



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

March 19, 2018

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, 2016 and 2015. The District contracted with the CPA firm for this audit under an agreement with the State Auditor's Office.

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,

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, 2016 and 2015



**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 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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Pullman Regional Hospital Foundation (the Foundation), which represents 7 percent, 7 percent, and 2 percent, respectively, of the assets, net position, and revenues of the District at December 31, 2016, and 7 percent, 8 percent, and 3 percent, respectively, of the assets, net position, and revenues of the District at December 31, 2015. 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 audits 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, 2016 and 2015, 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 audits 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 25, 2017, 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, 2015, dated April 19, 2016, which has not been included with the 2016 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 25, 2017

**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis**  
**December 31, 2016 and 2015**

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, 2016 and 2015. 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 (PHD 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:

- 448 Full-time (274) and Part-time Employees (174)
- 226 Volunteers that served over 15,718 hours with an estimated value of \$362,000
- 113 Members of the Hospital Auxiliary. In 2016, the Auxilians transferred \$20,174 in support of hospital needs.
- 156 Medical Staff (62 in active membership)

As a team we served:

- 1,764 Men, Women, Children, & Newborns as inpatients
- 77,911 Individual outpatient visits

That totals:

- 3,634 Patient Days (excluding newborns)
- 434 Babies were delivered
- 720 Equivalent Observation Patient Days
- 17,286 Observation hours of care
- 12,028 Patients entered our Emergency Department
- 96,636 Laboratory tests were performed
- 30,220 Diagnostic Imaging studies completed
- 4,185 Surgical patients, 82% surgical vs. 18% endoscopy

A summary of operations is shown in Table 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, 2016 and 2015**

**Table 1: Operating Results**

<b>Hospital Based Services</b>	<b>YTD</b>	<b>Budget</b>	<b>Variance</b>	<b>% Variance</b>	<b>Prior Year</b>	<b>Variance</b>	<b>% Variance</b>
Admissions	1,330	1,440	(110)	-7.6%	1,392	(62)	-4.5%
LOS	2.73	2.7	0.03	1.2%	2.73	0.01	0.2%
Patient Days	3,634	3,887	(253)	-6.5%	3,796	(162)	-4.3%
Observation Day Equiv.	720	573	147	25.7%	648	72	11.1%
Adjusted Patient Days	13,833	13,748	85	0.6%	13,851	(18)	-0.1%
Average Daily Census	9.9	10.6	(0.7)	-6.5%	10.4	(0.5)	-4.5%
Deliveries	434	435	(1)	-0.2%	452	(18.00)	-4.0%
Rehabilitation Services	14,815	14,500	315	2.2%	12,216	2,599	21.3%
Emergency Visits	12,028	11,200	828	7.4%	11,818	210	1.8%
Radiology Procedures	30,220	31,475	(1,255)	-4.0%	30,357	(137)	-0.5%
Lab Tests	96,636	95,000	1,636	1.7%	93,924	2,712	2.9%
<b>Clinic (PRHCN)</b>	<b>YTD</b>	<b>Budget</b>	<b>Variance</b>	<b>% Variance</b>	<b>Prior Year</b>	<b>Variance</b>	<b>% Variance</b>
Pediatric Patient Visits	16,743	16,500	243	1.5%	15,597	1,146	7.3%
Behavioral Health Visits	2,646	2,750	(104)	-3.8%	2,139	507	23.7%

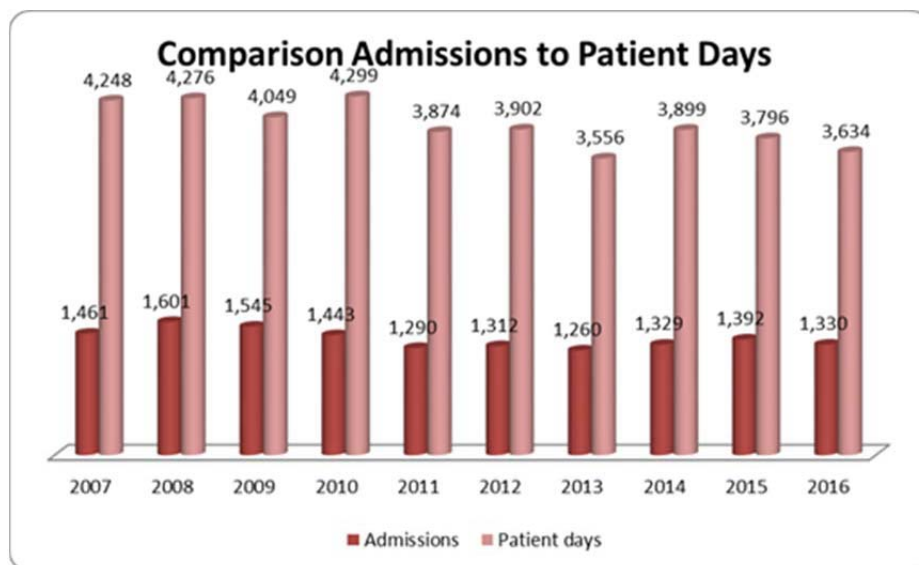
**Table 2: Statement of Revenue and Expenses**

<b>PHD NO. 1-A OF WHITMAN COUNTY</b> <b>STATEMENT OF REVENUE AND EXPENSES</b> <b>FOR PERIOD ENDING</b> <b>December 31, 2016</b>								
	<b>CURRENT YEAR 2016</b>				<b>PRIOR YEAR 2015</b>			
	<b>*PRH</b>	<b>**PRCN, LLC</b>	<b>ADJUSTMENT &amp; ELIMINATIONS</b>	<b>TOTAL</b>	<b>*PRH</b>	<b>**PRCN, LLC</b>	<b>ADJUSTMENT &amp; ELIMINATIONS</b>	<b>TOTAL</b>
<b>TOTAL OPERATING REVENUES</b>	<b>61,205,908</b>	<b>2,650,585</b>		<b>63,856,493</b>	<b>58,378,060</b>	<b>2,720,907</b>		<b>61,098,967</b>
<b>OPERATING EXPENSES:</b>								
SALARIES & WAGES	27,665,856	3,001,210		30,667,066	25,444,122	2,453,276	-	27,897,398
BENEFITS	5,839,303	596,538		6,435,841	5,595,361	484,724	-	6,080,085
SUPPLIES	12,035,002	118,167		12,153,169	11,652,544	105,531	-	11,758,075
DEPRECIATION AND AMORTIZATION	2,601,827	51,443		2,653,270	2,497,628	55,498	-	2,553,126
ALL OTHER	11,470,779	702,166	(41,858)	12,131,087	10,917,691	927,573	(37,959)	11,807,305
TOTAL OPERATING EXPENSES	59,612,767	4,469,524	(41,858)	64,040,433	56,107,346	4,026,602	(37,959)	60,095,989
<b>NET OPERATING INCOME (LOSS)</b>	<b>1,593,141</b>	<b>(1,818,939)</b>	<b>41,858</b>	<b>(183,940)</b>	<b>2,270,714</b>	<b>(1,305,695)</b>	<b>37,959</b>	<b>1,002,978</b>
<b>NON-OPER INCOME/EXPENSE:</b>								
TAXATION	1,195,715	-		1,195,715	1,188,079	-	-	1,188,079
CONTRIBUTIONS	306,409	-		306,409	42,531	-	-	42,531
CONTRIBUTIONS FROM PRH TO PRCN	(1,580,000)	1,580,000		-	(1,690,000)	1,690,000	-	-
OTHER NONOPERATING REVENUES (EXPENSES), NET	(1,248,937)	-	(41,858)	(1,290,795)	(1,152,661)	5,154	(37,959)	(1,185,466)
TOTAL NONOPERATING	(1,326,813)	1,580,000	(41,858)	211,329	(1,612,051)	1,695,154	(37,959)	45,144
<b>CAPITAL CONTRIBUTIONS/EXTRAORDINARY ITEMS</b>	<b>1,031,311</b>	<b>-</b>		<b>1,031,311</b>	<b>645,824</b>	<b>-</b>		<b>645,824</b>
<b>CHANGE IN NET POSITION</b>	<b>1,297,639</b>	<b>(238,939)</b>	<b>-</b>	<b>1,058,700</b>	<b>1,304,487</b>	<b>389,459</b>	<b>-</b>	<b>1,693,946</b>
<b>*PRH = Pullman Regional Hospital</b>								
<b>**PRCN, LLC = Pullman Regional Hospital Clinic Network, LLC (Palouse Pediatrics, Palouse Behavioral Health, &amp; Central Billing Office)</b>								

