



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

November 14, 2019

Board of Commissioners  
Kittitas Valley Healthcare  
Ellensburg, 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 Kittitas Valley Healthcare 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 cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

**Kittitas County  
Public Hospital District No. 1  
doing business as  
Kittitas Valley Healthcare**

Financial Statements and  
Independent Auditors' Reports

December 31, 2018 and 2017



**DINGUS | ZARECOR & ASSOCIATES<sup>PLLC</sup>**  
Certified Public Accountants

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Kittitas County Public Hospital District No. 1  
doing business as Kittitas Valley Healthcare  
Ellensburg, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare (the District) as of and for the years ended December 31, 2018 and 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.

### 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 basic 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 District'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.

## **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, 2018 and 2017, 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*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 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 10, 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  
May 15, 2019

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Management's Discussion and Analysis**  
**December 31, 2018 and 2017**

The following management's discussion and analysis of Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare's (the District) financial performance provides an overview of the financial activities of the District for the year ended December 31, 2018. Please read it in conjunction with the District's basic financial statements, which begin on page 9.

***Financial Highlights***

- The District's net position increased in each of the past two years with a \$2,526,547, or 4 percent increase in 2018, and a \$2,648,415, or 5 percent increase in 2017.
- The District reported operating income of \$1,254,625 in 2018, and \$1,081,639 in 2017. Operating income increased by \$172,986 in 2018, and \$799,385 in 2017.
- Nonoperating revenues (net of expenses) decreased by \$235,111 or 18 percent in 2018 compared to 2017, and increased by \$171,788, or 15 percent in 2017 compared to 2016.

During 2017 The Board of Commissioners developed and approved a strategic plan with key focus areas of access to care, growth, and community engagement. The related facility plan focuses on improving care processes, consolidating the electronic health record and identifying new space for patient services. In 2017 the District invested in a medical office building specifically to meet identified needs for space to provide care for the community and invested in the implementation of a new electronic health record.

***Using this Annual Report***

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

***The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position***

Our analysis of the District's finances begins below. The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities for the period. The Statement of Revenues, Expenses, and Changes in Net Position shows whether the District was able to recover all of its costs through patient service and other revenue. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These statements report the District's net position and changes in net position. The difference between the District's assets and liabilities is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the District.

***The Statements of Cash Flows***

The final required statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement provides meaningful information on how the District's cash was generated and how it was used.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2018 and 2017**

***The District's Net Position***

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on pages 9 and 10. The District's net position increased by \$2,526,547, or 4 percent in 2018, and \$2,648,415, or 5 percent in 2017.

**Table 1. Assets, Liabilities, and Net Position**

	2018	2017	2016
<i>Assets</i>			
Current assets	\$ 27,032,645	\$ 15,236,811	\$ 18,774,214
Capital assets, net	38,459,740	36,930,290	25,655,629
Other noncurrent assets	23,320,486	29,985,653	22,866,783
<b>Total assets</b>	<b>\$ 88,812,871</b>	<b>\$ 82,152,754</b>	<b>\$ 67,296,626</b>
<i>Liabilities</i>			
Current liabilities	\$ 8,786,252	\$ 9,586,680	\$ 8,633,963
Long-term obligations, net of current maturities	20,353,345	15,419,347	4,164,351
<b>Total liabilities</b>	<b>29,139,597</b>	<b>25,006,027</b>	<b>12,798,314</b>
<i>Net position</i>			
Net investment in capital assets	25,487,179	30,009,644	19,591,995
Restricted	968,665	446,547	386,205
Unrestricted	33,217,430	26,690,536	34,520,112
<b>Total net position</b>	<b>59,673,274</b>	<b>57,146,727</b>	<b>54,498,312</b>
<b>Total liabilities and net position</b>	<b>\$ 88,812,871</b>	<b>\$ 82,152,754</b>	<b>\$ 67,296,626</b>

***The significant changes in assets and liabilities in 2018 were as follows:***

- Total assets for the District were \$88,812,871 at the end of 2018, an increase of \$6,660,117 over the balance of \$82,152,754 at the end of 2017.

Current assets increased \$11,795,834 from \$15,236,811 in 2017 to \$27,032,645 in 2018 due to the implementation of Cerner, the new electronic health record system. Net patient receivables of \$17,687,990 in 2018 increased \$8,882,069 from \$8,805,921 at the end of 2017.

Capital assets increased \$1,529,450 from \$36,930,290 at end of 2017 to \$38,459,740 at end of 2018 due primarily to the completion of the electronic health record, equipment purchases, and renovation of prior years building purchases.

