Office of the Washington State Auditor
Pat McCarthy

November 21, 2018

Board of Commissioners
Klickitat Valley Health
Goldendale, Washington

Contracted CPA Firm's Audit Report on Financial Statements and Federal Single Audit

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Klickitat Valley Health's financial statements and compliance with federal grant requirements for the fiscal years ended December 31, 2017 and 2016. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or Klickitat Valley Health's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Public Hospital District No. 1
of Klickitat County
doing business as
Klickitat Valley Health

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Goldendale, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 4, 2018, 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, 2016, dated May 10, 2017, which has not been included with the 2017 financial and 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, 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
May 4, 2018

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Net Position
December 31, 2017 and 2016

ASSETS	**2017**	**2016**
Current assets		
Cash and cash equivalents	**$ 3,245,675**	$ 5,090,507
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately $1,773,000 and $1,004,000, respectively	**3,482,304**	3,019,230
Collateralized, net of estimated uncollectibles of approximately $33,000 and $44,000, respectively	**94,463**	94,018
Estimated third-party payor settlements	**395,000**	-
Taxes	**36,909**	40,568
Taxes restricted for debt service	**27,787**	30,720
Grants	**313,612**	-
Other	**373,938**	78,625
Cash and cash equivalents, restricted for debt service	**195,767**	179,570
Cash and cash equivalents, limited as to use for debt service	**331**	3,341
Inventories	**244,407**	176,821
Prepaid expenses	**328,147**	314,230
Total current assets	**8,738,340**	9,027,630
Noncurrent assets		
Cash and cash equivalents, limited as to use for capital acquisitions	**432,439**	514,041
Collateralized receivable, net of estimated uncollectibles of approximately $36,000 and $41,000, respectively	**29,205**	30,554
Capital assets, net	**10,985,581**	9,810,266
Total noncurrent assets	**11,447,225**	10,354,861
Total assets	**$ 20,185,565**	$ 19,382,491

See accompanying notes to basic financial statements.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES AND NET POSITION	**2017**	**2016**
Current liabilities		
Accounts payable	**$ 1,341,920**	$ 885,744
Accrued compensation and related liabilities	**286,481**	221,971
Accrued vacation	**554,986**	472,366
Accrued interest payable	**20,616**	23,755
Estimated third-party payor settlements	**1,821,050**	2,060,268
Current maturities of long-term debt	**877,653**	868,823
Current portion of net pension liability	**49,454**	54,751
Total current liabilities	**4,952,160**	4,587,678
Noncurrent liabilities		
Long-term debt, less current maturities	**6,074,171**	5,836,934
Net pension liability, less current portion	**153,693**	233,449
Total noncurrent liabilities	**6,227,864**	6,070,383
Total liabilities	**11,180,024**	10,658,061
Net position		
Net investment in capital assets	**4,646,959**	3,425,176
Restricted for debt service	**223,554**	210,290
Unrestricted	**4,135,028**	5,088,964
Total net position	**9,005,541**	8,724,430
Total liabilities and net position	**$ 20,185,565**	$ 19,382,491

See accompanying notes to basic financial statements.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues		
Net patient revenue, net of provision for bad debts of $1,497,396 and $1,228,017, respectively	**$ 21,571,981**	$ 20,757,583
Electronic health records incentive payment (payback)	**(38,864)**	6,225
Grants	**154,358**	85,292
Other	**291,918**	197,114
Total operating revenues	**21,979,393**	21,046,214
Operating expenses		
Salaries and wages	**11,937,679**	10,696,744
Employee benefits	**2,648,342**	2,668,172
Professional fees	**2,088,906**	1,690,325
Supplies	**1,735,989**	1,534,812
Utilities	**309,325**	307,983
Purchased services	**2,180,330**	2,279,100
Leases and rentals	**403,286**	320,727
Repairs and maintenance	**52,523**	39,066
Depreciation and amortization	**1,208,828**	1,283,163
Insurance	**161,408**	173,706
Other	**710,336**	511,670
Total operating expenses	**23,436,952**	21,505,468
Operating loss	**(1,457,559)**	(459,254)
Nonoperating revenues (expenses)		
Taxation for maintenance and operations	**836,581**	797,928
Taxation for bond principal and interest	**604,857**	605,842
Contributions	**2,339**	1,260
Gain on disposal of assets including insurance proceeds of $277,382	**305,113**	86,251
Interest income	**40,540**	17,816
Interest expense	**(269,760)**	(304,594)
Total nonoperating revenues, net	**1,519,670**	1,204,503
Excess of revenues over expenses before capital grants	**62,111**	745,249
Capital grants and contributions	**219,000**	-
Change in net position	**281,111**	745,249
Net position, beginning of year	**8,724,430**	7,979,181
Net position, end of year	**$ 9,005,541**	$ 8,724,430