**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**

**Financial Highlights**

- The District's net position increased \$1,058,700 in 2016, and increased \$1,693,946 in 2015.
- The District received a maintenance and operational levy in 2016 that totaled \$583,437, the remaining taxation was for the debt service on the hospital building bonds.
- ICU – experienced a decrease in patient days of 2%.
- Average Length of Stay (ALOS) – Overall the ALOS held at 2.52, including newborns. Traditional ALOS excludes newborns but the variation remains similar. Patient days ALOS jumped most significantly in how long patients were in swing bed, the most significant was one patient that remained in swing bed care for 32 days.

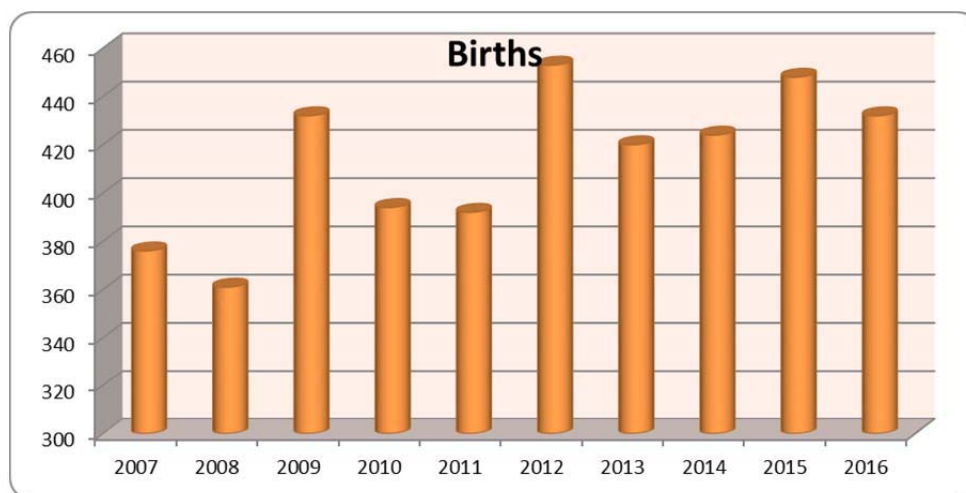


**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**

**Financial Highlights (continued)**

- BirthPlace – BirthPlace had 434 deliveries for the year compared to 459 in 2015. Below is a brief review of delivery methods for 2016, of special note is the reduction in cesarean sections. Below is a historical look at total births since 2007:

Delivery Method	2013	2014	2015	2016
Normal (Spontaneous)	63.6%	62.5%	61.9%	67.4%
Cesarean	32.4%	33.0%	33.5%	29.3%
Vacuum	4.0%	4.5%	4.6%	3.3%



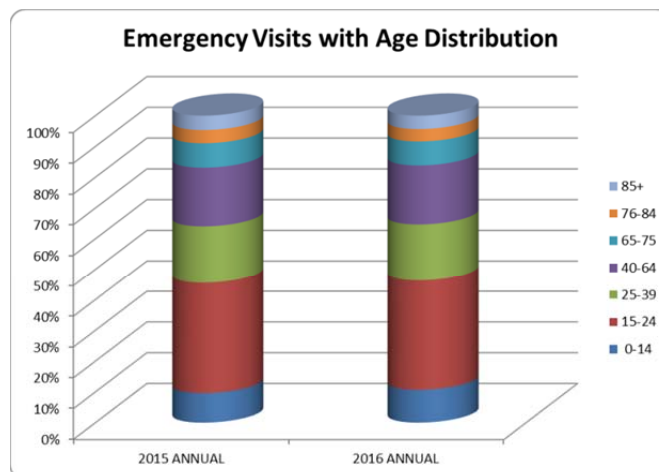
- Emergency Department – Overall revenue was up 3% from budget. Volumes were up 2% from 2015. A brief historical review is provided below:

**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

2012 Annual	2013 Annual	2014 Annual	2015 Annual	2016 Annual
10,322	9,637	10,680	11,818	12,028
28	26	29	32	33
40%	38%	38%	41%	40%
44%	45%	45%	44%	43%
16%	16%	17%	15%	16%
1,123	1,026	1,144	1,104	1,200
10.88%	10.65%	10.71%	9.34%	9.98%

**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**



### **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 13. 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.

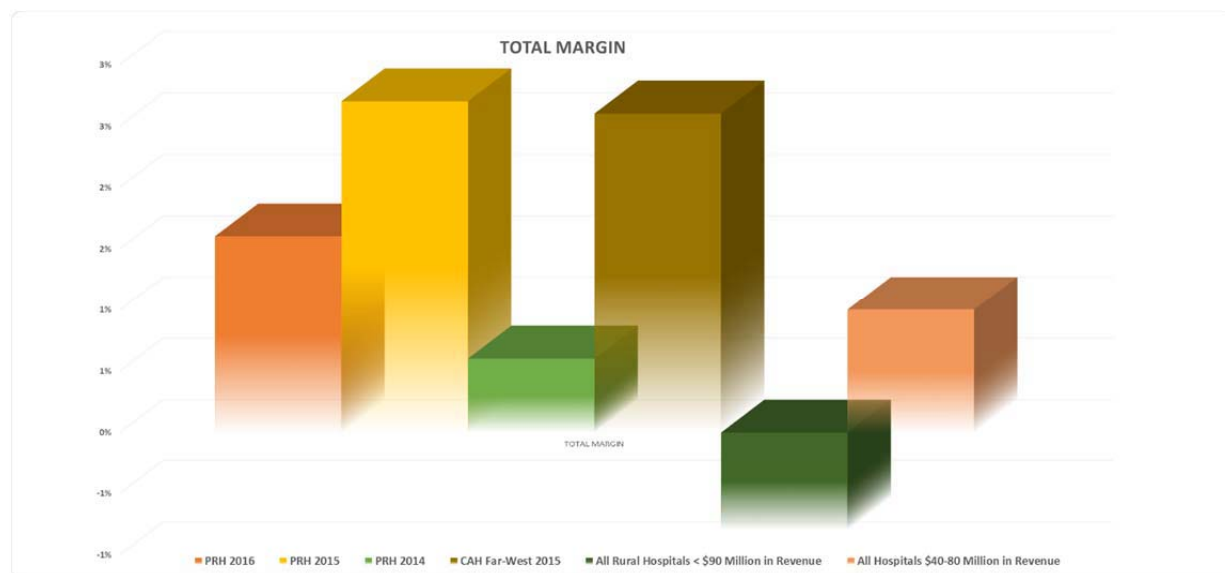
### **The Statement of Cash Flows**

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?"

