Office of the Washington State Auditor
Pat McCarthy

February 7, 2019

Board of Commissioners
Kittitas County Public Hospital District No. 2
Cle Elum, 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 Kittitas County Public Hospital District No. 2's financial statements 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 and, accordingly, we do not express an opinion on those financial statements.

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

Kittitas County
Public Hospital District No. 2

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Kittitas County Public Hospital District No. 2
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Kittitas County Public Hospital District No. 2
Cle Elum, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Kittitas County Public Hospital District No. 2 (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 omitted 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 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.

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Share of Net Pension Liability – Washington State Public Employees' Retirement System – Public Employees Pension Plans 1 and 2/3 and Schedule of the District's Contributions – Washington State Public Employees' Retirement System – Public Employees Pension Plans 1 and 2/3 on pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 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 for the year ended December 31, 2017. We issued a similar report for the year ended December 31, 2016, dated June 19, 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 for each year and not to provide an opinion on the 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 23, 2018

Kittitas County Public Hospital District No. 2
Statements of Net Position
December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
Current assets		
Cash and cash equivalents	**$ 1,707,953**	$ 1,221,111
Investments	**2,237,492**	2,237,285
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately $66,000 and $40,000, respectively	**119,940**	93,752
Taxes	**64,032**	48,041
Other	**39,417**	19,673
Prepaid expenses	**4,801**	4,225
Total current assets	**4,173,635**	3,624,087
Noncurrent assets, capital assets, net	**4,291,196**	4,603,105
Total assets	**8,464,831**	8,227,192
Deferred outflows of resources, pension plans	**104,300**	152,096
Total assets and deferred outflows of resources	**$ 8,569,131**	$ 8,379,288

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 2
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
Current liabilities		
Accounts payable	**$ 37,669**	$ 30,224
Accrued compensation and related liabilities	**24,527**	22,963
Accrued vacation	**36,232**	23,675
Accrued interest	**12,497**	13,083
Current maturities of long-term debt	**153,409**	146,303
Total current liabilities	**264,334**	236,248
Noncurrent liabilities		
Long-term debt, net of current maturities	**2,970,934**	3,124,343
Net pension liability	**492,745**	622,099
Total noncurrent liabilities	**3,463,679**	3,746,442
Total liabilities	**3,728,013**	3,982,690
Deferred inflows of resources, pension plans	**81,035**	11,208
Total liabilities and deferred inflows of resources	**3,809,048**	3,993,898
Net position		
Net investment in capital assets	**1,154,356**	1,319,376
Unrestricted	**3,605,727**	3,066,014
Total net position	**4,760,083**	4,385,390
Total liabilities, deferred inflows of resources, and net position	**$ 8,569,131**	$ 8,379,288

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 2
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 $67,554 and $61,092, respectively	**$ 721,120**	$ 648,832
Rental income	**284,900**	253,738
Other	**101**	17,836
Total operating revenues	**1,006,121**	920,406
Operating expenses		
Salaries and wages	**758,954**	719,197
Employee benefits	**249,782**	237,978
Supplies	**42,098**	24,201
Professional fees	**241,872**	216,526
Depreciation	**317,304**	329,543
Insurance	**25,890**	23,181
Utilities	**60,666**	49,473
Repairs and maintenance	**59,694**	37,738
Other	**21,922**	34,088
Total operating expenses	**1,778,182**	1,671,925
Operating loss	**(772,061)**	(751,519)
Nonoperating revenues (expenses)		
Contributions	**-**	15,021
Property tax revenue	**1,274,459**	1,193,596
Investment income	**26,966**	23,021
Interest expense	**(154,671)**	(161,476)
Total nonoperating revenues (expenses), net	**1,146,754**	1,070,162
Change in net position	**374,693**	318,643
Net position, beginning of year	**4,385,390**	4,066,747
Net position, end of year	**$ 4,760,083**	$ 4,385,390

