$ 26,041,232	\$ (1,625,922)	\$ (573,720)	\$ -	\$ 23,841,590

Construction in progress at December 31, 2015, consisted of the following:

- Costs for a Medical Office Building which is expected to be completed in 2020. The cost to complete cannot yet be estimated due to the preliminary nature of the project.
- Costs for a Women & Children's center which is expected to be completed in 2020. The cost to complete cannot yet be estimated due to the preliminary nature of the project.
- Costs for addition of a fourth operating room, which is expected to be completed in March 2017, with an estimated cost to complete of approximately \$366,000.
- Costs for Summit Building remodel project is expected to be completed in June 2016, with an estimated cost to complete of approximately \$152,000.

As of December 31, 2015, there was a balance of \$718,502 recorded as land held for future expansion, which represents improvements made to the approximate seven acres of land purchased in 2013. Due to the preliminary nature of this project, the expected cost and date of completion cannot yet be determined.

Public Hospital District No. 1-A of Whitman County, Washington
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

6. Investments:

The District owns a medical office building as a real property investment. The investment is reported at cost net of related accumulated depreciation. The value of the investment as of December 31, 2015 and 2014, is approximately \$545,000 and \$565,000, respectively.

Palouse Millennium Properties Condominium Association (Condominium Association) was formed on January 1, 2008, to manage the existing medical office building formerly owned by Palouse Millennium Properties LLC. The District receives rental income from rental of the medical office building. The District is responsible for any losses incurred by the Condominium Association.

In January 2009, the District entered into a joint venture agreement with Gritman Medical Center and Whitman Hospital and Medical Center, and established Palouse Surgeons, LLC (the LLC). The purpose of the joint venture is to improve access to general surgeons and maintain surgeon coverage in the Palouse geographical area. The District and Gritman Medical Center each owns a 40% interest, and Whitman Hospital and Medical Center owns a 20% interest. During 2015 and 2014, the District made capital contributions of \$419,536 and \$487,538, respectively. The District had an equity contribution due to the LLC at year end, and thus, recorded a liability balance for this investment of \$49,477 as of December 31, 2015. As of December 31, 2014, the investment balance had a carrying value of \$14,980. The District is responsible for its respective share of any losses incurred by the LLC.

In February 2014, the District entered into a joint venture agreement with Gritman Medical Center and Whitman Hospital and Medical Center, and established Palouse Specialty Physicians, P.S. (Palouse Specialty). The purpose of the joint venture is to manage and oversee specialty physicians that are jointly used by the three joint venture partners. The District and Gritman Medical Center each owns a 45% interest, and Whitman Hospital and Medical Center owns a 10% interest. During 2015 and 2014, the District made capital contributions of \$349,974 and \$370,451, respectively. The investment had a carrying value of \$86,130 and \$99,346 as of December 31, 2015 and 2014, respectively. The District is responsible for its respective share of any losses incurred by Palouse Specialty.

In 2015, a management services agreement was signed between Palouse Specialty and Medical Business Consultants, a management services company owned and operated by PRHCN, which is fully owned by the District. Under this agreement Palouse Specialty paid PRHCN approximately \$258,000 during the year ended December 31, 2015.

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

6. Investments (continued):

The condensed balance sheets and statements of revenues, expenses, and changes in members' equity of Palouse Surgeons, LLC, are summarized as follows:

	2015	2014
Current assets	\$ 723,524	\$ 386,013
Noncurrent assets	171,774	154,636
Total assets	\$ 895,298	\$ 540,649
Current liabilities	\$ 301,585	\$ 97,629
Members' equity	593,713	443,020
Total liabilities and members' equity	\$ 895,298	\$ 540,649
Revenue	\$ 3,084,138	\$ 2,613,746
Expenses	4,294,121	3,992,656
Net loss	(1,209,983)	(1,378,910)
Equity contributions	1,360,676	1,444,424
Change in members' equity	150,693	65,514
Members' equity, beginning of year	443,020	377,506
Members' equity, end of year	\$ 593,713	\$ 443,020