**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**

**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:



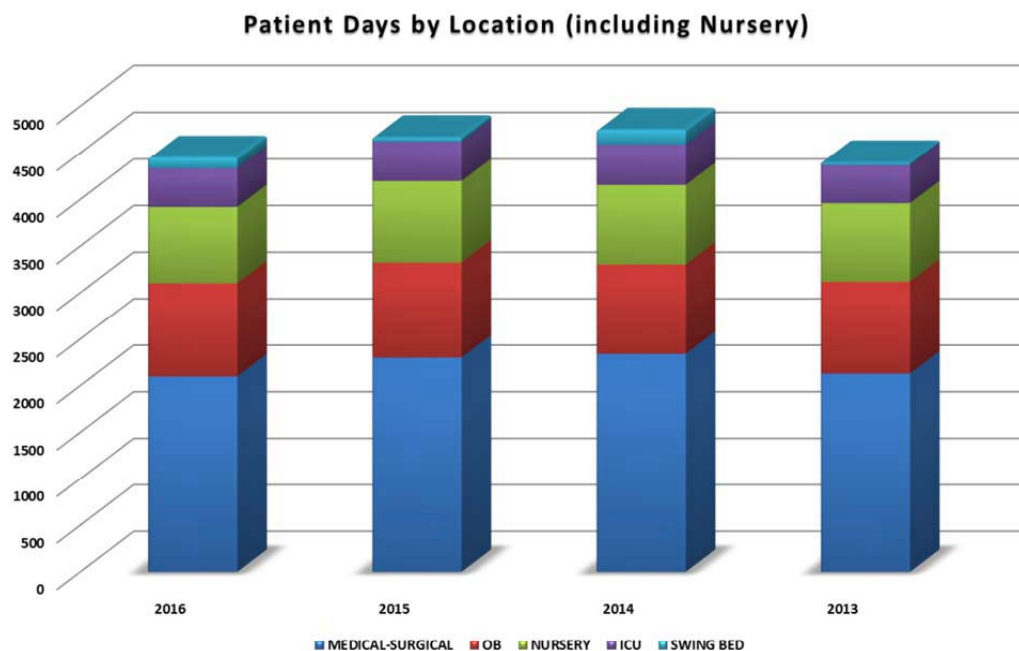
**Table 3: Assets, Deferred Outflows of Resources, Liabilities, and Net Position**

	2016	2015	2014
<i>Assets and deferred outflows of resources</i>			
Current assets	\$ 21,310,074	\$ 20,709,512	\$ 20,411,460
Capital assets, net	23,526,746	22,855,715	23,841,590
Other noncurrent assets	1,628,805	1,473,471	1,181,382
Total assets	46,465,625	45,038,698	45,434,432
Deferred outflows of resources	213,989	245,035	276,081
<b>Total assets and deferred outflows of resources</b>	<b>\$ 46,679,614</b>	<b>\$ 45,283,733</b>	<b>\$ 45,710,513</b>
<i>Liabilities</i>			
Current liabilities	\$ 6,439,580	\$ 5,700,479	\$ 7,041,186
Noncurrent liabilities	12,153,525	12,555,445	13,335,464
Total liabilities	18,593,105	18,255,924	20,376,650
<i>Net position</i>			
Net investment in capital assets	9,718,199	9,624,844	9,987,180
Restricted	1,036,547	889,532	500,345
Unrestricted	17,331,763	16,513,433	14,846,338
Total net position	28,086,509	27,027,809	25,333,863
<b>Total liabilities and net position</b>	<b>\$ 46,679,614</b>	<b>\$ 45,283,733</b>	<b>\$ 45,710,513</b>

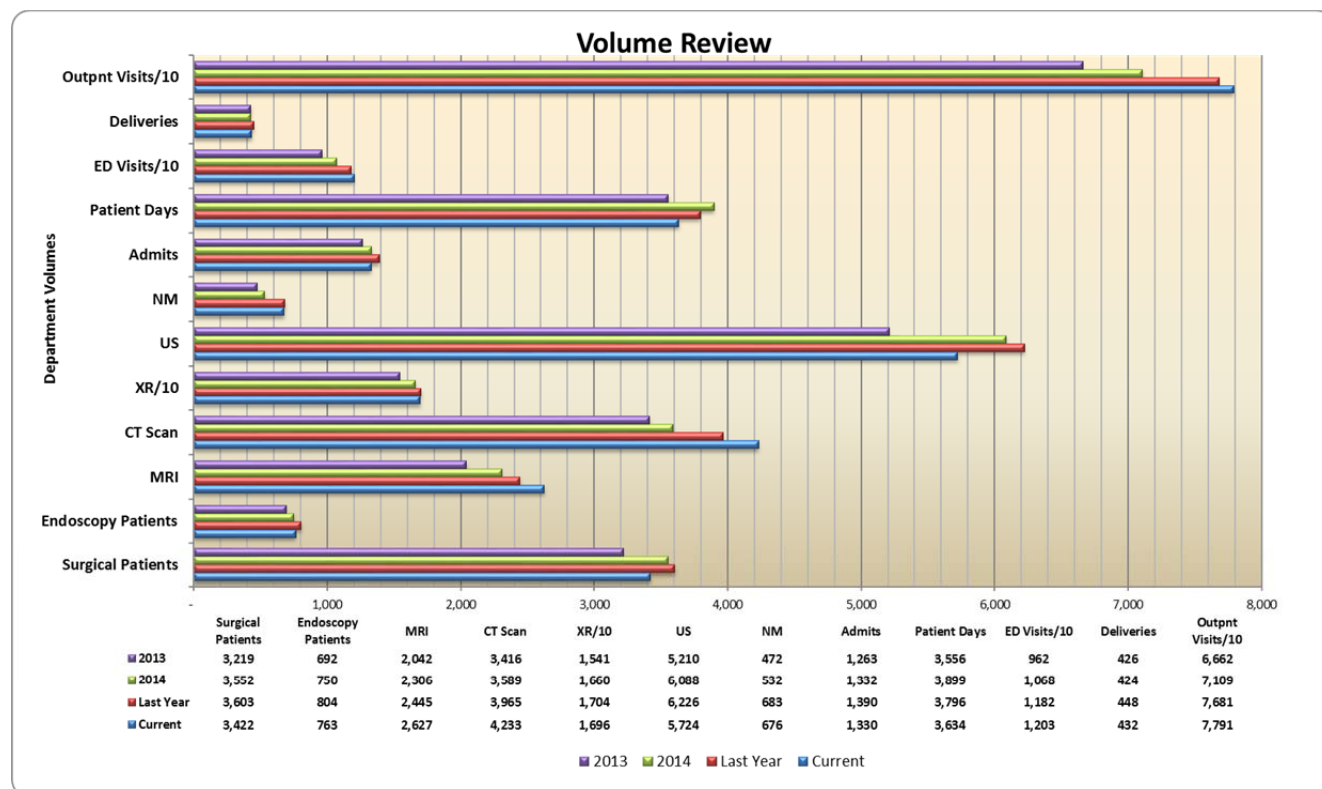


**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**

**Table 4: Summary of Hospital Statistics**



**Table 5: 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, 2016 and 2015**

**Operating Results and Changes in the District's Net Position**

In 2016, the District's net position increased by \$1,058,700, as shown in Table 6.