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 2
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		
Receipts from and on behalf of patients	**$ 694,932**	$ 686,505
Rental and other receipts	**265,257**	257,140
Payments to and on behalf of employees	**(1,006,346)**	(911,838)
Payments to suppliers and contractors	**(445,273)**	(404,411)
Net cash used in operating activities	**(491,430)**	(372,604)
Cash flows from noncapital financing activities		
Contributions received	**-**	15,021
Property taxes received	**1,258,468**	1,234,034
Net cash provided by noncapital financing activities	**1,258,468**	1,249,055
Cash flows from capital and related financing activities		
Purchase of capital assets	**(5,395)**	(205,590)
Principal paid on long-term debt	**(146,303)**	(139,525)
Interest paid on long-term debt	**(155,257)**	(162,034)
Net cash used in capital and related financing activities	**(306,955)**	(507,149)
Cash flows from investing activities, interest received	**26,759**	14,099
Net increase in cash and cash equivalents	**486,842**	383,401
Cash and cash equivalents, beginning of year	**1,221,111**	837,710
Cash and cash equivalents, end of year	**$ 1,707,953**	$ 1,221,111

See accompanying notes to basic financial statements.

Kittitas County Public Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

		2017		2016
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	**$**	**(772,061)**	$	(751,519)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation		**317,304**		329,543
Provision for bad debts		**67,554**		61,092
Decrease (increase) in assets:				
Patient accounts receivable, net		**(93,742)**		(23,419)
Other receivables		**(19,744)**		(14,434)
Prepaid expenses		**(576)**		2,462
Deferred outflows of resources, pension plans		**47,796**		(57,817)
Increase (decrease) in liabilities:				
Accounts payable		**7,445**		(21,666)
Accrued compensation and related liabilities		**1,564**		13,081
Accrued vacation		**12,557**		376
Net pension liability		**(129,354)**		151,108
Deferred inflows of resources, pension plans		**69,827**		(61,411)
Net cash used in operating activities	**$**	**(491,430)**	$	(372,604)

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Kittitas County Public Hospital District No. 2 (the District) owns and operates an ambulance service for the upper Kittitas County. The District also leases a building to Kittitas Valley Healthcare for their operation of the KVH Family Medicine – Cle Elum and KVH Urgent Care – Cle Elum. The District subsidizes annual losses at the Cle Elum Urgent Care Clinic up to $163,200. No subsidies were required in 2017 and 2016.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from payment of federal income tax. The Board of Commissioners consists of five community members elected to six-year terms. The District is not a component unit of Kittitas County, Washington.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise fund accounting – The District's financial statements conform to accounting principles generally accepted in the United States of America for 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 – For purposes of the statements of cash flows, the District considers all cash and cash investments with maturity dates of less than 90 days as cash and cash equivalents.

Investments – Investments are stated at fair value as determined by quoted market prices. Market risk could occur and is dependent on the future changes in market prices of the various investments held. Investment income, consisting of interest and dividend income earned and gains or losses on those investments, is included in nonoperating revenue when earned.

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

Accrued vacation – The District provides paid vacation to full-time employees. Vacation time accrues at a rate based on years of service. Employees may carry over a maximum of one and one-half times their annual vacation hours to the following year. Any vacation time accrued by the employee is available upon request. An employee may not substitute sick leave hours for vacation hours. All vacation pay is accrued when earned.

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

b. Summary of Significant Accounting Policies (continued)

Net position – *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is assets that must be used for a particular purpose as specified by creditors, donors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*. The District did not have any *restricted net position* at December 31, 2017 and 2016.

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

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

Grants and contributions – From time to time, the District receives grants from 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.

Subsequent events – Subsequent events have been reviewed through May 23, 2018, the date on which the financial statements were available to be issued.

Upcoming accounting standard 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.

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – 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 31, 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 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 31, 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)

Upcoming accounting standard pronouncements (continued) – 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 31, 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.

2. Bank Deposits and Investments:

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

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in multiple financial institution collateral pools administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District's agent in the District's name. The District's investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

2. Bank Deposits and Investments (continued):

Credit risk – The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a policy specifically requiring or limiting types of investments.

Concentration of credit risk – The risk of the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a specific policy limiting the amount it may invest in any one issuer or multiple issuers.

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

Fair value **–** The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of December 31, 2017 and 2016, respectively:

- Government agency securities are valued using quoted market prices (Level 1 inputs).

