



Office of the Washington State Auditor
Pat McCarthy

November 4, 2019

Board of Commissioners
Prosser Memorial Hospital
Prosser, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Prosser Memorial Hospital for the fiscal years ended December 31, 2018 and 2017. The District contracted with the CPA firm for this audit and requested that we accept it 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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy
State Auditor
Olympia, WA

Access Letter Requires Authorization before disclosure.

**Prosser Public Hospital District
doing business as
Prosser Memorial Health**

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2018 and 2017



DINGUS | ZARECOR & ASSOCIATES^{PLLC}
Certified Public Accountants

Prosser Public Hospital District
doing business as Prosser Memorial Health
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Prosser Public Hospital District
doing business as Prosser Memorial Health
Prosser, Washington

Report on the Financial Statements

We have audited the accompanying combined financial statements of Prosser Public Hospital District doing business as Prosser Memorial Health (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the combined basic financial statements, which collectively comprise the District's combined 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 combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018 and 2017, and the changes in its financial position and 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 combined basic financial statements. Such missing information, although not a part of the combined 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 combined basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the combined basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2019, 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, 2018. We issued a similar report for the year ended December 31, 2017, dated May 25, 2018, which has not been included with the 2018 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 effectiveness of the District's 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
March 18, 2019

Prosser Public Hospital District
doing business as Prosser Memorial Health
Combined Statements of Net Position
December 31, 2018 and 2017

| ASSETS | 2018 | 2017 |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 1,279,823 | \$ 2,282,799 |
| Investments | 335,780 | - |
| Receivables: | | |
| Patients, less allowances for uncollectible accounts | 8,166,553 | 8,121,908 |
| Estimated third-party payor settlements | 622,040 | - |
| Electronic health records incentive payment | - | 305,494 |
| Taxes | 24,789 | 23,124 |
| Other | 30,756 | 171,564 |
| Inventories | 357,940 | 291,763 |
| Physician advances | 192,798 | - |
| Prepaid expenses | 304,724 | 304,717 |
| Total current assets | 11,315,203 | 11,501,369 |
| <i>Noncurrent assets</i> | | |
| Cash and cash equivalents limited as to use for capital acquisitions | 1,376,480 | 11,999,425 |
| Cash and cash equivalents restricted by bond agreement for capital acquisitions | - | 976,204 |
| Investments limited as to use for capital acquisitions | 12,534,987 | - |
| Physician advances | 190,267 | - |
| Capital assets, net | 14,313,800 | 13,367,798 |
| Total noncurrent assets | 28,415,534 | 26,343,427 |
| Total assets | \$ 39,730,737 | \$ 37,844,796 |

See accompanying notes to combined basic financial statements.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Combined Statements of Net Position (Continued)
December 31, 2018 and 2017

| LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION | 2018 | 2017 |
|--------------------------------------------------------------------------|----------------------|----------------------|
| <i>Current liabilities</i> | | |
| Accounts payable | \$ 915,866 | \$ 1,160,673 |
| Accrued payroll and related liabilities | 1,586,757 | 1,105,709 |
| Accrued leave | 953,506 | 845,705 |
| Estimated third-party payor settlements | 1,148,700 | 856,120 |
| Accrued interest payable | 20,307 | 21,099 |
| Current portion of long-term debt | 255,000 | 245,000 |
| Current portion of capital lease obligations | 673,075 | - |
| Total current liabilities | 5,553,211 | 4,234,306 |
| <i>Noncurrent liabilities</i> | | |
| Long-term debt, net of current portion | 6,312,292 | 6,571,624 |
| Capital lease obligations, net of current portion | 336,449 | - |
| Total noncurrent liabilities | 6,648,741 | 6,571,624 |
| Total liabilities | 12,201,952 | 10,805,930 |
| <i>Deferred inflow of resources</i> | | |
| Deferred electronic health records incentive revenue | 660,400 | 990,600 |
| <i>Net position</i> | | |
| Net investment in capital assets | 6,716,677 | 7,506,279 |
| Unrestricted | 20,151,708 | 18,541,987 |
| Total net position | 26,868,385 | 26,048,266 |
| Total liabilities, deferred inflow of resources, and net position | \$ 39,730,737 | \$ 37,844,796 |

See accompanying notes to combined basic financial statements.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Combined Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|------------------------------------------------------------------|----------------------|----------------------|
| <i>Operating revenues</i> | | |
| Net patient service revenue, net of provision for bad debts | \$ 51,512,050 | \$ 47,220,568 |
| Electronic health records incentive payments | 330,200 | 991,835 |
| Grants | 19,341 | 15,480 |
| Other | 451,283 | 595,059 |
| Total operating revenues | 52,312,874 | 48,822,942 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 23,287,263 | 20,444,314 |
| Employee benefits | 6,118,772 | 4,714,799 |
| Professional fees | 7,565,035 | 7,530,166 |
| Purchased services | 4,093,715 | 4,050,206 |
| Supplies | 4,960,870 | 4,750,644 |
| Insurance | 241,381 | 255,248 |
| Utilities | 520,065 | 465,846 |
| Depreciation and amortization | 1,988,410 | 2,063,342 |
| Repairs and maintenance | 309,142 | 489,253 |
| Licenses and taxes | 343,191 | 284,240 |
| Leases and rentals | 1,998,258 | 1,859,223 |
| Other | 1,176,470 | 967,318 |
| Total operating expenses | 52,602,572 | 47,874,599 |
| <i>Operating income (loss)</i> | (289,698) | 948,343 |
| <i>Nonoperating revenues (expenses)</i> | | |
| Taxation for maintenance and operations | 821,455 | 784,095 |
| Investment income | 192,001 | 17,530 |
| Interest expense | (167,241) | (178,423) |
| Gain (loss) on disposal of assets | (150,726) | 1,000 |
| Gift shop revenue | 63,687 | - |
| Gift shop expenses | (62,863) | - |
| Contributions made to others | (15,327) | - |
| Fundraising and other Foundation expenses | (12,910) | - |
| Contributions | 441,741 | - |
| Total nonoperating revenues (expenses), net | 1,109,817 | 624,202 |
| Excess of revenues over expenses before capital contributions | 820,119 | 1,572,545 |
| <i>Capital contributions</i> | - | 28,401 |
| Change in net position | 820,119 | 1,600,946 |
| Net position, beginning of year | 26,048,266 | 24,447,320 |
| Net position, end of year | \$ 26,868,385 | \$ 26,048,266 |