**Table 6: Operating Results and Changes in Net Position**

	2016	2015	2014
<i>Operating revenues</i>			
Net patient service revenue	\$ 62,365,772	\$ 59,735,997	\$ 55,765,698
Other operating revenue	1,490,721	1,362,970	2,042,708
Total operating revenues	63,856,493	61,098,967	57,808,406
<i>Operating expenses</i>			
Salaries and benefits	37,102,907	33,977,483	32,026,405
Supplies	12,153,169	11,758,075	11,127,077
Depreciation	2,653,270	2,553,126	2,700,895
Other operating expenses	12,131,087	11,807,305	11,158,567
Total operating expenses	64,040,433	60,095,989	57,012,944
<i>Operating income (loss)</i>	(183,940)	1,002,978	795,462
<i>Nonoperating revenues (expenses)</i>			
Taxation for bond principal and interest	612,278	609,091	613,325
Taxation for maintenance and operations	583,437	578,988	-
Interest income	34,865	11,543	9,272
Interest expense	(480,404)	(522,199)	(1,001,864)
Gain (loss) on disposal of capital assets	3,681	3,388	(3,327)
Other, net	(542,528)	(635,667)	(499,519)
Total nonoperating revenues (expenses), net	211,329	45,144	(882,113)
Excess revenues over expenses (expenses over revenues) before capital contributions	27,389	1,048,122	(86,651)
<i>Capital contributions</i>	1,031,311	645,824	470,009
Change in net position	1,058,700	1,693,946	383,358
Net position, beginning of year	27,027,809	25,333,863	24,950,505
<b>Net position, end of year</b>	<b>\$ 28,086,509</b>	<b>\$ 27,027,809</b>	<b>\$ 25,333,863</b>

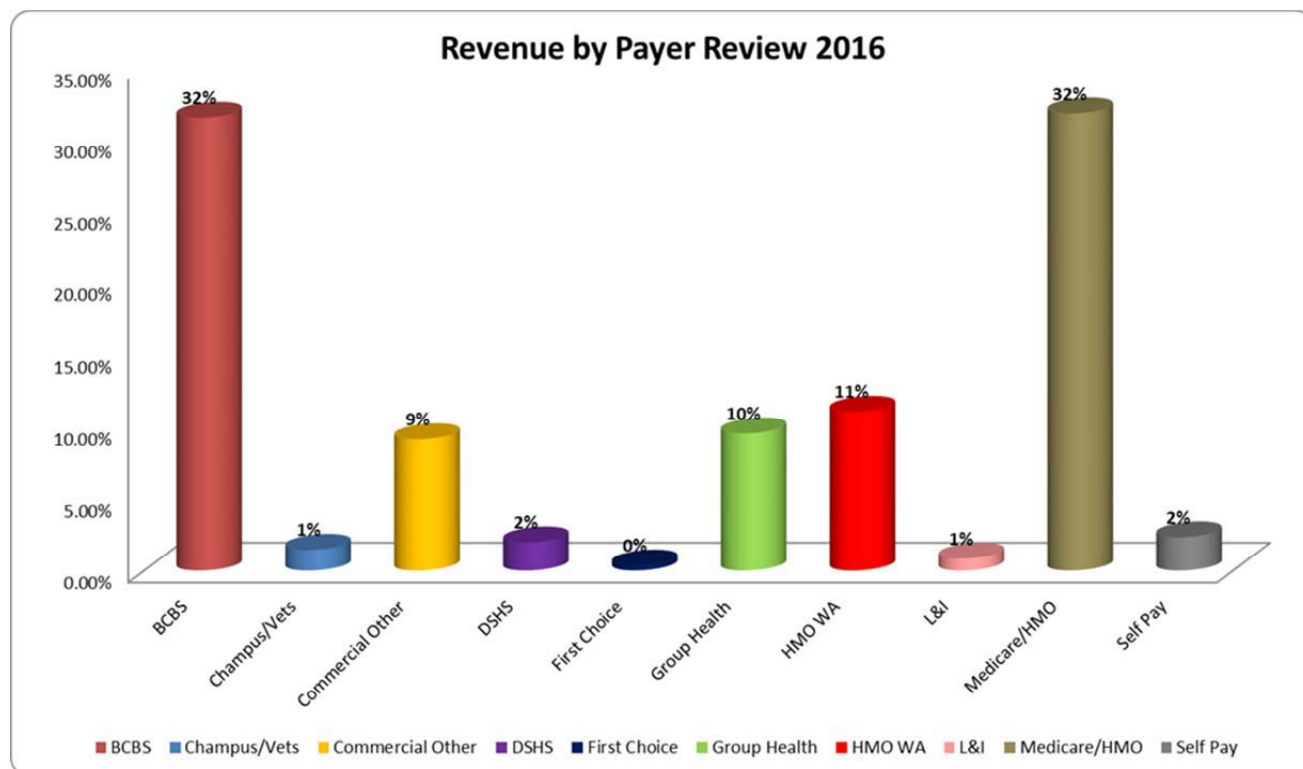
**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**

**Operating Income**

The first component of the overall change in the District's net position is its operating income. The operating loss for 2016 was \$183,940 compared to operating gain in 2015 of \$1,002,978. For fiscal year 2016, the District had a year-to-date average daily census of 9.9 patients per day as compared to 10.6 budgeted and 10.4 last year. The occupancy rate for the year was at 39.7% compared to last year's rate of 41.5% (does not include observation patients). Observation hours were significantly higher than 2015 by 3,454 hours, or 25.0%.

Additionally, Table 7 provides a review of the revenue distribution by primary payer to Pullman Regional Hospital.

**Table 7: Revenue Distribution By Payer Review**



**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, taxation for maintenance and operations, 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 2016, the Pullman Regional Hospital Foundation change in net assets decreased \$117,136, and increased \$206,824 in 2015.

**Public Hospital District No. 1-A of Whitman County, Washington**  
**doing business as Pullman Regional Hospital**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2016 and 2015**

**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***

As the District has experienced significant growth in surgical volumes since opening the new facility in 2004, the need for expansion has created a new strategic effort. At the end of 2016, the District had \$23,526,746 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

***Debt***

At year end, the District had \$12,153,525 in long-term debt and capital lease obligations, excluding current maturities. This is a decrease of 401,920, or 3.2%, from 2015.

***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 2016 estimated population of 47,470. 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 \$26,228. 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%.

***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](mailto:administration@pullmanregional.org) or visit us at [www.pullmanregional.org](http://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, 2016 and 2015**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 10,904,645	\$ 11,438,662
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$677,000 and \$727,000, respectively	6,634,637	6,577,889
Estimated third-party payor settlements	932,000	200,000
Other	424,941	160,906
Inventories	1,748,460	1,653,689
Prepaid expenses	665,391	678,366
Total current assets	21,310,074	20,709,512
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted for capital acquisition	466,575	350,000
Cash and cash equivalents restricted for debt service	529,420	500,411
Taxes receivable restricted for debt service	40,552	39,121
Capital assets, net	23,526,746	22,855,715
Investment in joint ventures	592,258	583,939
Total noncurrent assets	25,155,551	24,329,186
 Total assets	 46,465,625	 45,038,698
<i>Deferred outflows of resources, deferred charge on debt refunding</i>	213,989	245,035
<b>Total assets and deferred outflows of resources</b>	<b>\$ 46,679,614</b>	<b>\$ 45,283,733</b>

*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, 2016 and 2015**

<b>LIABILITIES AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<i>Current liabilities</i>		
Accrued interest payable	\$ 168,295	\$ 173,128
Accounts payable	2,128,615	2,261,027
Capital accounts payable	672,770	-
Accrued compensation and related liabilities	2,441,954	2,165,351
Electronic health records incentive payment	-	353,640
Current maturities of long-term debt and capital lease obligations	1,027,946	747,333
Total current liabilities	6,439,580	5,700,479
<i>Noncurrent liabilities</i>		
Long-term debt and capital lease obligations, less current maturities	12,153,525	12,555,445
Total liabilities	18,593,105	18,255,924
<i>Net position</i>		
Net investment in capital assets	9,718,199	9,624,844
Restricted	1,036,547	889,532
Unrestricted	17,331,763	16,513,433
Total net position	28,086,509	27,027,809
<b>Total liabilities and net position</b>	<b>\$ 46,679,614</b>	<b>\$ 45,283,733</b>