See accompanying notes to basic financial statements.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from patient services	**$ 20,170,589**	$ 22,031,481
Cash received from electronic health records incentive payments	**-**	112,475
Cash received from grants	**154,358**	85,292
Cash received from other revenue	**225,642**	197,114
Cash paid to and on behalf of employees	**(14,523,944)**	(13,215,966)
Cash paid to suppliers and contractors	**(7,219,085)**	(7,564,480)
Net cash provided by (used in) operating activities	**(1,192,440)**	1,645,916
Cash flows from noncapital financing activities		
Cash received from taxation for maintenance and operations	**840,240**	803,631
Proceeds from recourse financing	**252,533**	264,920
Contributions received	**2,339**	1,260
Net cash provided by noncapital financing activities	**1,095,112**	1,069,811
Cash flows from capital and related financing activities		
Cash received from taxation for bond principal and interest	**607,790**	610,186
Interest paid	**(282,663)**	(320,609)
Proceeds from the issuance of long-term debt	**905,388**	-
Principal payments on long-term debt	**(730,562)**	(755,205)
Payments for purchase of capital assets	**(2,384,143)**	(854,712)
Proceeds from the sale of capital assets	**27,731**	86,251
Net cash used in capital and related financing activities	**(1,856,459)**	(1,234,089)
Cash flows from investing activities		
Interest received	**40,540**	17,816
Net increase (decrease) in cash and cash equivalents	**(1,913,247)**	1,499,454
Cash and cash equivalents, beginning of year	**5,787,459**	4,288,005
Cash and cash equivalents, end of year	**$ 3,874,212**	$ 5,787,459

See accompanying notes to basic financial statements.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

		2017		2016
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Cash and cash equivalents	**$**	**3,245,675**	$	5,090,507
Cash and cash equivalents, restricted for debt service		**195,767**		179,570
Cash and cash equivalents, limited as to use for debt service		**331**		3,341
Cash and cash equivalents, limited as to use for capital acquisitions		**432,439**		514,041
Total cash and cash equivalents	**$**	**3,874,212**	$	5,787,459
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities				
Operating loss	**$**	**(1,457,559)**	$	(459,254)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation and amortization		**1,208,828**		1,283,163
Provision for bad debts		**1,497,396**		1,228,017
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net		**(2,225,706)**		(2,001,620)
Estimated third-party payor settlements		**-**		140,000
Electronic health records incentive payment		**-**		106,250
Other		**(27,708)**		29,555
Inventories		**(67,586)**		(31,756)
Prepaid expenses		**(13,917)**		(56,877)
Increase (decrease) in current liabilities:				
Accounts payable		**465,953**		157,527
Accrued compensation and related liabilities		**64,510**		81,731
Accrued vacation		**82,620**		22,976
Estimated third-party payor settlements		**(634,218)**		1,101,961
Net pension liability		**(85,053)**		44,243
Net cash provided by (used in) operating activities	**$**	**(1,192,440)**	$	1,645,916

Noncash Investing, Capital, and Financing Activities

The District’s recourse financing obligation was reduced by patient payments made to a third-party service organization in the amount of $202,792 and $199,083 in 2017 and 2016, respectively.