See accompanying notes to combined basic financial statements.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Combined Statements of Cash Flows
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|-----------------------------------------------------------------|---------------------|----------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Cash received from and on behalf of patients | \$ 51,137,945 | \$ 45,691,638 |
| Cash received from electronic health records incentive payments | 305,494 | 356,141 |
| Cash received from other revenue | 451,283 | 498,933 |
| Cash received from operating grants | 19,341 | 15,480 |
| Cash paid to and on behalf of employees | (28,817,186) | (24,771,082) |
| Cash paid to suppliers and contractors | (21,762,494) | (21,051,286) |
| Net cash provided by operating activities | 1,334,383 | 739,824 |
| <i>Cash flows from noncapital financing activities</i> | | |
| Taxes received for maintenance and operations | 819,790 | 787,036 |
| Contributions received | 425,580 | - |
| Gift shop revenue | 60,006 | - |
| Gift shop expenses | (59,571) | - |
| Fundraising and other Foundation expenses | (9,968) | - |
| Contributions to others | (600) | - |
| Net cash provided by noncapital financing activities | 1,235,237 | 787,036 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Purchase of capital assets | (2,075,614) | (3,342,653) |
| Contributions received | - | 28,401 |
| Principal payments on long-term debt | (245,000) | (230,000) |
| Interest paid | (172,365) | (182,827) |
| Net cash used in capital and related financing activities | (2,492,979) | (3,727,079) |
| <i>Cash flows from investing activities</i> | | |
| Purchase of investments | (12,800,607) | - |
| Interest received | 121,841 | 17,530 |
| Net cash used in investing activities | (12,678,766) | 17,530 |
| Net decrease in cash and cash equivalents | (12,602,125) | (2,182,689) |
| Cash and cash equivalents, beginning of year | 15,258,428 | 17,441,117 |
| Cash and cash equivalents, end of year | \$ 2,656,303 | \$ 15,258,428 |

See accompanying notes to combined basic financial statements.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Combined Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|-------------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| <i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i> | | |
| Cash and cash equivalents | \$ 1,279,823 | \$ 2,282,799 |
| Cash and cash equivalents limited as to use | 1,376,480 | 11,999,425 |
| Cash and cash equivalents restricted by bond agreement | - | 976,204 |
| Total cash and cash equivalents | \$ 2,656,303 | \$ 15,258,428 |
| <i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i> | | |
| Operating income (loss) | \$ (289,698) | \$ 948,343 |
| <i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i> | | |
| Depreciation and amortization | 1,988,410 | 2,063,342 |
| Provision for bad debts | 2,325,567 | 2,281,127 |
| Decrease (increase) in assets: | | |
| Receivables: | | |
| Patient accounts, net | (2,370,212) | (3,524,224) |
| Estimated third-party payor settlements | (622,040) | 72,844 |
| Electronic health records incentive payments | 305,494 | (305,494) |
| Other | 156,969 | (96,126) |
| Inventories | (66,177) | (90,547) |
| Physician advances | (383,065) | - |
| Prepaid expenses | (7) | 70,673 |
| Increase (decrease) in liabilities and deferred inflow of resources: | | |
| Accounts payable | (262,087) | (379,268) |
| Accrued payroll and related liabilities | 481,048 | 353,846 |
| Accrued leave | 107,801 | 34,185 |
| Estimated third-party payor settlements | 292,580 | (358,677) |
| Deferred electronic health records incentive revenue | (330,200) | (330,200) |
| Net cash provided by operating activities | \$ 1,334,383 | \$ 739,824 |

Noncash Capital and Related Financing Activities

During 2018, the District financed \$1,009,524 of software and equipment through a capital lease agreement with Cisco Systems Capital Corporation.

See accompanying notes to combined basic financial statements.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements
Years Ended December 31, 2018 and 2017

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Prosser Public Hospital District doing business as Prosser Memorial Health (the District) is organized as a municipal corporation pursuant to the laws of the state of Washington for municipal corporations. The primary purpose of the District is to operate Prosser Memorial Health (the Hospital), the principal provider of acute and outpatient healthcare services for Prosser, Washington, and surrounding communities. The District also operates specialty clinics, an ambulance service, and a rural health clinic in Prosser, Washington, as well as a rural health clinic in Benton City, Washington.

As organized, the District is exempt from federal income tax. The Board of Commissioners is made up of seven community members elected to six-year terms. The District is not considered to be a component unit of Benton County.

As required by accounting principles generally accepted in the United States of America, the combined basic financial statements present the District – the primary government – and its component unit. The component unit discussed below is included in the District’s reporting entity because of the significance of its operations and financial relationship with the District. PMH Medical Center Foundation doing business as Prosser Memorial Health Foundation (the Foundation) is a component unit of the District since its Board of Directors is appointed by the District’s Board of Commissioners.

The Foundation was formed in 2017, and began operations in 2018, as a supporting organization for the District. The Foundation is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation’s stated purpose is to support, benefit, perform the functions and carry out the purposes of the District, and the Foundation intends to fulfill this purpose by raising funds to support the operations and activities of the District.

The District is the sole corporate member of the Foundation. In order to ensure that the Foundation remains responsive to the District’s needs, the District appoints all of the Foundation’s directors and can remove directors with or without cause.

b. Summary of Significant Accounting Policies

Use of estimates – 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 preparation of combined basic 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Investments – Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

Inventories – Inventories consist of medical supplies, drugs, and food and are stated at cost using the first-in, first-out method.

Assets limited as to use – Assets limited as to use include assets set aside by the Board of Commissioners for future capital improvements and other uses over which the Board retains control and could subsequently use for other purposes.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least one year; lesser amounts are expensed. Donated 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 depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Useful lives have been estimated as follows:

| | |
|----------------------------|---------------|
| Land improvements | 5 to 25 years |
| Buildings and improvements | 5 to 40 years |
| Equipment | 3 to 20 years |

Accrued leave – The District's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave days up to a specified maximum.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. The District had no restricted net position at either December 31, 2018 or 2017. *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.