*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, 2016 and 2015**

ASSETS	2016	2015
<i>Current assets</i>		
Cash and cash equivalents	\$ 291,750	\$ 171,799
Investments	905,332	1,016,520
Grant revenue receivable	33,115	18,041
Promises to give, net of allowances	504,032	702,060
Total current assets	1,734,229	1,908,420
<i>Noncurrent assets</i>		
Property and equipment, net	2,777	3,010
Assets limited or restricted as to use:		
Cash and cash equivalents	71,730	50,468
Investments	964,140	837,737
Contributions receivable from charitable trusts	263,212	282,811
Total noncurrent assets	1,301,859	1,174,026
<b>Total assets</b>	<b>\$ 3,036,088</b>	<b>\$ 3,082,446</b>
LIABILITIES AND NET ASSETS	2016	2015
<i>Current liabilities</i>		
Accounts payable	\$ 77,090	\$ 52,082
Deferred revenue	126,187	119,247
Current portion of promises to give	881,448	718,093
Total current liabilities	1,084,725	889,422
<i>Noncurrent liabilities</i>		
Promises to give, less current portion	-	124,525
Total liabilities	1,084,725	1,013,947
<i>Net assets</i>		
Unrestricted	115,971	199,293
Temporarily restricted	427,989	524,774
Permanently restricted	1,407,403	1,344,432
Total net assets	1,951,363	2,068,499
<b>Total liabilities and net assets</b>	<b>\$ 3,036,088</b>	<b>\$ 3,082,446</b>

*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, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$1,029,000 and \$1,469,000, respectively	\$ 62,365,772	\$ 59,735,997
Grants	8,955	52,030
Electronic health records incentive payback	(10,335)	(353,640)
Other	1,492,101	1,664,580
<b>Total operating revenues</b>	<b>63,856,493</b>	<b>61,098,967</b>
<i>Operating expenses</i>		
Salaries and wages	30,667,066	27,897,398
Employee benefits	6,435,841	6,080,085
Professional fees	4,547,598	4,386,422
Supplies	12,153,169	11,758,075
Utilities	670,226	719,405
Repairs and maintenance	1,779,653	1,666,887
Depreciation and amortization	2,653,270	2,553,126
Rent	1,322,968	1,555,827
Insurance	240,639	271,631
Other	3,570,003	3,207,133
<b>Total operating expenses</b>	<b>64,040,433</b>	<b>60,095,989</b>
<i>Operating income (loss)</i>	<b>(183,940)</b>	<b>1,002,978</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for bond principal and interest	612,278	609,091
Taxation for maintenance and operations	583,437	578,988
Contributions	306,409	42,531
Loss on investment in joint venture	(1,020,176)	(847,184)
Rental operations	171,239	168,986
Interest income	34,865	11,543
Interest expense	(480,404)	(522,199)
Gain on disposal of capital assets	3,681	3,388
<b>Total nonoperating revenues (expenses), net</b>	<b>211,329</b>	<b>45,144</b>
Excess revenues over expenses before capital contributions	27,389	1,048,122
<i>Capital contributions</i>	<b>1,031,311</b>	<b>645,824</b>
Change in net position	<b>1,058,700</b>	<b>1,693,946</b>
Net position, beginning of year	<b>27,027,809</b>	<b>25,333,863</b>
<b>Net position, end of year</b>	<b>\$ 28,086,509</b>	<b>\$ 27,027,809</b>

*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, 2016 and 2015**

	2016	2015
Unrestricted net assets		
Support and revenue		
Contributions	\$ 1,019,937	\$ 942,155
Grants	262,943	238,579
Special event revenue, net of related expenses of \$69,446 and \$61,393, respectively	98,355	108,003
Investment income	29,158	43,774
Investment gains (losses)	33,514	(45,196)
Net assets released from restrictions	155,598	145,004
Total support and revenue	1,599,505	1,432,319
Expenses		
Program services	635,786	636,865
Management and general	669,984	642,828
Fundraising	377,057	398,003
Total expenses	1,682,827	1,677,696
Change in unrestricted net assets	(83,322)	(245,377)
Temporarily restricted net assets		
Contributions for a specific purpose	38,471	344,549
Investment income	3,099	10,214
Investment gains (losses)	3,485	(12,502)
Net assets released from restrictions	(141,840)	(247,528)
Change in temporarily restricted net assets	(96,785)	94,733
Permanently restricted net assets		
Contributions for a specific purpose	13,890	259,808
Investment income	29,814	29,647
Investment gains (losses)	33,025	(34,511)
Net assets released from restrictions	(13,758)	102,524
Change in permanently restricted net assets	62,971	357,468
Change in net assets	(117,136)	206,824
Net assets, beginning of year	2,068,499	1,861,675
Net assets, end of year	\$ 1,951,363	\$ 2,068,499

*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, 2016 and 2015**

	2016	2015
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 61,577,024	\$ 60,518,087
Receipts from other revenue	1,476,516	1,620,011
Receipts from grants	8,955	311,043
Payments to or on behalf of employees	(36,826,304)	(34,672,296)
Payments to suppliers and contractors	(24,498,464)	(24,548,479)
Payment of electronic health records incentive liability	(363,975)	-
Net cash provided by operating activities	1,373,752	3,228,366
<i>Cash flows from noncapital financing activities</i>		
Contributions received	306,409	42,531
Taxes received for maintenance and operations	583,437	578,988
Net cash provided by noncapital financing activities	889,846	621,519
<i>Cash flows from capital and related financing activities</i>		
Property taxes for bond principal and interest	610,847	596,451
Principal paid on long-term debt	(911,324)	(785,490)
Interest paid	(483,869)	(360,248)
Purchase of capital assets	(1,896,027)	(1,567,251)
Proceeds from sale of capital assets	67,872	3,388
Capital contributions	782,861	645,824
Net cash used in capital and related financing activities	(1,829,640)	(1,467,326)
<i>Cash flows from investing activities</i>		
Interest income	34,865	11,543
Rental receipts	190,385	188,410
Cash contributed to joint ventures	(1,047,641)	(769,510)
Net cash used in investing activities	(822,391)	(569,557)
Net increase (decrease) in cash and cash equivalents	(388,433)	1,813,002
Cash and cash equivalents, beginning of year	12,289,073	10,476,071
<b>Cash and cash equivalents, end of year</b>	<b>\$ 11,900,640</b>	<b>\$ 12,289,073</b>

*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, 2016 and 2015**

	2016	2015
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 10,904,645	\$ 11,438,662
Cash and cash equivalents restricted for capital acquisition	466,575	350,000
Cash and cash equivalents restricted for debt service	529,420	500,411
<b>Total cash and cash equivalents</b>	<b>\$ 11,900,640</b>	<b>\$ 12,289,073</b>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i></b>		
Operating income (loss)	\$ (183,940)	\$ 1,002,978
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation and amortization	2,653,270	2,553,126
Provision for bad debts	1,029,306	1,468,555
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(1,086,054)	(196,465)
Estimated third-party payor settlements	(732,000)	(67,000)
Other	(15,585)	214,444
Inventories	(94,771)	(85,888)
Prepaid expenses	12,975	(195,243)
Increase (decrease) in liabilities:		
Accounts payable	(132,412)	(701,968)
Accrued compensation and related liabilities	276,603	(694,813)
Electronic health records incentive payment	(353,640)	353,640
Estimated third-party payor settlements	-	(423,000)
<b>Net cash provided by operating activities</b>	<b>\$ 1,373,752</b>	<b>\$ 3,228,366</b>

***Noncash Capital Financing Activities***

During the year ended December 31, 2016, the District entered into two financing arrangements to finance the purchase of surgical robotics equipment in the amount of \$722,934 and for radiology equipment in the amount of \$96,761.

*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, 2016 and 2015**

**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 \$940,000 and \$314,000 to the District in 2016 and 2015, respectively.