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity:

Public Hospital District No. 1 of Klickitat County owns and operates Klickitat Valley Health (the District), a licensed 25-bed critical access hospital and rural health clinic in Goldendale, Washington. The District provides healthcare services to patients in Goldendale, Washington, and the surrounding areas. The services provided include acute care hospital, emergency room, rural health clinic, home health, hospice, and the related ancillary procedures (surgery, laboratory, imaging services, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms. The District has no material component units.

b. Summary of Significant Accounting Policies:

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

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

Cash and cash equivalents – All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Klickitat County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

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

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

Bond premiums and discounts – The straight-line method is used to amortize the bond premiums and discounts over the period the related obligation is outstanding, which approximates the effective interest method.

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

b. Summary of Significant Accounting Policies (continued):

***Capital assets* –** The District capitalizes assets whose costs exceed $5,000 and with estimated useful lives of at least one year; lesser amounts are expensed. The capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their 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.

Compensated absences – The District's policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum range of 416 to 656 hours, depending on their years of service. All paid time off is accrued and expensed when earned.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures. *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 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. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

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

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

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

b. Summary of Significant Accounting Policies (continued):

Recent accounting pronouncements – In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, replacing the requirements of GASB Statement No. 45. The new guidance will be effective for the District's year ending December 31 2018. GASB Statement No. 75 requires governmental entities to report a liability on the financial statement of other postemployment benefits (OPEB), and provides additional requirements for note disclosures and required supplementary information, including a schedule comparing a government entity's actual OPEB contributions to its contribution requirements. The District has not elected to implement this statement early; however, management is currently evaluating the impact of this statement in the year of adoption.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending December 31, 2019. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2017, the GASB issued Statement No. 85, *Omnibus*, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The new guidance is effective for the District's year ending December 30, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

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

b. Summary of Significant Accounting Policies (continued):

Recent accounting pronouncements (continued) – In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* which establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond insurance costs on any extinguished debt. The new guidance is effective for the District’s year ending December 30, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 30, 2020, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District’s year ending December 31, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

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

b. Summary of Significant Accounting Policies (continued):

Subsequent events – Subsequent events have been reviewed through May 4, 2018, the date on which the financial statements were available to be issued.

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

2. Bank Deposits and Investments:

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.

All cash, cash equivalents, and cash investments held by the County Treasurer are insured by the State of Washington Public Deposit Protection Commission (PDPC), as provided by Chapter 39.58 of *The Revised Code of Washington* and are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. Qualified public depositories, including Umpqua Bank and Riverview Community Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington.

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, 2017 and 2016, were approximately $3,500,000 and $5,460,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

3. Patient Accounts Receivable:

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

The District’s allowance for uncollectible accounts for self-pay patients has increased from the prior year due to an increase in self-pay patient accounts receivable. 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.

The District utilizes HealthFirst Financial (HealthFirst) as a resource for patient financing options. HealthFirst funds discounted patient accounts to the District upon approval of a financial application and payment plan. The District no longer accepts payment plans directly with patients for more than 120 days.

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

	2017	**2016**
Receivables from patients and their insurance carriers	**$ 4,094,556**	$ 2,477,220
Receivables from Medicare	**818,882**	1,114,446
Receivables from Medicaid	**341,800**	431,498
Total patient accounts receivable	**5,255,238**	4,023,164
Less allowance for uncollectible accounts	**1,772,934**	1,003,934
Patient accounts receivable, net	**$ 3,482,304**	$ 3,019,230

4. Property Taxes:

The Klickitat 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 assessed as of the same date and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Klickitat County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

Taxes are due in two equal amounts by April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

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

The District has two levies: maintenance and operations (M&O) levy, and 2007 bond and timber assessed value levy.

The District's tax levies are comprised of the following:

2017

		Assessed Value			Total
	Levy Rate	**Regular**	**Bond**	**Timber**	**Levy Amount**
2007 Bond and timber levy	0.4383	$ -	$ 1,320,513,867	$ 51,237,789	**$ 601,300**
M&O levy	0.5838	1,333,589,467	-	-	**778,600**

2016

		Assessed Value			Total
	Levy Rate	**Regular**	**Bond**	**Timber**	**Levy Amount**
2007 Bond and timber levy	0.4195	$ -	$ 1,366,682,062	$ 60,360,550	**$ 598,700**
M&O levy	0.5595	1,377,464,225	-	-	**770,700**

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.