The District's investments are as follows:

	2017					
		Investment Maturities (in Years)				
	Fair Value	Less Than One	One to Five	Six to Ten	More than Ten	Investment Ratings
Government agency securities	**$ 2,237,492**	$ 1,493,299	$ 744,193	$ -	$ -	AAA

	2016					
		Investment Maturities (in Years)				
	Fair Value	Less Than One	One to Five	Six to Ten	More than Ten	Investment Ratings
Government agency securities	**$ 2,237,285**	$ 747,102	$ 1,490,183	$ -	$ -	AAA

3. Patient Accounts Receivable:

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

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

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

	2017	**2016**
Receivables from patients and their insurance carriers	**$ 166,543**	$ 114,898
Receivables from Medicare	**17,564**	14,905
Receivables from Medicaid	**2,224**	3,676
Total patient accounts receivable	**186,331**	133,479
Less allowance for uncollectible accounts	**66,391**	39,727
Patient accounts receivable, net	**$ 119,940**	$ 93,752

4. Property Taxes:

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the Kittitas County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. 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.

For 2017, the District’s regular tax levy was approximately $0.25 per $1,000 on a total assessed valuation of $2,476,264,599, for a total regular levy of $631,158. The District also received an EMS levy of approximately $0.25 per $1,000 on a total assessed valuation of $2,476,264,599, for a total EMS levy of $619,066.

For 2016, the District’s regular tax levy was approximately $0.25 per $1,000 on a total assessed valuation of $2,398,308,295, for a total regular levy of $609,000. The District also received an EMS levy of approximately $0.24 per $1,000 on a total assessed valuation of $2,398,308,295, for a total EMS levy of $581,753.

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:

Capital assets are depreciated by the straight-line method of depreciation using the following estimated useful lives:

Buildings and building improvements	10 to 30 years
Equipment and vehicles	3 to 10 years

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	$ 843,524	$ -	$ -	$ -	**$ 843,524**
Capital assets being depreciated					
Buildings and building improvements	5,347,653	5,395	-	-	**5,353,048**
Equipment and vehicles	1,093,201	-	(264,107)	-	**829,094**
Total capital assets being depreciated	6,440,854	5,395	(264,107)	-	**6,182,142**
Less accumulated depreciation for					
Buildings and building improvements	(2,095,662)	(164,095)	-	-	**(2,259,757)**
Equipment and vehicles	(585,611)	(153,209)	264,107	-	**(474,713)**
Total accumulated depreciation	(2,681,273)	(317,304)	264,107	-	**(2,734,470)**
Total capital assets being depreciated, net	3,759,581	(311,909)	-	-	**3,447,672**
Total capital assets, net	**$ 4,603,105**	**$ (311,909)**	**$ -**	**$ -**	**$ 4,291,196**

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Capital assets not being depreciated					
Land	$ 843,524	$ -	$ -	$ -	**$ 843,524**
Capital assets being depreciated					
Buildings and building improvements	5,347,653	-	-	-	**5,347,653**
Equipment and vehicles	1,042,082	205,590	(154,471)	-	**1,093,201**
Total capital assets being depreciated	6,389,735	205,590	(154,471)	-	**6,440,854**
Less accumulated depreciation for					
Buildings and building improvements	(1,931,791)	(163,871)	-	-	**(2,095,662)**
Equipment and vehicles	(574,410)	(165,672)	154,471	-	**(585,611)**
Total accumulated depreciation	(2,506,201)	(329,543)	154,471	-	**(2,681,273)**
Total capital assets being depreciated, net	3,883,534	(123,953)	-	-	**3,759,581**
Total capital assets, net	**$ 4,727,058**	**$ (123,953)**	**$ -**	**$ -**	**$ 4,603,105**

6. Long-term Debt:

A schedule of changes in the District's long-term debt was as follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amount Due Within One Year
2007 Limited Tax General Obligation Bonds	$ 3,270,646	$ -	$ (146,303)	**$ 3,124,343**	**$ 153,409**

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amount Due Within One Year
2007 Limited Tax General Obligation Bonds	$ 3,410,171	$ -	$ (139,525)	**$ 3,270,646**	**$ 146,303**

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

Limited Tax General Obligation Bonds, dated March 8, 2007, in the original amount of $4,270,000, principal payments due semiannually at June 1 and December 1 in varying amounts from $153,409 in 2017 to $147,261 in 2032 plus interest at June 1 and December 1 at a rate of 4.80 percent.