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

6. Investments (continued):

The condensed balance sheets and statements of revenues, expenses, and changes in members' equity of Palouse Specialty Physicians, P.S., are summarized as follows:

	2015	2014
Current assets	\$ 50,948	\$ 94,271
Noncurrent assets	146,602	152,816
Total assets	\$ 197,550	\$ 247,087
Current liabilities	\$ 34,930	\$ 85,624
Members' equity	162,620	161,463
Total liabilities and members' equity	\$ 197,550	\$ 247,087
Revenue	\$ 797,659	\$ 49,796
Expenses	1,604,750	652,251
Net loss	(807,091)	(602,455)
Equity contributions	808,248	763,918
Change in members' equity	1,157	161,463
Members' equity, beginning of year	161,463	-
Members' equity, end of year	\$ 162,620	\$ 161,463

Public Hospital District No. 1-A of Whitman County, Washington
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

7. Employee Health Self-insurance:

The District participates in a self-insured health insurance plan administered by Premera Blue Cross (the TPA). The District employees, who work twenty or more hours per week, are eligible to participate beginning in the month following their employment date. PRHCN employees are not eligible to participate in this plan. The District records plan expenses as incurred. The District also has an agreement with LifeWise to provide excess loss insurance coverage. Coverage under this excess loss plan is effective when individual claims exceed \$90,000. The calculation of loss coverage is based upon a set dollar amount per covered employee. The District accrues an incurred but not reported liability for plan claims that had been incurred but that have not yet been reported to the TPA. Activity in the District's accrued employee health claims liability is as follows:

	2015	2014
Balance, beginning of period	\$ 231,300	\$ 250,000
Current year claims incurred and changes in estimates	2,808,306	2,436,261
Claims and expenses paid	(2,795,406)	(2,454,961)
Balance, end of period	\$ 244,200	\$ 231,300

8. Long-term Debt and Capital Lease Obligations:

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
<i>Bonds payable</i>					
Unlimited tax general obligation bonds:					
1978	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
2011 refunding	3,420,000	-	(435,000)	2,985,000	450,000
2011 bond premium	207,750	-	(29,679)	178,071	-
Limited tax general obligation bonds 2014	10,000,000	-	(70,385)	9,929,615	204,484
Total long-term debt	13,632,750	-	(535,064)	13,097,686	659,484
<i>Capital lease obligations</i>	485,197	-	(280,105)	205,092	87,849
Total long-term debt	\$ 14,117,947	\$ -	\$ (815,169)	\$ 13,302,778	\$ 747,333

Public Hospital District No. 1-A of Whitman County, Washington
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

8. Long-term Debt and Capital Lease Obligations (continued):

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Amounts Due Within One Year
<i>Bonds payable</i>					
Unlimited tax general obligation bonds:					
1978	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
2001	245,000	-	(245,000)	-	-
2011 refunding	3,590,000	-	(170,000)	3,420,000	435,000
2011 bond premium	237,428	-	(29,678)	207,750	-
Limited tax general obligation bonds 2014	-	10,000,000	-	10,000,000	70,385
Revenue and revenue refunding bonds:					
2003	7,936,491	-	(7,936,491)	-	-
2004	3,174,579	-	(3,174,579)	-	-
2004B	2,379,499	-	(2,379,499)	-	-
Total long-term debt	17,567,997	10,000,000	(13,935,247)	13,632,750	510,385
<i>Capital lease obligations</i>	-	518,503	(33,306)	485,197	272,098
Total long-term debt	\$ 17,567,997	\$ 10,518,503	\$ (13,968,553)	\$ 14,117,947	\$ 782,483

Long-term debt – Unlimited Tax General Obligation Bonds, 1978, Series A, dated January 1, 1978, in the original amount of \$3,000,000. The bonds matured in 1998, but \$5,000 of the bonds have not been redeemed by bondholders.

Unlimited Tax General Obligation Refunding Bonds, 2011, payable to D.A. Davidson & Co., dated August 30, 2011, in the original amount of \$3,895,000, due in monthly principal installments ranging from \$450,000 to \$560,000, plus interest ranging from 3.5% to 5% through December 2021. The District issued the bonds for the call, payment, and redemption of the callable portion of the Unlimited Tax General Obligation Bonds, Series 2001 and 2002.