Other noncurrent assets decreased \$6,665,167 to \$23,320,486 from \$29,985,653 in 2017.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2018 and 2017**

***The significant changes in assets and liabilities in 2018 were as follows (continued):***

- Total liabilities for the District were \$29,139,597 in 2018, an increase of \$4,133,570 from the balance of \$25,006,027 in 2017 due to issuance of revenue bonds.

Current liabilities decreased \$800,428 from \$9,586,680 at the end of 2017 to \$8,786,252 at the end of 2018. Accrued payroll liabilities decreased \$994,931 from \$2,251,259 to \$1,256,328 at the end of 2018. Accounts payable increased \$594,259 from \$1,639,215 at the end of 2017 to \$2,233,474 at the end of 2018.

Long-term debt obligations increased \$4,933,998 from \$15,419,347 in 2017 to a balance of \$20,353,345 in 2018 reflecting the issuance of revenue bonds, and the payment of principal on outstanding debt.



**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2018 and 2017**

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

In 2018, the District's net position increased by \$2,526,547, or 4 percent, as shown in Table 2. The District's net position increased by \$2,648,415 or 5 percent, in 2017.

**Table 2. Operating Results and Changes in Net Position**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>Operating revenues</i>			
Net patient service revenues	<b>\$ 77,739,992</b>	\$ 70,616,419	\$ 70,827,689
Other operating revenues	<b>1,783,488</b>	929,982	678,690
Total operating revenues	<b>79,523,480</b>	71,546,401	71,506,379
<i>Operating expenses</i>			
Salaries and benefits	<b>49,585,962</b>	47,373,568	46,148,471
Supplies	<b>8,850,683</b>	8,344,558	8,665,033
Depreciation	<b>3,531,617</b>	2,932,156	2,727,668
Other operating expenses	<b>16,300,593</b>	11,814,480	13,682,955
Total operating expenses	<b>78,268,855</b>	70,464,762	71,224,127
<i>Operating income</i>	<b>1,254,625</b>	1,081,639	282,252
<i>Nonoperating revenues (expenses)</i>			
Taxation	<b>1,481,572</b>	1,412,214	1,330,557
Investment income	<b>273,462</b>	307,147	75,745
Interest expense	<b>(405,803)</b>	(246,933)	(288,612)
Debt issuance costs	<b>(300,780)</b>	(198,800)	-
Gain (loss) on disposal of capital assets	<b>-</b>	9,934	(5,917)
Total nonoperating revenues, net	<b>1,048,451</b>	1,283,562	1,111,773
Change in net position before capital grants and contributions	<b>2,303,076</b>	2,365,201	1,394,025
<i>Capital grants and contributions</i>	<b>223,471</b>	283,214	149,887
Change in net position	<b>2,526,547</b>	2,648,415	1,543,912
Net position, beginning of year	<b>57,146,727</b>	54,498,312	52,954,400
<b>Net position, end of year</b>	<b>\$ 59,673,274</b>	\$ 57,146,727	\$ 54,498,312

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2018 and 2017**

**Operating Income**

The first component of the overall change in the District's net position is operating income – the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past two years, the District has reported operating income. Operating income increased \$172,986 from 2017 to 2018.

The primary components of the change in operating income for 2018 compared to 2017 are:

- Net patient revenue increased \$7,123,573.
- Salaries and wages increased \$2,018,696.
- Professional fees decreased \$74,969.
- Purchased services increased \$4,603,025 of which approximately \$3,224,000 of the increase is related to the Cerner EHR implementation.
- Supplies expense increased \$506,125.
- Depreciation expense increased \$599,461.

Overall net patient service revenue increased between 2017 and 2018 by \$7,123,573. Inpatient volumes increased slightly. The ratio of outpatient revenue to total revenue was 84.6 percent for 2018 and 84.7 percent in 2017. In 2017 overall net patient revenue decreased \$211,270 from 2016. In 2017 inpatient volumes decreased while volumes of outpatient services increased from 82.2 percent in 2016 to 84.7 percent.

The percentage of charges paid by third party payors increased by \$4,957,459 in 2018. In addition, there is a decrease of \$154,205 in financial assistance provided for patients unable to pay their bills. This is an improvement over the decrease in third party payors of \$340,070 from 2016 to 2017 and the increase in financial assistance of \$475,913 in 2017.