The limited tax general obligations are 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 a tax each year upon the taxable property within the District.

Scheduled principal and interest payments on long-term debt are as follows:

Years Ending December 31,	**Long-term Debt Principal**	**Interest**	**Total**
2018	$ 153,409	$ 148,149	$ 301,558
2019	160,862	140,697	301,559
2020	168,676	132,884	301,560
2021	176,869	124,689	301,558
2022	185,461	116,098	301,559
2023-2027	1,071,517	436,279	1,507,796
2028-2032	1,207,549	149,486	1,357,035
	$ 3,124,343	**$ 1,248,282**	**$ 4,372,625**

7. 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 the year ended December 31, 2017. 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	**$**	**279,073**	$	298,676
Medicaid		**80,446**		63,574
Other third-party payors		**349,698**		265,826
Patients		**82,831**		83,214
		792,048		711,290
Less:				
Charity care		**3,374**		1,366
Provision for bad debts		**67,554**		61,092
Net patient service revenue	**$**	**721,120**	$	648,832

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. The basis for payment to the District under these agreements includes prospectively determined rates per trip and discounts from established charges.

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 $4,000 and $2,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

8. Risk Management and Contingencies:

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

Medical malpractice claims – The District has its professional liability insurance coverage with Volunteer Fireman's Insurance Service (VFIS). The policy provides protection on an "occurrence" basis.

The current malpractice insurance provides $1,000,000 per claim of primary coverage with a $2,000,000 annual aggregate limit. There are no significant deductibles or coinsurance clauses.

The District also maintains excess liability insurance through VFIS that provides an additional $4,000,000 to the per-claim coverage and an additional $4,000,000 to the annual aggregate limit.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. 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. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

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

9. Defined Benefit Pension Plans:

Plan description – The District contributes to the Washington Public Employees' Retirement System Plan 1 (PERS 1), the Washington Public Employees' Retirement System Plan 2 and the Washington Public Employees' Retirement System Plan 3 (PERS 2/3) (the Plans), which are cost-sharing multiple-employer defined benefit pension plans administered by the Washington State Department of Retirement Systems (DRS) that covers public employees of the State of Washington, its agencies, and various participating political subdivisions. The cost to administer the Plans is financed through the contributions and investment earnings of the Plans.

The DRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and the required supplementary information for the Plans. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

9. Defined Benefit Pension Plans (continued):

Plan description (continued) – Also, the DRS CAFR may be downloaded from the DRS website at the following url: http://www.drs.wa.gov/administration/annual-report/

The State Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

Employee membership data related to the Plans, as of June 30, 2017, the date of the latest valuation, were as follows:

PERS Plan 1	
Retirees and beneficiaries currently receiving benefits	48,268
Terminated employees entitled to but not yet receiving benefits	663
Active plan members	2,593
	51,524

PERS Plan 2	
Retirees and beneficiaries currently receiving benefits	46,675
Terminated employees entitled to but not yet receiving benefits	27,835
Active plan members	122,390
	196,900

PERS Plan 3	
Retirees and beneficiaries currently receiving benefits	4,276
Terminated employees entitled to but not yet receiving benefits	5,601
Active plan members	34,458
	44,335

Benefits provided **–** The Plans provide retirement, disability, and death benefits to eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of eligible service for PERS Plans 1 & 2 and after ten years of service or after five years of service if 12 months of that service are earned after age 44 for PERS Plan 3. Members of PERS 1 are eligible for retirement with full benefits at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members are eligible for retirement with full benefits at age 65 with at least five years of service for PERS 2/3.

Other benefits of the Plans include duty and nonduty disability payments; a cost-of-living adjustment (COLA) based on the consumer price index, capped at three percent annually; and a one-time, duty-related death benefit, if found eligible by the Washington State Department of Labor & Industries.