Foundation gift shop operations, fundraising activities, and other activities are reported as nonoperating revenues and expenses.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

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 that are restricted to specific 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.

Upcoming accounting standard pronouncements – In November 2016, the Governmental Accounting Standards Board (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 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.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – 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.

Subsequent events – The District has evaluated subsequent events through March 18, 2019, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

Custodial credit risk – Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be refunded to it. The District's deposit policy for custodial credit risk is determined by Washington State law.

All cash and cash equivalents held by the County Treasurer, or deposited with qualified public depositories, are protected against loss by the State of Washington Public Deposit Protection Commission, as provided by RCW Chapter 39.58, subject to certain limitations. Qualified public depositories including US Bank, pledge securities with this commission, which are available to insure public deposits within the state of Washington. The cash on deposit with these banks is also insured through the Federal Deposit Insurance Corporation.

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. The District has elected to use the County Treasurer to be its treasurer to issue warrants and make investments. As of December 31, 2018, the District held investments in the Washington State Local Government Investment Pool, United States treasury bonds, and federal home loan bank bonds.

The Foundation, as a nonprofit corporation, is not subject to the Revised Code of Washington, Chapter 39, which authorizes Municipal Corporation investments. As of December 31, 2018, the Foundation had investments in mutual funds.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

2. Bank Deposits and Investments (continued):

Custodial credit risk (continued) – Amounts invested in the Washington State Local Government Investment Pool at December 31, 2018 and 2017, were \$1,254,923 and \$1,231,237, 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.

The District's investments were in compliance with the state of Washington's (the State) investment requirements for the year ended December 31, 2018.

Concentration of credit risk – 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 single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates could adversely affect an investment's fair value.

The District had the following investments:

| 2018 | | | | | | | |
|--------------------------------------|---------------|-------------|----------------------------------|--------------|----------------|-----------------------|--|
| | Fair Value | No Maturity | Investment Maturities (in Years) | | | Investment Ratings*** | |
| | | | Less Than One | One to Five | More Than Five | | |
| United States Treasury bond | \$ 3,493,039 | \$ - | \$ 3,493,039 | \$ - | \$ - | Not Rated | |
| Resolution Funding Corporation bonds | 7,549,446 | - | 4,021,659 | 3,527,787 | - | Not Rated | |
| Federal Home Loan Banks bond | 1,492,502 | - | - | 1,492,502 | - | AAA | |
| Mutual Funds (Foundation) | 335,780 | 335,780 | - | - | - | Not Rated | |
| Totals | \$ 12,870,767 | \$ 335,780 | \$ 7,514,698 | \$ 5,020,289 | \$ - | | |

***The District's bond investment ratings are based on Moody's Investor's Service ratings. AAA is the highest credit quality rating issued by Moody's Investor's Service.

Fair value measurements – 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, 2018:

- Mutual funds are valued using quoted market prices of individual assets that make up the fund (Level 1)
- Bonds are valued using observable inputs from similar investments (Level 2)

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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 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 has not significantly changed from the prior year. 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:

| | 2018 | 2017 |
|-------------------------------------------|---------------------|---------------------|
| Patients and their insurance carriers | \$ 7,870,826 | \$ 6,993,461 |
| Medicare | 1,512,832 | 1,854,272 |
| Medicaid | 1,226,895 | 1,157,175 |
| Total patient accounts receivable | 10,610,553 | 10,004,908 |
| Less allowance for uncollectible accounts | 2,444,000 | 1,883,000 |
| Patient accounts receivable, net | \$ 8,166,553 | \$ 8,121,908 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

4. Capital Assets:

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

| | Balance December 31, 2017 | Additions | Retirements | Transfers | Balance December 31, 2018 |
|---------------------------------------------|---------------------------------|---------------------|---------------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 78,396 | \$ - | \$ - | \$ - | \$ 78,396 |
| Construction in progress | 563,041 | 2,647,915 | (7,547) | (1,113,753) | 2,089,656 |
| Land held for investment | 2,727,946 | - | (78,000) | - | 2,649,946 |
| Total capital assets not being depreciated | 3,369,383 | 2,647,915 | (85,547) | (1,113,753) | 4,817,998 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 537,254 | 16,626 | (8,224) | - | 545,656 |
| Buildings and improvements | 17,056,376 | 33,457 | (177,289) | - | 16,912,544 |
| Equipment | 14,420,297 | 528,681 | (542,254) | 1,113,753 | 15,520,477 |
| Buildings held for investment | 1,025,755 | - | (222,000) | - | 803,755 |
| Total capital assets being depreciated | 33,039,682 | 578,764 | (949,767) | 1,113,753 | 33,782,432 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (386,109) | (34,245) | 8,224 | - | (412,130) |
| Buildings and improvements | (13,290,226) | (506,991) | 177,289 | - | (13,619,928) |
| Equipment | (8,701,379) | (1,425,312) | 499,310 | - | (9,627,381) |
| Buildings held for investment | (663,553) | (21,862) | 58,224 | - | (627,191) |
| Total accumulated depreciation | (23,041,267) | (1,988,410) | 743,047 | - | (24,286,630) |
| Total capital assets being depreciated, net | 9,998,415 | (1,409,646) | (206,720) | 1,113,753 | 9,495,802 |
| Capital assets, net | \$ 13,367,798 | \$ 1,238,269 | \$ (292,267) | \$ - | \$ 14,313,800 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

4. Capital Assets (continued):

| | Balance December 31, 2016 | Additions | Retirements | Transfers | Balance December 31, 2017 |
|---------------------------------------------|---------------------------------|---------------------|-------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 78,396 | \$ - | \$ - | \$ - | \$ 78,396 |
| Construction in progress | 606,003 | 354,474 | - | (397,436) | 563,041 |
| Land held for investment | 982,506 | 1,745,440 | - | - | 2,727,946 |
| Total capital assets not being depreciated | 1,666,905 | 2,099,914 | - | (397,436) | 3,369,383 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 537,254 | - | - | - | 537,254 |
| Buildings and improvements | 17,045,401 | 10,975 | - | - | 17,056,376 |
| Equipment | 12,804,799 | 1,232,764 | (14,702) | 397,436 | 14,420,297 |
| Buildings held for investment | 1,025,755 | - | - | - | 1,025,755 |
| Total capital assets being depreciated | 31,413,209 | 1,243,739 | (14,702) | 397,436 | 33,039,682 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (350,069) | (36,040) | - | - | (386,109) |
| Buildings and improvements | (12,779,482) | (510,744) | - | - | (13,290,226) |
| Equipment | (7,228,539) | (1,487,542) | 14,702 | - | (8,701,379) |
| Buildings held for investment | (634,537) | (29,016) | - | - | (663,553) |
| Total accumulated depreciation | (20,992,627) | (2,063,342) | 14,702 | - | (23,041,267) |
| Total capital assets being depreciated, net | 10,420,582 | (819,603) | - | 397,436 | 9,998,415 |
| Capital assets, net | \$ 12,087,487 | \$ 1,280,311 | \$ - | \$ - | \$ 13,367,798 |