**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, 2016 and 2015**

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

**b. The Foundation (continued)**

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 years ended December 31, 2016 and 2015:

	2016	2015
Community Health Vision 2020 of \$625,000, annual installments of \$125,000 beginning in January 2013, discounted at .83% and .62%, maturing in 2017.	\$ 155,615	\$ 248,312
2017 Highest Need pledge of \$531,000 to Pullman Regional Hospital, installments begin September 2017, discounted at .83%, maturing December 2017.	527,339	-
2017 and 2016 Innovation Director pledge of \$50,000 to Pullman Regional Hospital, installments of \$12,500 each quarter beginning March 2016 and 2017, discounted at .83% and .62%, maturing December 2017 and December 2016.	62,246	49,816
2016 Highest Needs pledge of \$546,500 to Pullman Regional Hospital, installments of \$136,625 each quarter beginning March 2016, discounted at .62%, maturing January 2017.	136,248	544,490
Total pledges payable	881,448	842,618
Less: current portion	881,448	718,093
<b>Total</b>	<b>\$ -</b>	<b>\$ 124,525</b>

The Foundation has recorded a long-term liability in the amount of \$0 and \$124,525 for the years ended December 31, 2016 and 2015, respectively, and a current liability in the amount of \$881,448 and \$718,093 for 2016 and 2015, respectively, 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).

**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, 2016 and 2015**

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

**b. The Foundation (continued)**

***Fair value measurements (continued)*** – 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 rate of return the Foundation achieved in 2016 and 2015 on its investments was 6.82% and -.51%, respectively. The fair values of investments measured on a recurring basis using quoted prices in active markets for identical values (Level 1) are as follows:

	<b>2016</b>	<b>2015</b>
Mutual Funds	\$ 1,869,472	\$ 1,854,257

Investments are comprised of the following:

	<b>2016</b>	<b>2015</b>
U.S. Stocks	38.42%	42.70%
Foreign Stocks	18.18	18.80
U.S. Bonds	26.44	25.40
Foreign Bonds	4.04	3.80
Cash and cash equivalents	12.92	9.30
	<b>100.00%</b>	<b>100.00%</b>

***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, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Cash equivalents	\$ 3,949	\$ 12,726
Fixed income	154,242	158,091
Equities	72,383	73,248
Real estate securities	32,638	38,746
Assets, at fair market value	\$ 263,212	\$ 282,811

**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, 2016 and 2015**

**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 and Access was funded. The endowment funds segregated by net asset class in accordance with UPMIFA and ASC 958-205 are as follows:

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ -	\$ 1,378,534	\$ 1,378,534
Board-designated funds	70,312	-	70,312
<b>Total endowment funds</b>	<b>\$ 70,312</b>	<b>\$ 1,378,534</b>	<b>\$ 1,448,846</b>

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ -	\$ 1,317,846	\$ 1,317,846
Board-designated funds	66,346	-	66,346
<b>Total endowment funds</b>	<b>\$ 66,346</b>	<b>\$ 1,317,846</b>	<b>\$ 1,384,192</b>

***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.

**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, 2016 and 2015**

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

**b. The Foundation (continued)**

***Temporarily and Permanently Restricted Net Assets (continued)*** – Temporarily restricted net assets at December 31, 2016 and 2015, are as follows:

	2016	2015
Facility improvement	\$ 552	\$ 13,616
Employee education scholarship	10,815	22,167
Medical technology	37,812	112,719
Gaskins Pharmacy scholarship	40,225	41,855
Innovation	22,682	30,318
Women's leadership guild	30,002	21,288
Center for orthopedic excellence	2,622	-
Women and children's center	283,279	282,811
Total temporarily restricted net assets	\$ 427,989	\$ 524,774

Permanently restricted net assets at December 31, 2016 and 2015, are as follows:

	2016	2015
Endowment for quality and access	\$ 1,378,534	\$ 1,317,846
Roberta McFadden fund	28,869	26,586
Total permanently restricted net assets	\$ 1,407,403	\$ 1,344,432

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

**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.

**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, 2016 and 2015**

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

**c. Summary of Significant Accounting Policies (continued)**

***Noncurrent cash and cash equivalents*** – Noncurrent cash and cash equivalents consist of amounts collected under the District’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.

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.



**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, 2016 and 2015**

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

**c. Summary of Significant Accounting Policies (continued)**

**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 2015 financial statements to conform to the classifications used in the 2016 financial statements, with no effect on previously reported change in net position.

**Subsequent events** – The District has evaluated subsequent events through April 25, 2017, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Investments:**

The District's deposits are covered by the Federal Deposit Insurance Corporation up to \$250,000 at December 31, 2016 and 2015, 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 2016 and 2015. 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, 2016 and 2015, were \$7,590,691 and \$7,193,039, 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.

**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, 2016 and 2015**

**3. Property Taxes (continued):**

A special Unlimited Tax General Obligation (UTGO) bond levy was authorized in 2016 and 2015. For 2016, the District's UTGO bond levy was \$0.38 per \$1,000 on total assessed property of \$1,612,222,756, for a total of \$614,565. 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.

A maintenance and operations levy (the levy) was approved by the voters of the District for the 2016 and 2015 tax year. In 2016, the levy was \$0.36 per \$1,000 on total assessed property of \$1,615,523,756, for a total levy of \$585,433. In 2015 the levy was \$0.37 per \$1,000 on total assessed property of \$1,569,845,813, for a total levy of \$580,843.

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.

**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 not changed significantly from prior years. 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.

**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, 2016 and 2015**

**4. Patient Accounts Receivable (continued):**

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

	<b>2016</b>	<b>2015</b>
Receivables from patients and other insurance carriers	\$ 3,955,179	\$ 3,950,356
Receivables from Premera Blue Cross	1,515,550	1,288,576
Receivables from Medicare	1,160,993	1,512,894
Receivables from Medicaid	680,086	553,459
Total patient accounts receivable	7,311,808	7,305,285
Less allowance for uncollectible accounts	677,171	727,396
<b>Patient accounts receivable, net</b>	<b>\$ 6,634,637</b>	<b>\$ 6,577,889</b>

**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. When such assets are disposed of, the related costs and accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating revenues or expenses.

**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, 2016 and 2015**

**5. Capital Assets (continued):**

Capital asset activity was as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<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	936,535	1,943,558	-	(779,268)	2,100,825
Total capital assets not being depreciated	2,749,840	1,943,558	-	(779,268)	3,914,130
<i>Capital assets being depreciated</i>					
Land improvements	2,384,479	-	(30,244)	-	2,354,235
Buildings	13,905,425	1,661	(14,007)	368,518	14,261,597
Fixed equipment	14,850,849	22,372	(24,278)	154,118	15,003,061
Movable equipment	13,379,668	1,420,901	(772,220)	256,632	14,284,981
Total capital assets being depreciated	44,520,421	1,444,934	(840,749)	779,268	45,903,874
<i>Less accumulated depreciation for</i>					
Land improvements	1,502,299	96,450	(30,244)	-	1,568,505
Buildings	3,773,980	194,851	(14,007)	-	3,954,824
Fixed equipment	9,988,155	753,112	(24,278)	-	10,716,989
Movable equipment	9,150,112	1,608,857	(708,029)	-	10,050,940
Total accumulated depreciation	24,414,546	2,653,270	(776,558)	-	26,291,258
Total capital assets being depreciated, net	20,105,875	(1,208,336)	(64,191)	779,268	19,612,616
Capital assets, net	\$ 22,855,715	\$ 735,222	\$ (64,191)	\$ -	\$ 23,526,746

**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, 2016 and 2015**

**5. Capital Assets (continued):**

	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

Construction in progress at December 31, 2016, consisted of the following:

- 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.
- A women and 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.
- The addition of a fourth operating room, which is expected to be completed in July 2017, with an estimated cost to complete of approximately \$770,000.
- Emergency department renovation will be put into service in January 2017, with a cost to complete of approximately \$250,000.
- A parking lot which is expected to be completed in July 2017, with an estimated cost to complete of approximately \$295,000.
- Various equipment purchases, which are expected to be complete between February and July of 2017. The total additional cost to place equipment into service is approximately \$565,000.