The 2011 Unlimited Tax General Obligation Bonds are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2011 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

8. Long-term Debt and Capital Lease Obligations (continued):

Long-term debt (continued) – Healthcare System Revenue Bonds 2014 (the Bond), in the original amount of \$10,000,000 payable to Columbia State Bank, used to refund Healthcare System Revenue Bonds, Series 2003, 2004, and 2004B. The Bond is payable in semiannual principal and interest installments of \$263,268, to be paid January 15 and July 15 of each year, including interest at 3.26%, due through December 2045. Issuance of the Bond in 2014 increased future debt service payments for the District by \$5,796,105 due to the longer life of the 2014 bonds and the greater amount of interest that will be paid in the future. The refinancing resulted in an economic gain of \$121,224, which was recognized in the year ended December 31, 2014.

Upon payoff of the Healthcare System Revenue Bonds, Series 2003, 2004, and 2004B, the District incurred a pre-payment penalty of \$196,864. This penalty is reported as a deferred outflow of resources and is deferred and amortized over the life of the Bond.

The Bond includes financial covenants that must be complied with as a condition of the bonds.

Capital Lease Obligations – Capital lease obligations are due in monthly installment including principal and interest of \$8,428, including interest at varying rates from 5.78% to 7.88% through July 2019; collateralized by capital. At December 31, 2015 and December 31, 2014, the capitalized cost of the equipment acquired under the capital lease obligations was \$328,315 and \$518,000, respectively, and accumulated amortization was \$18,994 and \$26,919, respectively.

Public Hospital District No. 1-A of Whitman County, Washington
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

8. Long-term Debt and Capital Lease Obligations (continued):

Scheduled principal and interest payments are as follows:

Years Ending December 31,	UTGO Bonds Payable		
	Principal	Interest	Total
2016	\$ 455,000	\$ 135,300	\$ 590,300
2017	465,000	117,300	582,300
2018	480,000	98,700	578,700
2019	505,000	79,500	584,500
2020	525,000	54,250	579,250
2021	560,000	28,000	588,000
	\$ 2,990,000	\$ 513,050	\$ 3,503,050

Years Ending December 31,	LTGO Bonds Payable		
	Principal	Interest	Total
2016	\$ 204,484	\$ 322,052	\$ 526,536
2017	211,205	315,332	526,537
2018	218,146	308,390	526,536
2019	225,316	301,221	526,537
2020	232,721	293,816	526,537
2021-2025	1,283,486	1,349,198	2,632,684
2026-2030	1,508,727	1,123,958	2,632,685
2031-2035	1,773,494	859,190	2,632,684
2036-2040	2,084,726	547,958	2,632,684
2041-2045	2,187,310	182,107	2,369,417
	\$ 9,929,615	\$ 5,603,222	\$ 15,532,837

Years Ending December 31,	Capital Lease Obligations		
	Principal	Interest	Total
2016	\$ 87,849	\$ 11,105	\$ 98,954
2017	55,657	5,378	61,035
2018	40,037	2,679	42,716
2019	21,549	473	22,022
	\$ 205,092	\$ 19,635	\$ 224,727

Public Hospital District No. 1-A of Whitman County, Washington
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

8. Long-term Debt and Capital Lease Obligations (continued):

Line of credit – The District maintains a corporate credit card through the American Express Commercial Account Program, with a credit limit of \$400,000 as of December 31, 2015. The credit card is used by the District as an operational line of credit for the purpose of paying established accounts payable vendors. The credit agreement calls for late fees equal to the greater of \$29, or 2.99%, of the statement billing period balance. Such fees will continue each billing period until paid. This credit agreement may be terminated with 30 days' written notice and remains in effect until terminated. This line of credit had an outstanding balance of approximately \$364,000 and \$382,000 as of December 31, 2015 and 2014, respectively. The balance is recorded in accounts payable in the statements of net position.