Member and employer contributions – Member and employer contributions paid to the Plans are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the Washington State Legislature. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

9. Defined Benefit Pension Plans (continued):

Member and employer contributions **–** Contribution rates for the Plans were as follows:

Plan	Contribution Rate	Effective July 1, 2017	Effective July 1, 2016
PERS 1	Employer	11.18%	11.18%
PERS 1	Employee	6.00%	6.00%
PERS 2/3	Employer	11.18%	11.18%
PERS 2/3	Employee	6.12%	6.12%

The District's employer contributions were $81,745 and $72,399 for the years ended December 31, 2017 and 2016, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – The District's proportionate share of the collective net pension liabilities were as follows:

	2017	
Plan	**Allocation %**	**Liability (Asset)**
PERS 1	0.005348%	$ 253,767
PERS 2/3	0.006878%	238,978
Total		**$ 492,745**

	2016	
Plan	**Allocation %**	**Liability (Asset)**
PERS 1	0.005262%	$ 282,594
PERS 2/3	0.006743%	339,505
Total		**$ 622,099**

9. Defined Benefit Pension Plans (continued):

The net pension liabilities were measured as of June 30, 2017, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The District's proportion of the net pension liabilities were based on the District's share of contributions in the Plans relative to the total contributions of all participating PERS 2/3 employers. Although the District's employees are only members of the PERS 2/3 Plans, a portion of all contributions made by PERS employers are diverted to fund the PERS 1 Unfunded Actuarial Accrued Liability (UAAL). Therefore, the District is required to record its share of the PERS 1 UAAL. For the years ended December 31, 2017 and 2016, the District recognized pension expense of $71,841 and $105,960, respectively. In addition, at December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2017

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Net difference between projected and actual earnings on plan investments	$ -	$ 9,470
The District's contributions subsequent to the measurement date	19,562	-
	19,562	**9,470**
PERS 2/3		
Differences between expected and actual experience	24,214	7,860
Changes in assumptions or other inputs	2,538	-
Change in proportionate share of net pension liabilities	32,437	-
Net difference between projected and actual earnings on plan investments	-	63,705
The District's contributions subsequent to the measurement date	25,549	-
	84,738	**71,565**
Total	**$ 104,300**	**$ 81,035**

9. Defined Benefit Pension Plans (continued):

2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1		
Net difference between projected and actual earnings on plan investments	$ 7,115	$ -
The District's contributions subsequent to the measurement date	16,293	-
	23,408	**-**
PERS 2/3		
Differences between expected and actual experience	18,078	11,208
Changes in assumptions or other inputs	3,509	-
Change in proportionate share of net pension liabilities	43,902	-
Net difference between projected and actual earnings on plan investments	41,546	-
The District's contributions subsequent to the measurement date	21,653	-
	128,688	**11,208**
Total	**$ 152,096**	**$ 11,208**

The $45,111 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018.

9. Defined Benefit Pension Plans (continued):

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

	PERS 1	
Years Ending December 31,	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
2018	$ -	$ (6,401)
2019	-	2,021
2020	-	(469)
2021	-	(4,621)
Total	**$ -**	**$ (9,470)**

	PERS 2/3	
Years Ending December 31,	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
2018	$ 28,209	(36,368)
2019	17,011	475
2020	4,262	(7,897)
2021	2,942	(27,775)
2022	2,942	-
Thereafter	3,823	-
Total	**$ 59,189**	**$ (71,565)**

Actuarial assumptions – Valuations are based on actuarial assumptions from the results of the 2007-2012 *Experience Study Report*.

The total pension liabilities in the June 30, 2017, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation.
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 combined table for healthy males or females as appropriate.

9. Defined Benefit Pension Plans (continued):

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the Washington State Investment Board (WSIB) develops a best estimate of expected future rates of return (expected returns net of pension plan investment expense but including inflation) for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in each of the Plan's target asset allocations as of June 30, 2017, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20.00%	1.70%
Tangible assets	5.00%	4.90%
Real estate	15.00%	5.80%
Global equity	37.00%	6.30%
Private equity	23.00%	9.30%
Total	**100.00%**	

Discount rate – The discount rate to measure the total pension liabilities was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on these assumptions, the Plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to determine the total pension liability.