5. Capital Assets:

All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation over these asset lives:

Land improvements	3 to 40 years
Buildings and building improvements	5 to 40 years
Equipment	3 to 26 years

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

5. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Capital assets not being depreciated					
Land	$ 203,706	$ -	$ -	$ -	**$ 203,706**
Construction in progress	87,181	1,988,687	-	(1,716,873)	**358,995**
Total capital assets not being depreciated	290,887	1,988,687	-	(1,716,873)	**562,701**
Capital assets being depreciated					
Buildings and improvements	17,747,246	29,710	-	1,445,263	**19,222,219**
Land improvements	1,660,085	19,415	-	52,453	**1,731,953**
Equipment	6,282,587	346,331	(47,944)	219,157	**6,800,131**
Total capital assets being depreciated	25,689,918	395,456	(47,944)	1,716,873	**27,754,303**
Less accumulated depreciation for					
Buildings and improvements	(9,991,872)	(626,701)	-	-	**(10,618,573)**
Land improvements	(1,029,564)	(101,756)	-	-	**(1,131,320)**
Equipment	(5,149,103)	(480,371)	47,944	-	**(5,581,530)**
Total accumulated depreciation	(16,170,539)	(1,208,828)	47,944	-	**(17,331,423)**
Total capital assets being depreciated, net	9,519,379	(813,372)	-	1,716,873	**10,422,880**
Capital assets, net	$ 9,810,266	$ 1,175,315	$ -	$ -	**$ 10,985,581**

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Capital assets not being depreciated					
Land	$ 203,706	$ -	$ -	$ -	**$ 203,706**
Construction in progress	168,877	296,112	-	(377,808)	**87,181**
Total capital assets not being depreciated	372,583	296,112	-	(377,808)	**290,887**
Capital assets being depreciated					
Buildings and improvements	17,538,132	50,438	-	158,676	**17,747,246**
Land improvements	1,375,631	65,322	-	219,132	**1,660,085**
Equipment	5,839,747	442,840	-	-	**6,282,587**
Total capital assets being depreciated	24,753,510	558,600	-	377,808	**25,689,918**
Less accumulated depreciation for					
Buildings and improvements	(9,315,682)	(676,190)	-	-	**(9,991,872)**
Land improvements	(933,254)	(96,310)	-	-	**(1,029,564)**
Equipment	(4,638,440)	(510,663)	-	-	**(5,149,103)**
Total accumulated depreciation	(14,887,376)	(1,283,163)	-	-	**(16,170,539)**
Total capital assets being depreciated, net	9,866,134	(724,563)	-	377,808	**9,519,379**
Capital assets, net	$ 10,238,717	$ (428,451)	$ -	$ -	**$ 9,810,266**

5. Capital Assets (continued):

Construction in progress as of December 31, 2017, consisted of the following:

- Architect costs associated with remodel of second floor of clinic; estimated cost to complete is $250,000, with estimated completion by December 2018.
- Architect and engineering costs associated with construction of a parking lot; estimated cost to complete is $100,000, with estimated completion in 2019.
- Costs for upgrading HVAC and lighting for energy grant; estimated cost to complete is $680,000, with estimated completion by December 2018.

6. Defined Contribution Retirement Plan:

The District contributes to the Klickitat Valley Hospital Retirement Plan II (the 403(b) Plan), a defined contribution pension plan, for its employees who have completed 12 months of service (1,000 hours in the preceding 12-month period) and have attained age 21. This employer-sponsored 403(b) Plan is administered by VALIC. Benefit terms, including contribution requirements, for the 403(b) Plan are established and may be amended by the District. The District has approved for all employees who are members of a recognized bargaining unit a 2.5 percent contribution on all eligible compensation until further notice. For employees who do not belong to a recognized bargaining unit, the District will match up to 4 percent of an employee's compensation. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2017 and 2016, employee contributions were approximately $514,000 and $490,000, respectively, and the District's contributions to the 403(b) Plan were approximately $278,000 and $233,000, respectively.