9. Retirement Plans:

The District sponsors a deferred compensation plan. The Pullman Regional Hospital 457b Deferred Compensation Plan (the 457b Plan) covers substantially all of the District's employees who have reached the age of 18. Participants may defer a percentage of their compensation up to certain limits specified by the Internal Revenue Code. Participants are fully vested in their salary deferrals to the 457b Plan. Participant contributions to the 457b Plan during the years ended December 31, 2015 and 2014, were approximately \$1,553,000 and \$1,432,000, respectively.

The District sponsors a 401a Pension Plan (the 401a Plan) for the District's matching contributions to the 457b Plan. Participants must be 18 years of age to participate, be employed in a regular part-time or greater position (at least 40 hours per two-week pay period), and have been employed for at least one year before the matching contributions begin. The District matches 5% of gross earnings not to exceed \$5,000 per calendar year. Once contributions are made into the 401a Plan, the contributions are 100% vested. The District made matching contributions to the 401a Plan of approximately \$789,000 and \$762,000, for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the District had liabilities of approximately \$10,000 and \$47,000, respectively, for amounts not yet paid into the 401a Plan. The 457b Plan and 401a Plan are administered by VALIC Retirement Services Company.

The District also sponsors a 414-H profit-sharing plan called the Public District Hospital No. 1-A of Whitman County Pension Plan (the 414-H Plan). As a condition of employment, anyone employed as an emergency physician must participate in the 414-H Plan. Employee nonelective contributions in the amount of \$840 per pay period of compensation are required. A participant must be employed on the last day of the 414-H Plan year, December 31, in order to share in the allocation, unless the participant worked at least 1,000 hours of service during the year. Participant contributions to the Plan for the years ended December 31, 2015 and 2014, were approximately \$218,000 and \$164,000, respectively. The 414-H Plan is administered by VALIC.

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

9. Retirement Plans (continued):

PRHCN sponsors the Palouse Pediatrics 401(k) Plan (the Plan). PRHCN matches 100% of each participant's first 3% of salary deferrals made into the Plan, plus 50% of the participant's deferrals that exceed 3% but do not exceed 5% of the participant's compensation. Participants are eligible for the employer matching contributions once they have completed three consecutive months of employment and are 21 years of age. Participants are fully vested in PRHCN's matching contributions to the Plan. Participant contributions to the Plan during the years ended December 31, 2015 and 2014, were approximately \$190,000 and \$111,000, respectively. PRHCN made matching contributions to the Plan of approximately \$65,000 and \$68,000 in the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, liabilities of approximately \$9,000 and \$3,000, respectively, were recorded for retirement contributions not yet paid into the Plan. The Plan is administered by PRHCN.

The District has the authority to amend all retirement plans.

10. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. The District's provisions for bad debts and writeoffs have not changed significantly from prior years. The District has not changed its charity care or uninsured discount policies during the years ended December 31, 2015 or 2014, respectively. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2015	2014
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 20,889,961	\$ 17,646,555
Medicaid	7,587,894	5,472,585
Premera Blue Cross	20,264,104	19,323,194
Other third-party payors	11,107,619	13,329,608
Patients	1,740,471	2,030,444
	61,590,049	57,802,386
Less:		
Charity care	385,497	382,343
Provision for bad debts	1,468,555	1,654,345
Net patient service revenue	\$ 59,735,997	\$ 55,765,698

Public Hospital District No. 1-A of Whitman County, Washington
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

10. Net Patient Service Revenue (continued):

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

- *Medicare* – The District is classified as a critical access hospital and is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the District and subject to audits thereof by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.
- *Medicaid* – The District is reimbursed at cost for most hospital services, with final settlement determined after submission of annual cost reports by the District and review thereof by the Washington State Department of Social and Health Services (DSHS). The DSHS program's administrative procedures preclude final determination of amounts due to the District for such services until after the District's annual cost report is audited or otherwise reviewed or settled upon by DSHS. Physician services are reimbursed on a fee schedule.

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. Net patient service revenue decreased by approximately \$239,000 and \$540,000 in 2015 and 2014, respectively, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2015 and 2014, were approximately \$227,000 and \$232,000, respectively. Disproportionate share hospital payments from the state of Washington received to subsidize charity services provided for the years ended December 31, 2015 and 2014, were approximately \$183,000 and \$161,000, respectively.