Construction in progress as of December 31, 2018, consisted of various remodel and building projects and information technology implementation. The information technology project in the amount of \$1,009,524 is expected to be completed during 2019 with no significant costs remaining to be capitalized. The Grandview Clinic project in the amount of \$803,799 is expected to be completed during 2019 with no significant costs remaining to be capitalized. The remaining construction in progress projects are in the preliminary stages. As such, the dates of completion, and costs to complete, cannot be estimated at this time.

Interest costs on borrowed funds are capitalized during the construction period as a component of the cost of acquiring those assets. Interest costs of \$69,082 and \$70,360 were capitalized during 2018 and 2017, respectively.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Employee Health Self-insurance:

The District self-insures the cost of employee healthcare. The District accrues an incurred but not reported (IBNR) liability for plan claims that have been incurred but have not yet been reported to the District. The liability is included in accrued compensation and related liabilities on the statements of net position.

Changes in the District's IBNR amount were as follows:

| | 2018 | 2017 |
|----------------------------------------------|-------------|-------------|
| Claim liability, beginning of year | \$ 260,401 | \$ - |
| Current year claims and changes in estimates | 3,705,060 | 2,603,924 |
| Claim payments | (3,640,463) | (2,343,523) |
| Claim liability, end of year | \$ 324,998 | \$ 260,401 |

6. Long-term Debt:

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

| | Balance December 31, 2017 | Additions | Reductions | Balance December 31, 2018 | Amounts Due Within One Year |
|---------------------------------|------------------------------------------|---------------------|---------------------|------------------------------------------|--------------------------------------------|
| 2014 LTGO Bonds | \$ 6,770,000 | \$ - | \$ (245,000) | \$ 6,525,000 | \$ 255,000 |
| Bond Premiums | 46,624 | - | (4,332) | 42,292 | - |
| Total bonds | 6,816,624 | - | (249,332) | 6,567,292 | 255,000 |
| <i>Capital lease obligation</i> | - | 1,009,524 | - | 1,009,524 | 673,075 |
| Total long-term debt | \$ 6,816,624 | \$ 1,009,524 | \$ (249,332) | \$ 7,576,816 | \$ 928,075 |

| | Balance December 31, 2016 | Additions | Reductions | Balance December 31, 2017 | Amounts Due Within One Year |
|-----------------------------|------------------------------------------|------------------|---------------------|------------------------------------------|--------------------------------------------|
| 2014 LTGO Bonds | \$ 7,000,000 | \$ - | \$ (230,000) | \$ 6,770,000 | \$ 245,000 |
| Bond Premiums | 51,028 | - | (4,404) | 46,624 | - |
| Total long-term debt | \$ 7,051,028 | \$ - | \$ (234,404) | \$ 6,816,624 | \$ 245,000 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Long-term Debt (continued):

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

- Limited Tax General Obligation Bonds, dated May 28, 2014, in the original amount of \$7,000,000, for the purpose of improvements and expansion of District facilities. The bonds are payable semiannually on June 1 and December 1 in the remaining principal amounts ranging from \$255,000 to \$600,000 through 2034. The bonds are subject to redemption prior to their stated maturities. Interest is at a variable rate between 2 percent and 4 percent. The District has irrevocably pledged to include in its budget and levy taxes annually on all of the property within the District subject to taxation in amounts that will be sufficient to pay the principal and interest on the bonds as they become due.

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

| Years Ending December 31, | Principal | Interest | Total Payments |
|--------------------------------------|---------------------|---------------------|---------------------------|
| 2019 | \$ 255,000 | \$ 243,688 | \$ 498,688 |
| 2020 | 270,000 | 236,038 | 506,038 |
| 2021 | 285,000 | 227,938 | 512,938 |
| 2022 | 305,000 | 219,388 | 524,388 |
| 2023 | 325,000 | 207,188 | 532,188 |
| 2024-2028 | 1,935,000 | 836,115 | 2,771,115 |
| 2029-2033 | 2,550,000 | 433,863 | 2,983,863 |
| 2034 | 600,000 | 24,000 | 624,000 |
| | \$ 6,525,000 | \$ 2,428,218 | \$ 8,953,218 |

Capital lease obligations – The terms of the District’s capital lease obligation are as follows:

- Capital lease obligation payable to Cisco Systems Capital Corporation, beginning November 1, 2018, in the original amount of \$1,009,524, for information technology upgrades. The lease is payable annually in principal and interest payments totaling \$344,261 for the years 2018 through 2020. The District recorded capital assets in the amount of \$1,009,524 with no accumulated depreciation as of December 31, 2018, due to the equipment not being placed into service. The 2018 payment for the capital lease will be paid when the equipment is in service.

| Years Ending December 31, | Principal | Interest | Total Payments |
|--------------------------------------|---------------------|------------------|---------------------------|
| 2019 | \$ 673,075 | \$ 15,447 | \$ 688,522 |
| 2020 | 336,449 | 7,812 | 344,261 |
| | \$ 1,009,524 | \$ 23,259 | \$ 1,032,783 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

7. Commitments Under Noncancellable Operating Leases:

Following is a summary of future minimum obligations under noncancellable operating leases for equipment and buildings:

| Years Ending December 31, | Amount |
|--------------------------------------|----------------------|
| 2019 | \$ 1,702,000 |
| 2020 | 1,604,000 |
| 2021 | 1,444,000 |
| 2022 | 1,183,000 |
| 2023 | 1,059,000 |
| 2024-2028 | 4,891,000 |
| 2029-2033 | 3,156,000 |
| | \$ 15,039,000 |