All contributions to the 403(b) Plan are 100 percent vested at all times. The District had no material liability to the 403(b) Plan at December 31, 2017 and 2016.

7. Defined Benefit Retirement Plan:

Plan description – The Klickitat Valley Hospital Retirement Plan and Trust (the Plan) was a single-employer defined benefit retirement plan administered by Morgan Stanley Smith Barney for employees of the District. Required contributions and benefit provisions were established and can be amended by the Board of Commissioners.

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

Benefits provided – Until January 1, 1989, the District provided the defined benefit noncontributory pension plan for all full-time employees who had one year of service and reached age 25. Benefits were based on years of service and career compensation. The District's general policy was to fund the minimum contribution that would have been required if the District had been subject to Internal Revenue Service regulations.

7. Defined Benefit Retirement Plan (continued):

Benefits provided (continued) – At December 31, 2017 and 2016, the following employees were covered by the Plan:

	2017	**2016**
Active employees	-	-
Inactive employees or beneficiaries currently receiving benefits	6	7
Inactive employees entitled to but not yet receiving benefits	-	-
	6	7

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

There is no annual covered payroll and, therefore, the ratio of the unfunded actuarial liability and contributions to annual covered payroll is zero. The District is liable for the unfunded portion of the Plan. The District's required contribution for the years ended December 31, 2017 and 2016, were $51,708 and $60,103, respectively. Actual contributions for the years equaled $49,454 and $54,751, or 95.6 percent and 91.1 percent, respectively, of required contributions.

Net pension liability – The District's net pension liability was measured as of December 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability in the December 31, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	**2016**
Inflation	0%	0%
Salary increases	0%	0%
Investment rate of return	1.90%	1.50%

The actuarial assumptions used in the December 31, 2017 and 2016, valuations were based on the results of an actuarial experience study for the periods January 1, 2017 through December 31, 2017, and January 1, 2016 through December 31, 2016, respectively. In addition, mortality rates were based on the RP-2014 Male/Female Tables with MP-2017 Improvement Scales.

The Plan uses the Entry Age Normal Cost Method. This method determines a current year's cost or "normal cost" as the total of each participant's annual amount necessary to fund the projected benefit over a level percentage of compensation from the date of hire to the date of anticipated retirement.

7. Defined Benefit Retirement Plan (continued):

Net pension liability (continued) – The target allocation and best estimate of arithmetic real rates of return are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash	100%	1.90%

Discount rate – The discount rate used to measure the total pension liability was 2.54 percent. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Defined Benefit Retirement Plan (continued):

Changes in the District's net pension liability – Changes in the District's net pension liability were as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, December 31, 2016	$ 364,353	$ 76,153	$ 288,200
Changes for the year:			
Interest	5,068	-	5,068
Difference between expected and actual experience	(28,145)	-	(28,145)
Changes of assumptions	(12,580)	-	(12,580)
Net investment income	-	12	(12)
Contributions – employer	-	49,454	(49,454)
Benefit payments including refunds of employee contributions	(53,016)	(53,016)	-
Administrative expense	-	(70)	70
Net changes	(88,673)	(3,620)	(85,053)
Balance, December 31, 2017	**$ 275,680**	**$ 72,533**	**$ 203,147**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, December 31, 2015	$ 320,103	$ 76,146	$ 243,957
Changes for the year:			
Interest	5,270	-	5,270
Difference between expected and actual experience	19,423	-	19,423
Changes of assumptions	74,258	-	74,258
Net investment income	-	7	(7)
Contributions – employer	-	54,751	(54,751)
Benefit payments including refunds of employee contributions	(54,701)	(54,701)	-
Administrative expense	-	(50)	50
Net changes	44,250	7	44,243
Balance, December 31, 2016	**$ 364,353**	**$ 76,153**	**$ 288,200**