11. Electronic Health Records Incentive Payment:

The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period. The District attested to phase one of meaningful use with the Centers for Medicare and Medicaid (CMS) on September 30, 2011. The Medicare EHR reporting period is through September 30 of each year.

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

11. Electronic Health Records Incentive Payment:

The Medicare incentive payment recognized is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on days reported in the current Medicare cost report. During the year ended December 31, 2015, the District wrote off approximately \$354,000 of previously recognized EHR incentive payments as a result of inaccurate payment amounts distributed by CMS. This resulted in the District recognizing negative incentive revenue of approximately \$354,000 in 2015.

The District recognized all four of its Medicaid incentive payments in 2010, 2011, 2012, and 2013, and no further payments are expected.

12. Lease Obligations:

Following is a summary of estimated future minimum rentals under noncancelable operating leases that expire in various years through 2019:

Years Ending December 31,	Amount
2016	\$ 1,195,589
2017	460,856
2018	91,373
2019	16,956
	\$ 1,764,774

13. Risk Management and Contingencies:

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical malpractice claims – The District has professional liability insurance with Washington Casualty Company (WA Casualty). The WA Casualty policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the District purchased claims-made insurance in that year or the District purchased “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible.

The District also has excess professional liability insurance with WA Casualty on a claims-made basis. The excess malpractice insurance provides \$9,000,000 per claim of primary coverage with an annual aggregate limit of \$9,000,000. The policy has no deductible.

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

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

13. Risk Management and Contingencies (continued):

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

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

Risk transfer pools – The District has a self-insured workers' compensation plan for its employees. The District is a part of the Public Hospital District Workers' Compensation Trust which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation claims, maintenance of reserves, and administrative expenses. During 2015 and 2014, respectively, the District recognized dividends of \$0 and \$79,758 from the Public Hospital's District Workers' Compensation Fund, which was used to reduce payments charged to workers' compensation expense. Payments by the District charged to workers' compensation expense were approximately \$119,000 and \$121,000 in 2015 and 2014, respectively.

Purchase obligation – The District entered in to an agreement dated August 1, 2015, whereby the District agreed to purchase a unit in the Palouse Millennium Properties Building Condominium (the Premises) if the current owner chooses to sell between August 1, 2018 and August 1, 2019. If this purchase option is exercised by the current owner, the District's purchase price shall be the fair market value of the Premises, which is estimated by the hospital to range from approximately \$350,000 to \$500,000.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

14. Concentrations:

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

The mix of receivables from patients was as follows:

	2015	2014
Medicare	24 %	20 %
Medicaid	8	7
Premiera Blue Cross	21	22
Other third-party payors	27	32
Patients	20	19
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on the District's operations.

Collective bargaining unit – The District has a collective bargaining agreement with the Washington State Nurses Association (the WSNA) effective from October 1, 2013 through September 30, 2016. As of December 31, 2015 and 2014, approximately 22% and 21%, respectively, of the District's employees were represented by the union under this collective bargaining agreement.

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

15. Blended Component Unit:

A condensed combining statement of net position for the year ended December 31, 2015, is as follows:

	Pullman Regional Hospital	Pullman Regional Hospital Clinic Network LLC	Adjustments and Eliminations	Total
<i>Assets and deferred outflows of resources</i>				
Current assets	\$ 20,235,772	\$ 473,740	\$ -	\$ 20,709,512
Capital assets, net	22,697,036	158,679	-	22,855,715
Other noncurrent assets	1,473,471	-	-	1,473,471
Total assets	44,406,279	632,419	-	45,038,698
<i>Deferred outflows of resources</i>	245,035	-	-	245,035
Total assets and deferred outflows of resources	\$ 44,651,314	\$ 632,419	\$ -	\$ 45,283,733
<i>Liabilities</i>				
Current liabilities	\$ 5,536,166	\$ 164,313	\$ -	\$ 5,700,479
Long-term debt, less current maturities	12,555,445	-	-	12,555,445
Total liabilities	18,091,611	164,313	-	18,255,924
<i>Net position</i>				
Net investment in capital assets	9,466,165	158,679	-	9,624,844
Restricted by debt agreement for debt service	889,532	-	-	889,532
Unrestricted	16,204,006	309,427	-	16,513,433
Total net position	26,559,703	468,106	-	27,027,809
Total liabilities and net position	\$ 44,651,314	\$ 632,419	\$ -	\$ 45,283,733