8. 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 has not changed its charity care or uninsured discount policies during fiscal years 2018 or 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:

| | 2018 | 2017 |
|-------------------------------------------------------------------------|----------------------|----------------------|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 16,684,286 | \$ 15,635,310 |
| Medicaid | 12,290,892 | 11,689,902 |
| Other third-party payors | 22,981,837 | 20,455,676 |
| 340b contract pharmacy | - | 2,827 |
| Patients | 3,989,598 | 3,245,779 |
| | 55,946,613 | 51,029,494 |
| Less: | | |
| Charity care | (2,108,996) | (1,527,799) |
| Provision for bad debts | (2,325,567) | (2,281,127) |
| Net patient service revenue | \$ 51,512,050 | \$ 47,220,568 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

8. Net Patient Service Revenue (continued):

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 inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid 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* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed 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. Rural health clinic services are paid on a prospectively set rate per visit.
- *Other Commercial Payors* – The District also has entered into payment agreements with certain commercial insurance carriers, managed care 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 \$53,000 in 2018 and decreased by approximately \$239,000 in 2017, due to differences between original estimates and final settlements or revised estimates. Net patient service revenue increased by \$46,000 and \$500,000, in 2018 and 2017, respectively, due to recognition of amounts due from the state of Washington for the 2011-2017 rural health clinic Medicaid managed care reconciliations.

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, 2018 and 2017, were approximately \$940,000 and \$693,000, respectively.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

9. Property Taxes:

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

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

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general District purposes. 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 must be authorized by the vote of the people.

For 2018, the District's regular tax levy was \$0.35 per \$1,000 on a total assessed valuation of \$2,330,676,836 for a total regular levy of \$809,182. For 2017, the District's regular tax levy was \$0.33 per \$1,000 on a total assessed valuation of \$2,343,619,751 for a total regular levy of \$784,855.

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.

10. Electronic Health Records Incentive Payment:

The District recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended December 31, 2018 and 2017. The EHR incentive payments are provided to incent hospitals and eligible providers to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District has elected to defer recognition of its 2015 Medicare incentive payment over a five-year period that matches the estimated useful lives of the related assets starting in 2016. Revenue of \$330,200 will be recognized in each year through 2020.

The District also recognized \$-0- and \$659,475 of Medicaid incentive payments in 2018 and 2017, respectively.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

11. Retirement Savings Plan:

The District contributes to the Prosser Public Hospital District 403(b) Plan (the Plan), a defined contribution pension plan, for its full-time general administrative employees. The Plan is administered by the District. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Board of Commissioners. The District is required to contribute 3 percent of annual salary, exclusive of overtime pay, to individual employee accounts for each participating employee. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employer contributions to the Plan totaled approximately \$549,000 and \$469,000 for the years ended December 31, 2018 and 2017, respectively. Employee contributions totaled approximately \$930,000 and \$679,000 in 2018 and 2017, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become eligible for District contributions and earnings on District contributions if they are 21 years of age and have completed one year of service. District contributions and earnings on the District contributions are vested immediately.

12. Risk Management and Contingencies:

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

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 WCC on a “claims-made” basis. The excess malpractice insurance provides \$2,000,000 per claim of primary coverage with an annual aggregate limit of \$2,000,000. The policy has no deductible per claim.

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, and 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.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Risk Management and Contingencies (continued):

Workers' compensation – The District has a self-insured workers' compensation plan. The District participates in the Public Hospital District Workers' Compensation Trust, which is a risk transfer pool administered by the Washington State Hospital Association. The District pays its share of actual workers' compensation claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers' compensation expense were approximately \$95,000 (net of a \$235,184 dividend) and \$57,000 (net of a \$223,916 dividend) in 2018 and 2017, respectively.

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 Firefighters' Retirement System Plan 2 (LEOFF) by the Washington State Legislature. Employer contributions totaled approximately \$77,000 in 2018. Employee contributions totaled approximately \$48,000 in 2018.

In 2019 the District will be required to present its share of the actuarial liability for employees who participate in the LEOFF cost-sharing multiple-employer defined benefit retirement plan.

13. Concentration of Risk:

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 Benton County.

The mix of receivables from patients was as follows:

| | 2018 | 2017 |
|--------------------------|-------|-------|
| Medicare | 21 % | 26 % |
| Medicaid | 19 | 18 |
| Other third-party payors | 34 | 33 |
| Patients | 26 | 23 |
| | 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 changes in their utilization patterns may have an adverse effect on operations.

Collective bargaining unit – The District has collective bargaining agreements with Washington State Council of County and City Employees through December 31, 2020, and Service Employees Union Healthcare 1199NW through June 30, 2021. As of December 31, 2018 and 2017, approximately 72 percent and 78 percent, respectively, of the District's employees were represented by the collective bargaining units.

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

14. Blended Component Unit:

The combining statement of net position for the year ended December 31, 2018, is as follows:

| ASSETS | Prosser Memorial Health | Prosser Memorial Health Foundation | Eliminations | Totals |
|--------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|---------------------|----------------------|
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 1,221,706 | \$ 58,117 | \$ - | \$ 1,279,823 |
| Investments | - | 335,780 | - | 335,780 |
| Receivables: | | | | |
| Patients, less allowances for uncollectible accounts | 8,166,553 | - | - | 8,166,553 |
| Estimated third-party payor settlements | 622,040 | - | - | 622,040 |
| Taxes | 24,789 | - | - | 24,789 |
| Other | 14,595 | 19,842 | (3,681) | 30,756 |
| Inventories | 357,940 | - | - | 357,940 |
| Physician advances | 192,798 | - | - | 192,798 |
| Prepaid expenses | 304,724 | - | - | 304,724 |
| Total current assets | 10,905,145 | 413,739 | (3,681) | 11,315,203 |
| <i>Noncurrent assets</i> | | | | |
| Cash and cash equivalents limited as to use for capital acquisitions | 1,376,480 | - | - | 1,376,480 |
| Investments limited as to use for capital acquisitions | 12,534,987 | - | - | 12,534,987 |
| Physician advances | 190,267 | - | - | 190,267 |
| Capital assets, net | 14,313,800 | - | - | 14,313,800 |
| Total noncurrent assets | 28,415,534 | - | - | 28,415,534 |
| Total assets | \$ 39,320,679 | \$ 413,739 | \$ (3,681) | \$ 39,730,737 |
| LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 898,586 | \$ 20,961 | \$ (3,681) | \$ 915,866 |
| Accrued payroll and related liabilities | 1,586,757 | - | - | 1,586,757 |
| Accrued leave | 953,506 | - | - | 953,506 |
| Estimated third-party payor settlements | 1,148,700 | - | - | 1,148,700 |
| Accrued interest payable | 20,307 | - | - | 20,307 |
| Current portion of long-term debt | 255,000 | - | - | 255,000 |
| Current portion of capital lease obligations | 673,075 | - | - | 673,075 |
| Total current liabilities | 5,535,931 | 20,961 | (3,681) | 5,553,211 |
| <i>Noncurrent liabilities</i> | | | | |
| Long-term debt, net of current portion | 6,312,292 | - | - | 6,312,292 |
| Capital lease obligations, net of current portion | 336,449 | - | - | 336,449 |
| Total noncurrent liabilities | 6,648,741 | - | - | 6,648,741 |
| Total liabilities | 12,184,672 | 20,961 | (3,681) | 12,201,952 |
| <i>Deferred inflow of resources</i> | | | | |
| Deferred electronic health records incentive revenue | 660,400 | - | - | 660,400 |
| <i>Net position</i> | | | | |
| Net investment in capital assets | 6,716,677 | - | - | 6,716,677 |
| Unrestricted | 19,758,930 | 392,778 | - | 20,151,708 |
| Total net position | 26,475,607 | 392,778 | - | 26,868,385 |
| Total liabilities, deferred inflow of resources, and net position | \$ 39,320,679 | \$ 413,739 | \$ (3,681) | \$ 39,730,737 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

14. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2018, is as follows:

| | Prosser Memorial Health | Prosser Memorial Health Foundation | Eliminations | Totals |
|----------------------------------------------|-------------------------------|---------------------------------------------|--------------|---------------|
| <i>Operating revenues</i> | | | | |
| Net patient service revenue | \$ 51,512,050 | \$ - | \$ - | \$ 51,512,050 |
| Electronic health records incentive payments | 330,200 | - | - | 330,200 |
| Grants | 19,341 | - | - | 19,341 |
| Other | 451,283 | - | - | 451,283 |
| Total operating revenues | 52,312,874 | - | - | 52,312,874 |
| <i>Operating expenses</i> | | | | |
| Salaries and wages | 23,287,263 | - | - | 23,287,263 |
| Employee benefits | 6,118,772 | - | - | 6,118,772 |
| Professional fees | 7,565,035 | - | - | 7,565,035 |
| Purchased services | 4,093,715 | - | - | 4,093,715 |
| Supplies | 4,960,870 | - | - | 4,960,870 |
| Insurance | 241,381 | - | - | 241,381 |
| Utilities | 520,065 | - | - | 520,065 |
| Depreciation and amortization | 1,988,410 | - | - | 1,988,410 |
| Repairs and maintenance | 309,142 | - | - | 309,142 |
| Licenses and taxes | 343,191 | - | - | 343,191 |
| Leases and rentals | 1,998,258 | - | - | 1,998,258 |
| Other | 1,176,470 | - | - | 1,176,470 |
| Total operating expenses | 52,602,572 | - | - | 52,602,572 |
| <i>Operating loss</i> | (289,698) | - | - | (289,698) |
| <i>Nonoperating revenues (expenses)</i> | | | | |
| Taxation for maintenance and operations | 821,455 | - | - | 821,455 |
| Investment income (loss) | 211,283 | (19,282) | - | 192,001 |
| Interest expense | (167,241) | - | - | (167,241) |
| Loss on disposal of assets | (150,726) | - | - | (150,726) |
| Gift shop revenue | - | 63,687 | - | 63,687 |
| Gift shop expenses | - | (62,863) | - | (62,863) |
| Contributions made to others | - | (15,327) | - | (15,327) |
| Fundraising and other Foundation expenses | - | (12,910) | - | (12,910) |
| Contributions | 2,268 | 439,473 | - | 441,741 |
| Total nonoperating revenues (expenses), net | 717,039 | 392,778 | - | 1,109,817 |
| Excess of revenues over expenses | 427,341 | 392,778 | - | 820,119 |
| Change in net position | 427,341 | 392,778 | - | 820,119 |
| Net position, beginning of year | 26,048,266 | - | - | 26,048,266 |
| Net position, end of year | \$ 26,475,607 | \$ 392,778 | \$ - | \$ 26,868,385 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

14. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2018, is as follows:

| | Prosser Memorial Health | Prosser Memorial Health Foundation | Eliminations | Totals |
|---------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------|--------------|---------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | | | |
| <i>Cash flows from operating activities</i> | | | | |
| Cash received from and on behalf of patients | \$ 51,137,945 | \$ - | \$ - | \$ 51,137,945 |
| Cash received from electronic health records incentive payments | 305,494 | - | - | 305,494 |
| Cash received from other revenue | 451,283 | - | - | 451,283 |
| Cash received from operating grants | 19,341 | - | - | 19,341 |
| Cash paid to and on behalf of employees | (28,817,186) | - | - | (28,817,186) |
| Cash paid to suppliers and contractors | (21,762,494) | - | - | (21,762,494) |
| Net cash provided by operating activities | 1,334,383 | - | - | 1,334,383 |
| <i>Cash flows from noncapital financing activities</i> | | | | |
| Taxes received for maintenance and operations | 819,790 | - | - | 819,790 |
| Contributions received | 2,268 | - | - | 2,268 |
| Gift shop revenue | - | 60,006 | - | 60,006 |
| Gift shop expenses | - | (59,571) | - | (59,571) |
| Fundraising and other Foundation expenses | - | (9,968) | - | (9,968) |
| Contributions made to others | - | (600) | - | (600) |
| Contributions | - | 423,312 | - | 423,312 |
| Net cash provided by noncapital financing activities | 822,058 | 413,179 | - | 1,235,237 |
| <i>Cash flows from capital and related financing activities</i> | | | | |
| Purchase of capital assets | (2,075,614) | - | - | (2,075,614) |
| Principal payments on long-term debt | (245,000) | - | - | (245,000) |
| Interest paid | (172,365) | - | - | (172,365) |
| Net cash used in capital and related financing activities | (2,492,979) | - | - | (2,492,979) |
| <i>Cash flows from investing activities</i> | | | | |
| Purchase of investments | (12,445,545) | (355,062) | - | (12,800,607) |
| Interest received | 121,841 | - | - | 121,841 |
| Net cash used in investing activities | (12,323,704) | (355,062) | - | (12,678,766) |
| Net increase (decrease) in cash and cash equivalents | (12,660,242) | 58,117 | - | (12,602,125) |
| Cash and cash equivalents, beginning of year | 15,258,428 | - | - | 15,258,428 |
| Cash and cash equivalents, end of year | \$ 2,598,186 | \$ 58,117 | \$ - | \$ 2,656,303 |
| <i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i> | | | | |
| Cash and cash equivalents | \$ 1,221,706 | \$ 58,117 | \$ - | \$ 1,279,823 |
| Cash and cash equivalents limited as to use | 1,376,480 | - | - | 1,376,480 |
| Cash and cash equivalents restricted by bond agreement | - | - | - | - |
| Total cash and cash equivalents | \$ 2,598,186 | \$ 58,117 | \$ - | \$ 2,656,303 |
| <i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i> | | | | |
| Operating loss | \$ (289,698) | \$ - | \$ - | \$ (289,698) |
| <i>Adjustments to reconcile operating loss to net cash provided by operating activities</i> | | | | |
| Depreciation and amortization | 1,988,410 | - | - | 1,988,410 |
| Provision for bad debts | 2,325,567 | - | - | 2,325,567 |
| Decrease (increase) in assets: | | | | |
| Receivables: | | | | |
| Patient accounts, net | (2,370,212) | - | - | (2,370,212) |
| Estimated third-party payor settlements | (622,040) | - | - | (622,040) |
| Electronic health records incentive payments | 305,494 | - | - | 305,494 |
| Other | 156,969 | - | - | 156,969 |
| Inventories | (66,177) | - | - | (66,177) |
| Physician advances | (383,065) | - | - | (383,065) |
| Prepaid expenses | (7) | - | - | (7) |
| Increase (decrease) in liabilities and deferred inflow of resources: | | | | |
| Accounts payable | (262,087) | - | - | (262,087) |
| Accrued payroll and related liabilities | 481,048 | - | - | 481,048 |
| Accrued leave | 107,801 | - | - | 107,801 |
| Estimated third-party payor settlements | 292,580 | - | - | 292,580 |
| Deferred electronic health records incentive revenue | (330,200) | - | - | (330,200) |
| Net cash provided by operating activities | \$ 1,334,383 | \$ - | \$ - | \$ 1,334,383 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

14. Blended Component Unit (continued):

The combining statement of net position for the year ended December 31, 2017, is as follows:

| ASSETS | Prosser Memorial Health | Prosser Memorial Health Foundation | Eliminations | Totals |
|---------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|---------------------|----------------------|
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 2,282,799 | \$ - | \$ - | \$ 2,282,799 |
| Receivables: | | | | |
| Patients, net of estimated uncollectible accounts | 8,121,908 | - | - | 8,121,908 |
| Electronic health records incentive payment | 305,494 | - | - | 305,494 |
| Taxes | 23,124 | - | - | 23,124 |
| Other | 171,564 | - | - | 171,564 |
| Inventories | 291,763 | - | - | 291,763 |
| Prepaid expenses | 304,717 | - | - | 304,717 |
| Total current assets | 11,501,369 | - | - | 11,501,369 |
| <i>Noncurrent assets</i> | | | | |
| Cash and cash equivalents limited as to use for capital acquisitions | 11,999,425 | - | - | 11,999,425 |
| Cash and cash equivalents restricted by bond agreement for capital acquisitions | 976,204 | - | - | 976,204 |
| Capital assets, net | 13,367,798 | - | - | 13,367,798 |
| Total noncurrent assets | 26,343,427 | - | - | 26,343,427 |
| Total assets | \$ 37,844,796 | \$ - | \$ - | \$ 37,844,796 |
| LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 1,160,673 | \$ - | \$ - | \$ 1,160,673 |
| Accrued payroll and related liabilities | 1,105,709 | - | - | 1,105,709 |
| Accrued leave | 845,705 | - | - | 845,705 |
| Estimated third-party payor settlements | 856,120 | - | - | 856,120 |
| Accrued interest payable | 21,099 | - | - | 21,099 |
| Current portion of long-term debt | 245,000 | - | - | 245,000 |
| Total current liabilities | 4,234,306 | - | - | 4,234,306 |
| <i>Noncurrent liabilities</i> | | | | |
| Long-term debt, net of current portion | 6,571,624 | - | - | 6,571,624 |
| Total noncurrent liabilities | 6,571,624 | - | - | 6,571,624 |
| Total liabilities | 10,805,930 | - | - | 10,805,930 |
| <i>Deferred inflow of resources</i> | | | | |
| Deferred electronic health records incentive revenue | 990,600 | - | - | 990,600 |
| <i>Net position</i> | | | | |
| Net investment in capital assets | 7,506,279 | - | - | 7,506,279 |
| Unrestricted | 18,541,987 | - | - | 18,541,987 |
| Total net position | 26,048,266 | - | - | 26,048,266 |
| Total liabilities, deferred inflow of resources, and net position | \$ 37,844,796 | \$ - | \$ - | \$ 37,844,796 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

14. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2017, is as follows:

| | Prosser Memorial Health | Prosser Memorial Health Foundation | Eliminations | Totals |
|------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|---------------------|----------------------|
| <i>Operating revenues</i> | | | | |
| Net patient service revenue | \$ 47,220,568 | \$ - | \$ - | \$ 47,220,568 |
| Electronic health records incentive payments | 991,835 | - | - | 991,835 |
| Grants | 15,480 | - | - | 15,480 |
| Other | 595,059 | - | - | 595,059 |
| Total operating revenues | 48,822,942 | - | - | 48,822,942 |
| <i>Operating expenses</i> | | | | |
| Salaries and wages | 20,444,314 | - | - | 20,444,314 |
| Employee benefits | 4,714,799 | - | - | 4,714,799 |
| Professional fees | 7,530,166 | - | - | 7,530,166 |
| Purchased services | 4,050,206 | - | - | 4,050,206 |
| Supplies | 4,750,644 | - | - | 4,750,644 |
| Insurance | 255,248 | - | - | 255,248 |
| Utilities | 465,846 | - | - | 465,846 |
| Depreciation and amortization | 2,063,342 | - | - | 2,063,342 |
| Repairs and maintenance | 489,253 | - | - | 489,253 |
| Licenses and taxes | 284,240 | - | - | 284,240 |
| Leases and rentals | 1,859,223 | - | - | 1,859,223 |
| Other | 967,318 | - | - | 967,318 |
| Total operating expenses | 47,874,599 | - | - | 47,874,599 |
| <i>Operating income</i> | 948,343 | - | - | 948,343 |
| <i>Nonoperating revenues (expenses)</i> | | | | |
| Taxation for maintenance and operations | 784,095 | - | - | 784,095 |
| Investment income | 17,530 | - | - | 17,530 |
| Interest expense | (178,423) | - | - | (178,423) |
| Gain on disposal of assets | 1,000 | - | - | 1,000 |
| Total nonoperating revenues (expenses), net | 624,202 | - | - | 624,202 |
| Excess of revenues over expenses before capital contributions | 1,572,545 | - | - | 1,572,545 |
| <i>Capital contributions</i> | 28,401 | - | - | 28,401 |
| Change in net position | 1,600,946 | - | - | 1,600,946 |
| Net position, beginning of year | 24,447,320 | - | - | 24,447,320 |
| Net position, end of year | \$ 26,048,266 | \$ - | \$ - | \$ 26,048,266 |

Prosser Public Hospital District
doing business as Prosser Memorial Health
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

14. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2017, is as follows:

| | Prosser Memorial Health | Prosser Memorial Health Foundation | Eliminations | Totals |
|-----------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------|--------------|----------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | | | |
| <i>Cash flows from operating activities</i> | | | | |
| Cash received from and on behalf of patients | \$ 45,691,638 | \$ - | \$ - | \$ 45,691,638 |
| Cash received from electronic health records incentive payments | 356,141 | - | - | 356,141 |
| Cash received from other revenue | 498,933 | - | - | 498,933 |
| Cash received from operating grants | 15,480 | - | - | 15,480 |
| Cash paid to and on behalf of employees | (24,771,082) | - | - | (24,771,082) |
| Cash paid to suppliers and contractors | (21,051,286) | - | - | (21,051,286) |
| Net cash provided by operating activities | 739,824 | - | - | 739,824 |
| <i>Cash flows from noncapital financing activities</i> | | | | |
| Taxes received for maintenance and operations | 787,036 | - | - | 787,036 |
| <i>Cash flows from capital and related financing activities</i> | | | | |
| Purchase of capital assets | (3,342,653) | - | - | (3,342,653) |
| Contributions received | 28,401 | - | - | 28,401 |
| Principal payments on long-term debt | (230,000) | - | - | (230,000) |
| Interest paid | (182,827) | - | - | (182,827) |
| Net cash used in capital and related financing activities | (3,727,079) | - | - | (3,727,079) |
| <i>Cash flows from investing activities</i> | | | | |
| Interest received | 17,530 | - | - | 17,530 |
| Net cash provided by investing activities | 17,530 | - | - | 17,530 |
| Net decrease in cash and cash equivalents | (2,182,689) | - | - | (2,182,689) |
| Cash and cash equivalents, beginning of year | 17,441,117 | - | - | 17,441,117 |
| Cash and cash equivalents, end of year | \$ 15,258,428 | \$ - | \$ - | \$ 15,258,428 |
| <i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i> | | | | |
| Cash and cash equivalents | \$ 2,282,799 | \$ - | \$ - | \$ 2,282,799 |
| Cash and cash equivalents limited as to use | 11,999,425 | - | - | 11,999,425 |
| Cash and cash equivalents restricted by bond agreement | 976,204 | - | - | 976,204 |
| Total cash and cash equivalents | \$ 15,258,428 | \$ - | \$ - | \$ 15,258,428 |
| <i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i> | | | | |
| Operating income | \$ 948,343 | \$ - | \$ - | \$ 948,343 |
| <i>Adjustments to reconcile operating income to net cash provided by operating activities</i> | | | | |
| Depreciation and amortization | 2,063,342 | - | - | 2,063,342 |
| Provision for bad debts | 2,281,127 | - | - | 2,281,127 |
| Decrease (increase) in assets: | | | | |
| Receivables: | | | | |
| Patient accounts, net | (3,524,224) | - | - | (3,524,224) |
| Estimated third-party payor settlements | 72,844 | - | - | 72,844 |
| Electronic health records incentive payments | (305,494) | - | - | (305,494) |
| Other | (96,126) | - | - | (96,126) |
| Inventories | (90,547) | - | - | (90,547) |
| Prepaid expenses | 70,673 | - | - | 70,673 |
| Increase (decrease) in liabilities and deferred inflow of resources: | | | | |
| Accounts payable | (379,268) | - | - | (379,268) |
| Accrued payroll and related liabilities | 353,846 | - | - | 353,846 |
| Accrued leave | 34,185 | - | - | 34,185 |
| Estimated third-party payor settlements | (358,677) | - | - | (358,677) |
| Deferred electronic health records incentive revenue | (330,200) | - | - | (330,200) |
| Net cash provided by operating activities | \$ 739,824 | \$ - | \$ - | \$ 739,824 |



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
Prosser Public Hospital District
doing business as Prosser Memorial Health
Prosser, 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 combined financial statements of Prosser Public Hospital District doing business as Prosser Memorial Health (the District) as of and for the year ended December 31, 2018, and the related notes to the combined financial statements, which collectively comprise the District's combined basic financial statements, as listed in the table of contents, and have issued our report thereon dated March 18, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
March 18, 2019

Prosser Public Hospital District
doing business as Prosser Memorial Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018

The audit for the year ended December 31, 2017, reported no audit findings, nor were there any unresolved findings from periods ended December 31, 2016, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2018.