7. Defined Benefit Retirement Plan (continued):

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

	Discount Rate	Net Pension Liability 2017	Discount Rate	Net Pension Liability 2016
1% decrease	1.54%	$ 215,222	0.50%	$ 307,347
Current discount rate	2.54%	$ 203,147	1.50%	$ 288,200
1% increase	3.54%	$ 192,026	2.50%	$ 270,809

Pension expense, deferred outflows of resources, and deferred inflows of resources – For the years ended December 31, 2017 and 2016, the District recognized pension expense of ($35,823) and $98,761, respectively. At December 31, 2017 and 2016, the District reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

8. Long-term Debt:

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

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
Long-term debt					
2017 LTGO bond anticipation note	$ -	$ 1,000,000	$ -	$ 1,000,000	$ -
2007 LTGO bonds	2,975,000	-	(145,000)	2,830,000	155,000
2007 UTGO bonds	2,135,000	-	(495,000)	1,640,000	525,000
Series 2010D COP	20,561	-	(20,561)	-	-
Series 2014B COP	1,225,000	-	(70,000)	1,155,000	70,000
Recourse financing, collateralized patient notes receivable	206,162	252,533	(266,142)	192,553	127,653
Bond premiums and discounts	144,034	-	(9,763)	134,271	-
Total long-term debt	**$ 6,705,757**	**$ 1,252,533**	**$ (1,006,466)**	**$ 6,951,824**	**$ 877,653**

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
Long-term debt					
2007 LTGO bonds	$ 3,110,000	$ -	$ (135,000)	$ 2,975,000	$ 145,000
2007 UTGO bonds	2,610,000	-	(475,000)	2,135,000	495,000
Series 2010D COP	40,331	-	(19,770)	20,561	20,561
Series 2011D COP	60,435	-	(60,435)	-	-
Series 2014B COP	1,290,000	-	(65,000)	1,225,000	70,000
Recourse financing, collateralized patient notes receivable	224,927	264,920	(283,685)	206,162	138,262
Bond premiums and discounts	156,715	-	(12,681)	144,034	-
Total long-term debt	**$ 7,492,408**	**$ 264,920**	**$ (1,051,571)**	**$ 6,705,757**	**$ 868,823**

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

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

- Limited tax general obligation (LTGO) bond anticipation note dated September 28, 2017, in the original amount of $1,000,000, payable in full to Columbia State Bank by September 28, 2020, with variable rate interest at Columbia Bank Base rate plus 0.50 percent. The District issued the bond as interim financing for United States Department of Agriculture (USDA) Community Facilities Loan of the same amount to remodel the District's physical therapy space. Upon project completion, the USDA will release final project funds, with which the District will pay off the interim financing. USDA loan will be payable monthly over a period of thirty years, with interest at 2.375 percent.

- LTGO bonds dated April 12, 2007, in the original amount of $4,080,000, payable annually on December 1, with variable principal payments ranging from $155,000 to $265,000. Variable rate interest of 4.1 percent to 4.5 percent is payable semiannually through December 2031. The District issued the bonds to purchase an assisted living facility (now the physician clinic building), previously owned by Klickitat Valley Hospital Memorial Foundation. All LTGO bonds are general obligations of the District and secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

- Unlimited tax general obligation (UTGO) bonds dated April 12, 2007, in the original amount of $4,870,000, payable annually on December 1, with variable principal payments ranging from $525,000 to $570,000, plus semiannual rate interest of 4.5 percent through December 2020. The District issued the bonds to refund a portion of the outstanding 2000 UTGO Bonds. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest due. The UTGO bonds are direct and general obligations, 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 2007 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.

- State of Washington Certificates of Participation (COP), Series 2010D dated November 1, 2010, in the original amount of $128,758, paid off in 2017.

- State of Washington Certificates of Participation (COP), Series 2011D dated November 17, 2011, in the original amount of $284,548, paid off in 2016.

- State of Washington Certificates of Participation (COP), Series 2014B dated August 12, 2014, in the original amount of $1,350,000, payable semiannually on June 1 and December 1, with variable principal payments ranging from $70,000 to $120,000, plus semiannual interest of 2.78 percent through June 2029. The State of Washington issued the COP for the District's physician clinic building remodel and is collateralized by the physician clinic building.