A condensed combining statement of net position for the year ended December 31, 2014, is as follows:

	Pullman Regional Hospital	Pullman Regional Hospital Clinic Network LLC	Adjustments and Eliminations	Total
<i>Assets</i>				
Current assets	\$ 20,198,821	\$ 237,068	\$ (24,429)	\$ 20,411,460
Capital assets, net	23,736,933	104,657	-	23,841,590
Other noncurrent assets	1,181,382	-	-	1,181,382
Total assets	45,117,136	341,725	(24,429)	45,434,432
<i>Deferred outflows of resources</i>	276,081	-	-	276,081
Total assets and deferred outflows of resources	\$ 45,393,217	\$ 341,725	\$ (24,429)	\$ 45,710,513
<i>Liabilities</i>				
Current liabilities	\$ 6,802,537	\$ 263,078	\$ (24,429)	\$ 7,041,186
Long-term debt, less current maturities	13,335,464	-	-	13,335,464
Total liabilities	20,138,001	263,078	(24,429)	20,376,650
<i>Net position</i>				
Net investment in capital assets	9,882,523	104,657	-	9,987,180
Restricted by debt agreement for debt service	500,345	-	-	500,345
Unrestricted	14,872,348	(26,010)	-	14,846,338
Total net position	25,255,216	78,647	-	25,333,863
Total liabilities and net position	\$ 45,393,217	\$ 341,725	\$ (24,429)	\$ 45,710,513

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

15. Blended Component Unit (continued):

A condensed combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2015, is as follows:

	Pullman Regional Hospital	Pullman Regional Hospital Clinic Network LLC	Adjustments and Eliminations	Total
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts of approximately \$1,469,000	\$ 57,417,307	\$ 2,318,690	\$ -	\$ 59,735,997
Grants	52,030	-	-	52,030
Electronic health records incentive revenue	(353,640)	-	-	(353,640)
Other	1,262,363	402,217	-	1,664,580
Total operating revenues	58,378,060	2,720,907	-	61,098,967
<i>Operating expenses</i>				
Salaries and wages	25,444,122	2,453,276	-	27,897,398
Employee benefits	5,595,361	484,724	-	6,080,085
Professional fees	4,076,712	309,710	-	4,386,422
Supplies	11,652,544	105,531	-	11,758,075
Depreciation and amortization	2,497,628	55,498	-	2,553,126
Other	6,840,979	617,863	(37,959)	7,420,883
Total operating expenses	56,107,346	4,026,602	(37,959)	60,095,989
<i>Operating income (loss)</i>	2,270,714	(1,305,695)	37,959	1,002,978
<i>Nonoperating revenues (expenses)</i>				
Taxation for bond principal and interest	609,091	-	-	609,091
Taxation for maintenance and operations	578,988	-	-	578,988
Contributions	42,531	-	-	42,531
Distributions to PRHCN	(1,690,000)	-	1,690,000	-
Distributions from Pullman Regional Hospital	-	1,690,000	(1,690,000)	-
Other nonoperating revenues (expenses), net	(1,152,661)	5,154	(37,959)	(1,185,466)
Total nonoperating revenues (expenses), net	(1,612,051)	1,695,154	(37,959)	45,144
<i>Capital contributions</i>	645,824	-	-	645,824
Change in net position	1,304,487	389,459	-	1,693,946
Net position, beginning of year	25,255,216	78,647	-	25,333,863
Net position, end of year	\$ 26,559,703	\$ 468,106	\$ -	\$ 27,027,809

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

15. Blended Component Unit (continued):

A condensed combining statement of revenues, expenses and changes in net position for the year ended December 31, 2014, is as follows:

	Pullman Regional Hospital	Pullman Regional Hospital Clinic Network LLC	Adjustments and Eliminations	Total
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts of approximately \$1,654,000	\$ 53,036,777	\$ 2,728,921	\$ -	\$ 55,765,698
Grants	414,890	-	-	414,890
Electronic health records incentive revenue	608,161	72,250	-	680,411
Other	941,983	5,424	-	947,407
Total operating revenues	55,001,811	2,806,595	-	57,808,406
<i>Operating expenses</i>				
Salaries and wages	24,501,746	2,012,470	-	26,514,216
Employee benefits	5,072,223	439,966	-	5,512,189
Professional fees	3,616,614	623,458	-	4,240,072
Supplies	11,046,502	80,575	-	11,127,077
Depreciation	2,619,848	81,047	-	2,700,895
Other	6,385,180	590,820	(57,505)	6,918,495
Total operating expenses	53,242,113	3,828,336	(57,505)	57,012,944
<i>Operating income (loss)</i>	1,759,698	(1,021,741)	57,505	795,462
<i>Nonoperating revenues (expenses)</i>				
Taxation for bond principal and interest	613,325	-	-	613,325
Contributions	148,569	-	-	148,569
Distributions to PRHCN	(985,000)	-	985,000	-
Distributions from Pullman Regional Hospital	-	985,000	(985,000)	-
Other nonoperating expenses, net	(1,584,651)	(1,851)	(57,505)	(1,644,007)
Total nonoperating revenues (expenses), net	(1,807,757)	983,149	(57,505)	(882,113)
<i>Capital contributions</i>	470,009	-	-	470,009
Change in net position	421,950	(38,592)	-	383,358
Net position, beginning of year, restated	24,833,266	117,239	-	24,950,505
Net position, end of year	\$ 25,255,216	\$ 78,647	\$ -	\$ 25,333,863

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2015 and 2014

15. Blended Component Unit (continued):

A condensed combining statement of cash flows for the year ended December 31, 2015, is as follows:

	Pullman Regional Hospital	Pullman Regional Hospital Clinic Network LLC	Adjustments and Eliminations	Total
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Net cash provided by (used in):</i>				
Operating activities	\$ 4,654,589	\$ (1,426,223)	\$ -	\$ 3,228,366
Noncapital financing activities	621,519	-	-	621,519
Capital and related financing activities	(1,357,806)	(109,520)	-	(1,467,326)
Investing activities	(2,264,711)	1,695,154	-	(569,557)
Net increase in cash and cash equivalents	1,653,591	159,411	-	1,813,002
Cash and cash equivalents, beginning of year	10,389,926	86,145	-	10,476,071
Cash and cash equivalents, end of year	\$ 12,043,517	\$ 245,556	\$ -	\$ 12,289,073

A condensed combining statement of cash flows for the year ended December 31, 2014, is as follows:

	Pullman Regional Hospital	Pullman Regional Hospital Clinic Network LLC	Adjustments and Eliminations	Total
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Net cash provided by (used in):</i>				
Operating activities	\$ 6,834,927	\$ (964,984)	\$ -	\$ 5,869,943
Noncapital financing activities	148,569	-	-	148,569
Capital and related financing activities	(4,424,479)	(1,978)	-	(4,426,457)
Investing activities	(1,644,377)	990,324	-	(654,053)
Net increase (decrease) in cash and cash equivalents	914,640	23,362	-	938,002
Cash and cash equivalents, beginning of year	9,475,286	62,783	-	9,538,069
Cash and cash equivalents, end of year	\$ 10,389,926	\$ 86,145	\$ -	\$ 10,476,071



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' 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*

Board of Commissioners
Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Pullman, Washington

We have audited, in accordance with the 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 Public Hospital District No. 1-A of Whitman County, Washington doing business as Pullman Regional Hospital (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's combined basic financial statements, as listed in the table of contents, and have issued our report thereon dated April 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined basic 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 19, 2016

Public Hospital District No. 1-A of Whitman County, Washington
doing business as Pullman Regional Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2015

The audit for the year ended December 31, 2014, reported no findings, nor were there any unresolved prior year audit findings from periods ended December 31, 2013, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2015.