As of December 31, 2016, 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**  
**doing business as Pullman Regional Hospital**  
**Notes to Combined Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**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, 2016 and 2015, is approximately \$526,000 and \$545,000, 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 2016 and 2015, the District made capital contributions of \$536,635 and \$419,536, respectively. The District had an equity contribution due to the LLC at year end 2016 and 2015, and thus, recorded a liability balance for this investment of \$77,213 and \$49,477 as of December 31, 2016 and 2015, respectively. 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 2016 and 2015, the District made capital contributions of \$511,006 and \$349,974, respectively. The investment had a carrying value of \$141,331 and \$86,130 as of December 31, 2016 and 2015, respectively. The District is responsible for its respective share of any losses incurred by Palouse Specialty.

In 2016, 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 \$96,000 and \$258,000 during the years ended December 31, 2016 and 2015, respectively.

Effective July 2016, the District sold its audiology service division, including fixed assets and related supplies to Palouse Specialty at a purchase price of \$59,307.

**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, 2016 and 2015**

**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:

	<b>2016</b>	<b>2015</b>
Current assets	\$ 638,120	\$ 723,524
Noncurrent assets	383,592	171,774
<b>Total assets</b>	<b>\$ 1,021,712</b>	<b>\$ 895,298</b>
Current liabilities	\$ 211,801	\$ 301,585
Members' equity	809,911	593,713
<b>Total liabilities and members' equity</b>	<b>\$ 1,021,712</b>	<b>\$ 895,298</b>
Revenue	\$ 2,856,029	\$ 3,084,138
Expenses	4,266,956	4,294,121
Net loss	(1,410,927)	(1,209,983)
Equity contributions	1,627,125	1,360,676
Change in members' equity	216,198	150,693
Members' equity, beginning of year	593,713	443,020
<b>Members' equity, end of year</b>	<b>\$ 809,911</b>	<b>\$ 593,713</b>

**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, 2016 and 2015**

**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:

	<b>2016</b>	<b>2015</b>
Current assets	\$ 171,606	\$ 50,948
Noncurrent assets	185,873	146,602
<b>Total assets</b>	<b>\$ 357,479</b>	<b>\$ 197,550</b>
Current liabilities	\$ 54,320	\$ 34,930
Members' equity	303,159	162,620
<b>Total liabilities and members' equity</b>	<b>\$ 357,479</b>	<b>\$ 197,550</b>
Revenue	\$ 1,089,453	\$ 797,659
Expenses	2,102,354	1,604,750
Net loss	(1,012,901)	(807,091)
Equity contributions	1,153,440	808,248
Change in members' equity	140,539	1,157
Members' equity, beginning of year	162,620	161,463
<b>Members' equity, end of year</b>	<b>\$ 303,159</b>	<b>\$ 162,620</b>



**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, 2016 and 2015**

**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:

		<b>2016</b>	<b>2015</b>
Balance, beginning of period	\$	<b>244,200</b>	\$ <b>231,300</b>
Current year claims incurred and changes in estimates		<b>2,526,992</b>	<b>2,808,306</b>
Claims and expenses paid		<b>(2,471,192)</b>	<b>(2,795,406)</b>
Balance, end of period	\$	<b>300,000</b>	\$ <b>244,200</b>

**8. Long-term Debt and Capital Lease Obligations:**

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

	<b>Balance December 31, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2016</b>	<b>Amounts Due Within One Year</b>
<i>Bonds payable</i>					
Unlimited tax general obligation bonds:					
1978	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
2011 refunding	2,985,000	-	(450,000)	2,535,000	465,000
2011 bond premium	178,071	-	(29,678)	148,393	-
Limited tax general obligation bonds 2014	9,929,615	-	(204,485)	9,725,130	211,205
Total long-term debt	13,097,686	-	(684,163)	12,413,523	681,205
<i>Capital lease obligations</i>	205,092	819,695	(256,839)	767,948	346,741
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 13,302,778</b>	<b>\$ 819,695</b>	<b>\$ (941,002)</b>	<b>\$ 13,181,471</b>	<b>\$ 1,027,946</b>

**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, 2016 and 2015**

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

	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
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 14,117,947</b>	<b>\$ -</b>	<b>\$ (815,169)</b>	<b>\$ 13,302,778</b>	<b>\$ 747,333</b>

**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 \$465,000 to \$560,000, plus interest ranging from 4% 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.

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.

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 installments 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, 2016 and December 31, 2015, the capitalized cost of the equipment acquired under the capital lease obligations was \$1,147,373 and \$328,315, respectively, and accumulated amortization was \$265,942 and \$18,994, respectively.

**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, 2016 and 2015**

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

Scheduled principal and interest payments are as follows:

<b>Years Ending December 31,</b>	<b>UTGO Bonds Payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 470,000	\$ 117,300	\$ 587,300
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
	<b>\$ 2,540,000</b>	<b>\$ 377,750</b>	<b>\$ 2,917,750</b>

<b>Years Ending December 31,</b>	<b>LTGO Bonds Payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	240,370	286,167	526,537
2022-2026	1,325,669	1,307,015	2,632,684
2027-2031	1,558,312	1,074,372	2,632,684
2032-2036	1,831,781	800,903	2,632,684
2037-2041	2,153,242	479,442	2,632,684
2042-2045	1,728,368	114,511	1,842,879
	<b>\$ 9,725,130</b>	<b>\$ 5,281,169</b>	<b>\$ 15,006,299</b>

<b>Years Ending December 31,</b>	<b>Capital Lease Obligations</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 346,741	\$ 24,359	\$ 371,100
2018	387,741	10,305	398,046
2019	33,466	473	33,939
	<b>\$ 767,948</b>	<b>\$ 35,137</b>	<b>\$ 803,085</b>

**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, 2016 and 2015**

**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, 2016. 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 \$361,000 and \$364,000 as of December 31, 2016 and 2015, 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, 2016 and 2015, were approximately \$1,578,000 and \$1,553,000, 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 \$842,000 and \$789,000, for the years ended December 31, 2016 and 2015, respectively. The 457b Plan and 401a Plan are administered by VALIC Retirement Services Company (VALIC).

The District also sponsors a 414-H profit-sharing plan called the Public Hospital District 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 of compensation per pay period 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 414-H Plan for the years ended December 31, 2016 and 2015, were approximately \$211,000 and \$218,000, respectively. The 414-H Plan is administered by VALIC.

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, 2016 and 2015 were approximately \$155,000 and \$190,000, respectively. PRHCN made matching contributions to the Plan of approximately \$85,000 and \$65,000 in the years ended December 31, 2016 and 2015, respectively. The Plan is administered by PRHCN.

The District has the authority to amend all retirement plans.

**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, 2016 and 2015**

**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, 2016 or 2015. 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:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 18,528,441	\$ 19,804,728
Medicaid	7,855,703	7,587,893
Premera Blue Cross	21,495,341	20,264,104
Other third-party payors	13,910,674	12,192,853
Patients	2,089,482	1,740,471
	<b>63,879,641</b>	<b>61,590,049</b>
Less:		
Charity care	484,563	385,497
Provision for bad debts	1,029,306	1,468,555
Net patient service revenue	<b>\$ 62,365,772</b>	<b>\$ 59,735,997</b>

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. Nonrural health clinic 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. Nonrural health clinic physician services are reimbursed on a fee schedule. Rural health clinic services are paid on a prospectively set rate per visit.

**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, 2016 and 2015**

**10. Net Patient Service Revenue (continued):**

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 \$85,000 and \$239,000 in 2016 and 2015, 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, 2016 and 2015, were approximately \$289,000 and \$227,000, respectively. Disproportionate share hospital payments from the state of Washington received to subsidize charity services provided for the years ended December 31, 2016 and 2015, were approximately \$170,000 and \$183,000, respectively.