8. Long-term Debt (continued):

Aggregate annual principal and interest payments over the terms of long-term debt are as follows:

Years Ending	UTGO Bonds			LTGO Bonds		
December 31,	Principal	Interest	Totals	Principal	Interest	Totals
2018	$ 525,000	$ 73,800	$ 598,800	$ 155,000	$ 122,438	$ 277,438
2019	545,000	50,175	595,175	160,000	116,160	276,160
2020	570,000	25,650	595,650	1,165,000	267,180	1,432,180
2021	-	-	-	170,000	102,915	272,915
2022	-	-	-	180,000	95,945	275,945
2023-2027	-	-	-	1,015,000	357,263	1,372,263
2028-2032	-	-	-	985,000	111,110	1,096,110
	$ 1,640,000	**$ 149,625**	**$ 1,789,625**	**$ 3,830,000**	**$ 1,173,011**	**$ 5,003,011**

Years Ending	Certificate of Participation			Recourse Financing		
December 31,	Principal	Interest	Totals	Principal	Interest	Totals
2018	$ 70,000	$ 49,400	$ 119,400	$ 127,653	$ -	$ 127,653
2019	75,000	45,775	120,775	64,900	-	64,900
2020	80,000	41,900	121,900	-	-	-
2021	85,000	37,775	122,775	-	-	-
2022	90,000	33,400	123,400	-	-	-
2023-2027	520,000	93,850	613,850	-	-	-
2028-2032	235,000	7,575	242,575	-	-	-
	$ 1,155,000	**$ 309,675**	**$ 1,464,675**	**$ 192,553**	**$ -**	**$ 192,553**

Years Ending	Total Long-Term Debt		
December 31,	Principal	Interest	Totals
2018	$ 877,653	$ 245,638	$ 1,123,291
2019	844,900	212,110	1,057,010
2020	1,815,000	334,730	2,149,730
2021	255,000	140,690	395,690
2022	270,000	129,345	399,345
2023-2027	1,535,000	451,113	1,986,113
2028-2032	1,220,000	118,685	1,338,685
	$ 6,817,553	**$ 1,632,311**	**$ 8,449,864**

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

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 10,450,618**	$ 10,359,784
Medicaid	**6,522,605**	5,759,804
Other third-party payors	**4,069,502**	4,552,888
Patients	**2,310,047**	1,627,996
	23,352,772	22,300,472
Less:		
Charity care	**283,395**	314,872
Provision for bad debts	**1,497,396**	1,228,017
Net patient service revenue	**$ 21,571,981**	$ 20,757,583

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The rural health clinic is also paid under a cost reimbursement method. Nonrural health clinic physician services are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

- *Medicaid* – Reimbursement for most inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. The rural health clinic is paid under a prospective rate per encounter methodology. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the District and review thereof by the Washington State Health Care Authority.

9. 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 increased by approximately $39,000 and $60,000 in 2017 and 2016, 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, 2017 and 2016, were approximately $156,000 and $178,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

10. Risk Management and Contingencies:

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

Medical malpractice claims – The District has professional liability insurance coverage with Physicians Insurance. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $5,000,000. The policy has no deductible per claim.

The District also has excess professional liability insurance with Physicians Insurance on a “claims-made” basis. The excess malpractice insurance provides $4,000,000 per claim of primary coverage with an aggregate limit of $4,000,000. The policy has no deductible per claim.

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

10. Risk Management and Contingencies (continued):

Self-insurance risk pools – The District has a self-insured workers' compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers' Compensation Trust and the Public Hospital District Unemployment Trust, which are risk transfer pools administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation claims, unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers' compensation expense were approximately $(21,500) (net of $134,750 in dividends) and $45,000 (net of a $122,097 dividend) in 2017 and 2016, respectively. Payments by the District charged to unemployment expense were approximately $64,000 and $2,000 (net of a $54,456 dividend) in 2017 and 2016, respectively.