9. Defined Benefit Pension Plans (continued):

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate – The following presents the District's proportionate share of the net pension liabilities calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liabilities would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
PERS 1		
1% decrease	6.50%	$ 309,136
Current discount rate	7.50%	$ 253,767
1% increase	8.50%	$ 205,805
PERS 2/3		
1% decrease	6.50%	$ 643,831
Current discount rate	7.50%	$ 238,978
1% increase	8.50%	$ (92,739)

Pension plan fiduciary net position – Detailed information about the Plans' fiduciary net position is available in the separately issued PERS financial report.

Payable to the pension plans – At December 31, 2017 and 2016, the District reported payables to the Plans of $5,411 and $4,314, respectively, for legally required employer and employee contributions that had been withheld from employee wages but had not yet been remitted to the DRS.

10. Risk Concentrations:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Collective bargaining unit – The District has collective bargaining agreements with the International Association of Firefighters Local 4880 through September 30, 2019. As of December 31, 2017 and 2016, approximately 50 percent of the District's employees were represented by the collective bargaining unit.

11. Rental Income:

The District leases a building to Kittitas Valley Healthcare for their operation of KVH Family Medicine – Cle Elum and KVH Urgent Care – Cle Elum. The lease will terminate in 2032. Future minimum lease payments to be received under the lease are as follows:

Years Ending December 31,	Total
2018	$ 287,988
2019	293,748
2020	299,628
2021	305,616
2022	311,724
2023-2027	1,654,692
2028-2032	1,826,904
	$ 4,980,300

REQUIRED SUPPLEMENTARY INFORMATION

Kittitas County Public Hospital District No. 2
Schedule of the District's Share of Net Pension Liability
Washington State Public Employees' Retirement System –
Public Employees Pension Plans 1 and 2/3
Last 10 Years *

PERS 1

June 30,	District's portion of the net pension liability	District's proportionate share of the net pension liability	District's covered-employee payroll	District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.004784%	$ 250,248	$ 568,776	44.00%	59.10%
2016	0.005262%	$ 282,594	$ 658,174	42.94%	57.03%
2017	0.005348%	$ 253,767	$ 694,871	36.52%	61.24%

PERS 2/3

June 30,	District's portion of the net pension liability	District's proportionate share of the net pension liability	District's covered-employee payroll	District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.006178%	$ 220,743	$ 568,776	38.81%	89.20%
2016	0.006743%	$ 339,505	$ 658,174	51.58%	85.82%
2017	0.006878%	$ 238,978	$ 694,871	34.39%	90.97%

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

Data reported is measured as of June 30 (measurement date) of each year reported.

Kittitas County Public Hospital District No. 2
Schedule of the District's Contributions
Washington State Public Employees' Retirement System –
Public Employees Pension Plans 1 and 2/3
Last 10 Years *

PERS 1

December 31,		Actuarilly determined contribution		Actual contribution		Contribution (deficiency) excess		District's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2015	$	21,720	$	25,335	$	3,615	$	568,776	4.45%
2016	$	32,804	$	31,416	$	(1,388)	$	658,174	4.77%
2017	$	35,118	$	35,448	$	330	$	694,871	5.10%

PERS 2/3

December 31,		Actuarilly determined contribution		Actual contribution		Contribution (deficiency) excess		District's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2015	$	28,548	$	31,707	$	3,159	$	568,776	5.57%
2016	$	44,699	$	40,983	$	(3,716)	$	658,174	6.23%
2017	$	48,199	$	46,298	$	(1,901)	$	694,871	6.66%

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

Data reported is measured as of December 31 of each year reported.

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
Kittitas County Public Hospital District No. 2
Cle Elum, 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 Kittitas County Public Hospital District No. 2 (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 23, 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.

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

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 23, 2018

Kittitas County Public Hospital District No. 2
Schedule of Findings and Responses
Year Ended December 31, 2017

The audit for the year ended December 31, 2017, reported no findings, nor were there any unresolved prior year findings from the year ended December 31, 2016, or prior. Therefore, there are no matters for this schedule for the year ended December 31, 2017.