**11. Lease Obligations:**

Following is a summary of estimated future minimum rentals under noncancelable operating leases that expire in various years through 2020:

<b>Years Ending December 31,</b>	<b>Amount</b>
2017	\$ 505,667
2018	137,081
2019	55,808
	<b>\$ 698,556</b>

**12. 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.

**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, 2016 and 2015**

**12. Risk Management and Contingencies (continued):**

***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.

***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 2016 and 2015, respectively, the District recognized dividends of approximately \$140,000 and \$0 from the Public Hospital District Workers’ Compensation Fund, which were used to reduce payments charged to workers’ compensation expense. Payments by the District charged to workers’ compensation expense, net of related dividends, were approximately \$100,000 and \$119,000 in 2016 and 2015, respectively.

***Purchase obligation*** – The District entered into 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, 2016 and 2015**

**13. 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:

	<b>2016</b>	<b>2015</b>
Medicare	<b>21 %</b>	24 %
Medicaid	<b>9</b>	8
Premiera Blue Cross	<b>26</b>	21
Other third-party payors	<b>24</b>	27
Patients	<b>20</b>	20
	<b>100 %</b>	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, 2016 through September 30, 2019. As of December 31, 2016 and 2015, approximately 20% and 22%, 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, 2016 and 2015**

**14. Blended Component Unit:**

A condensed combining statement of net position for the year ended December 31, 2016, is as follows:

	<b>Pullman Regional Hospital</b>	<b>Pullman Regional Hospital Clinic Network LLC</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
<i>Assets and deferred outflows of resources</i>				
Current assets	\$ 21,003,718	\$ 306,356	\$ -	\$ 21,310,074
Capital assets, net	23,420,360	106,386	-	23,526,746
Other noncurrent assets	1,628,805	-	-	1,628,805
Total assets	46,052,883	412,742	-	46,465,625
<i>Deferred outflows of resources</i>	213,989	-	-	213,989
<b>Total assets and deferred outflows of resources</b>	<b>\$ 46,266,872</b>	<b>\$ 412,742</b>	<b>\$ -</b>	<b>\$ 46,679,614</b>
<i>Liabilities</i>				
Current liabilities	\$ 6,256,006	\$ 183,574	\$ -	\$ 6,439,580
Long-term debt, less current maturities	12,153,525	-	-	12,153,525
Total liabilities	18,409,531	183,574	-	18,593,105
<i>Net position</i>				
Net investment in capital assets	9,611,813	106,386	-	9,718,199
Restricted	1,036,547	-	-	1,036,547
Unrestricted	17,208,981	122,782	-	17,331,763
Total net position	27,857,341	229,168	-	28,086,509
<b>Total liabilities and net position</b>	<b>\$ 46,266,872</b>	<b>\$ 412,742</b>	<b>\$ -</b>	<b>\$ 46,679,614</b>

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

	<b>Pullman Regional Hospital</b>	<b>Pullman Regional Hospital Clinic Network LLC</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
<i>Assets</i>				
Current assets	\$ 20,235,771	\$ 473,741	\$ -	\$ 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	44,406,278	632,420	-	45,038,698
<i>Deferred outflows of resources</i>	245,035	-	-	245,035
<b>Total assets and deferred outflows of resources</b>	<b>\$ 44,651,313</b>	<b>\$ 632,420</b>	<b>\$ -</b>	<b>\$ 45,283,733</b>
<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	889,532	-	-	889,532
Unrestricted	16,204,005	309,428	-	16,513,433
Total net position	26,559,702	468,107	-	27,027,809
<b>Total liabilities and net position</b>	<b>\$ 44,651,313</b>	<b>\$ 632,420</b>	<b>\$ -</b>	<b>\$ 45,283,733</b>

**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, 2016 and 2015**

**14. Blended Component Unit (continued):**

A condensed combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2016, is as follows:

	<b>Pullman Regional Hospital</b>	<b>Pullman Regional Hospital Clinic Network LLC</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts of approximately \$1,029,000	\$ 59,990,799	\$ 2,374,973	\$ -	\$ 62,365,772
Grants	8,955	-	-	8,955
Electronic health records incentive payback	(10,335)	-	-	(10,335)
Other	1,216,489	275,612	-	1,492,101
Total operating revenues	61,205,908	2,650,585	-	63,856,493
<i>Operating expenses</i>				
Salaries and wages	27,665,856	3,001,210	-	30,667,066
Employee benefits	5,839,303	596,538	-	6,435,841
Professional fees	4,440,416	107,182	-	4,547,598
Supplies	12,035,002	118,167	-	12,153,169
Depreciation and amortization	2,601,827	51,443	-	2,653,270
Other	7,030,363	594,984	(41,858)	7,583,489
Total operating expenses	59,612,767	4,469,524	(41,858)	64,040,433
<i>Operating income (loss)</i>	1,593,141	(1,818,939)	41,858	(183,940)
<i>Nonoperating revenues (expenses)</i>				
Taxation for bond principal and interest	612,278	-	-	612,278
Taxation for maintenance and operations	583,437	-	-	583,437
Contributions	306,409	-	-	306,409
Distributions to PRHCN	(1,580,000)	-	1,580,000	-
Distributions from Pullman Regional Hospital	-	1,580,000	(1,580,000)	-
Other nonoperating revenues (expenses), net	(1,248,937)	-	(41,858)	(1,290,795)
Total nonoperating revenues (expenses), net	(1,326,813)	1,580,000	(41,858)	211,329
<i>Capital contributions</i>	1,031,311	-	-	1,031,311
Change in net position	1,297,639	(238,939)	-	1,058,700
Net position, beginning of year	26,559,702	468,107	-	27,027,809
<b>Net position, end of year</b>	<b>\$ 27,857,341</b>	<b>\$ 229,168</b>	<b>\$ -</b>	<b>\$ 28,086,509</b>

**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, 2016 and 2015**

**14. 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:

	<b>Pullman Regional Hospital</b>	<b>Pullman Regional Hospital Clinic Network LLC</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
<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 payback	(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	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 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	25,255,215	78,648	-	25,333,863
<b>Net position, end of year</b>	<b>\$ 26,559,702</b>	<b>\$ 468,107</b>	<b>\$ -</b>	<b>\$ 27,027,809</b>

**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, 2016 and 2015**

**14. Blended Component Unit (continued):**

A condensed combining statement of cash flows for the year ended December 31, 2016, is as follows:

	<b>Pullman Regional Hospital</b>	<b>Pullman Regional Hospital Clinic Network LLC</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>				
<i>Net cash provided by (used in):</i>				
Operating activities	\$ 3,087,184	\$ (1,713,432)	\$ -	\$ 1,373,752
Noncapital financing activities	889,846	-	-	889,846
Capital and related financing activities	(1,830,490)	850	-	(1,829,640)
Investing activities	(2,402,391)	1,580,000	-	(822,391)
Net decrease in cash and cash equivalents	(255,851)	(132,582)	-	(388,433)
Cash and cash equivalents, beginning of year	12,043,517	245,556	-	12,289,073
<b>Cash and cash equivalents, end of year</b>	<b>\$ 11,787,666</b>	<b>\$ 112,974</b>	<b>\$ -</b>	<b>\$ 11,900,640</b>

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

	<b>Pullman Regional Hospital</b>	<b>Pullman Regional Hospital Clinic Network LLC</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></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
<b>Cash and cash equivalents, end of year</b>	<b>\$ 12,043,517</b>	<b>\$ 245,556</b>	<b>\$ -</b>	<b>\$ 12,289,073</b>

**15. Subsequent Event:**

In April 2017, the District purchased a local clinic, Pullman Family Medicine, at a cost of \$122,000. This clinic will begin operating in 2017 under Pullman Regional Hospital Clinic Network LLC.



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 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, 2016, 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 25, 2017. We conducted our audit 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. Our report includes a reference to other auditors who audited the financial statements of the Foundation, as described in our report on the District's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the combined 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 25, 2017

**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, 2016**

The audit for the year ended December 31, 2015, reported no findings, nor were there any unresolved prior year audit findings from periods ended December 31, 2014, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2016.