Law Enforcement Officers' And Firefighters' Retirement System Plan 2 – In 2017, emergency medical technicians were granted retroactive eligibility from July 1, 2005, forward to participate in the Washington Law Enforcement Officers' and Firefighters' Retirement System Plan 2 by the Washington State Legislature. The District's pension liability under the rule change has not yet been determined.

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.

Collateralized accounts receivable – The District transfers to a financial institution certain patient receivable balances; however, these transfers are subject to recourse and as a result, do not meet the criteria for a sale in accordance with current accounting standards. Accordingly, the transfer of these receivables is accounted for as a collateralized borrowing. Related collateralized receivables and notes payable are shown on the statements of net position. Collateralized accounts receivable, net of allowances, are as follows:

	2017	**2016**
Collateralized patient accounts receivable	**$ 192,553**	$ 206,160
Less allowance for uncollectible accounts	**68,885**	81,588
Net collateralized patient accounts receivable	**$ 123,668**	$ 124,572

During 2017 and 2016, the District transferred $252,533 and $264,920, respectively, of such receivables.

11. Concentration of Risks:

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

The mix of receivables from patients was as follows:

	2017	2016
Medicare	**23 %**	33 %
Medicaid	**11**	17
Other third-party payors	**36**	28
Patients	**30**	22
	100 %	100 %

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

Collective bargaining unit – Effective July 1, 2014, the District renewed its contract with a labor union. As of December 31, 2017 and 2016, approximately 54 percent and 58 percent, respectively, of the District’s employees were represented by the union under a collective bargaining agreement with Service Employees International Union 1199NW. The contract is effective through June 30, 2021.

12. Subsequent Event:

The District was approved for a Klickitat Valley Health Energy Efficiency Loan in the amount of $366,683, with interest at 3.674 percent payable through January 2025. Funds will be used to upgrade HVAC and lighting, in conjunction with an energy grant from the Washington State Department of Commerce.

SINGLE AUDIT

AUDITORS' SECTION

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 of Klickitat County
doing business as Klickitat Valley Health
Goldendale, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 4, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 4, 2018

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners
Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Goldendale, Washington

Report on Compliance for Major Federal Program

We have audited Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2017. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the District's major federal program. However, our audit does not provide a legal determination of the District's compliance.

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Opinion on Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the District's major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 4, 2018

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2017

Section I – Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	***Unmodified***			
Internal control over financial reporting:				
• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified?	____	yes	X	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards:

Internal control over major federal program:				
• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified?	____	yes	X	none reported
Type of auditors' report issued on compliance for major federal program:	***Unmodified***			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	yes	X	no

Identification of major program:

CFDA Number(s)	*Name of Federal Program or Cluster*
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ____ yes X no

Section II – Financial Statement Findings
No matters were reported. Therefore, no corrective action plan is necessary, nor has one been prepared.

Section III – Federal Award Findings and Questioned Costs
No matters were reported. Therefore, no corrective action plan is necessary, nor has one been prepared.

AUDITEE'S SECTION

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Agriculture Direct Programs:			
Community Facilities Loans and Grants	10.766		$ 1,000,000
Total U.S. Department of Agriculture Direct Programs			1,000,000
U.S. Department of Health and Human Services Pass-Through Programs From:			
Washington Rural Health Collaborative			
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	D06RH27795	2,748
Washington State Department of Health			
Small Rural Hospital Improvement Grant Program	93.301	HSP22956	8,642
Total U.S. Department of Health and Human Services Pass-Through Programs			11,390
Total expenditures of federal awards			**$ 1,011,390**

See accompanying independent auditors' report. The accompanying notes are an integral part of this schedule.

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (the District) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the net position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Loan Guarantee:

Nonmonetary assistance in the form of a loan guarantee is included in the accompanying Schedule. Loans made during the year for the District's remodel of physical therapy space are included in the federal expenditures presented in the Schedule. The construction is being funded by interim financing from Columbia State Bank. A United States Department of Agriculture Rural Development (USDA) Direct Loan will repay the interim financing when construction is completed. The related interim financing balance was $100,000 at December 31, 2017.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

2016-001: Rural Health Clinic (RHC) Medicaid Managed Care Settlement Prior Period Adjustment – Resolved in 2017