The increase in salaries and wages from 2017 to 2018 is due to the strategic plan with the key focus of access to care and employing more providers. The increase in salaries from 2016 to 2017 was primarily due to the effect of the full year of salary expense for emergency room physicians who were employed by the District mid-year 2016 and employment of hospitalists previously provided through locums. These changes also resulted in the reduction in professional fees between 2016 and 2017.

Overall the operating expenses of the District increased \$7,804,093 from 2017 to 2018. The largest increase in expense is in purchased services and relates to the electronic health record implementation. From 2016 to 2017 operating expenses decreased by \$759,353 which was the primary driver of the increase in net operating income between 2016 and 2017.

**Nonoperating Revenues and Expenses**

Nonoperating activity consists primarily of property taxes levied for repayment of the District's bonds, interest expense and interest income, which as of December 1, 2018, the 2008 unlimited tax general obligation bonds were fully redeemed. Net nonoperating revenues and expenses decreased by \$235,111, or 18 percent in 2018.

The District received contributions from The Foundation at Kittitas Valley Healthcare of \$223,471 and \$283,214 during 2018 and 2017, respectively.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2018 and 2017**

***The District's Cash Flows***

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

***Capital Asset and Debt Administration***

**Capital Assets**

Net capital assets increased in 2018 by \$1,529,450 or 4 percent from 2017. This net increase includes purchases (including construction in progress) of \$5,061,067 and depreciation expense of \$3,531,617. The activity in 2018 includes the completion of the electronic health record implementation, remodel of a portion of the nursing home building, and remodel of a portion of the medical office building. Net capital assets increased \$11,274,661 or 44 percent from 2016 to 2017. This net increase includes purchases (including construction in progress) of \$14,237,943 and depreciation expense of \$2,932,156. The activity in 2017 includes costs associated with the purchase of a medical office building, purchase of a nursing home building, upgrades to the air system in the labor and delivery department and implementation of a new electronic health record.

At the end of 2018, the District had \$38,459,740 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2018, the District placed into service new movable equipment costing \$6,866,870 and retired \$66,657. In 2017, the District placed into service new movable equipment costing \$1,399,930 and retired \$1,147,322.

**Debt**

At December 31, 2018, the District had \$20,353,345 in long-term debt obligations, an increase of \$4,933,998 from December 31, 2017. The increase is related to the issuance of \$6,000,000 in revenue bonds to fund equipment purchases and building renovations. In 2018 the District refunded the 2009 limited tax general obligation and revenue bonds with the issuance of the 2018 limited tax general obligation and revenue refunding bond to reduce interest expense. At December 31, 2017, the District had \$15,419,347 in long-term debt obligations, an increase of \$11,254,996 from December 31, 2016. The increase is related to the issuance of \$13,500,000 in revenue bonds in 2017 to fund the electronic health record system purchase, equipment purchases, and building purchase and renovations.

The District's formal debt issuances must be approved by the District's Board of Commissioners. The amount of debt issued is subject to limitations that apply to the District. There have been no changes in the District's debt ratings in the past two years.

***Contacting the District's Financial Management***

This financial report is designed to provide our patients, district residents and taxpayers, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District administration at 603 South Chestnut Street, Ellensburg, Washington 98926.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,662,913	\$ 2,807,873
Receivables:		
Patient accounts	17,687,990	8,805,921
Estimated third-party payor settlements	1,888,704	500,000
Electronic health records incentive payment	121,034	121,034
Other	585,283	334,714
Inventories	1,526,115	1,424,982
Prepaid expenses	591,941	795,740
Taxes receivable restricted for debt service	22,955	26,624
Investments restricted for debt service	945,710	419,923
Total current assets	27,032,645	15,236,811
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted for capital acquisitions	9,290,565	10,885,446
Investments internally designated for capital acquisitions	14,029,921	19,100,207
Capital assets, net	38,459,740	36,930,290
Total noncurrent assets	61,780,226	66,915,943
<b>Total assets</b>	<b>\$ 88,812,871</b>	<b>\$ 82,152,754</b>

*See accompanying notes to basic financial statements.*

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Statements of Net Position (Continued)**  
**December 31, 2018 and 2017**

<b>LIABILITIES AND NET POSITION</b>	<b>2018</b>	<b>2017</b>
<i>Current liabilities</i>		
Accounts payable	\$ 2,233,474	\$ 1,639,215
Accrued payroll and related liabilities	1,256,328	2,251,259
Accrued vacation	1,678,465	1,864,043
Estimated third-party payor settlements	1,708,204	1,445,418
Accrued interest	322,579	178,079
Current portion of long-term debt	1,587,202	2,208,666
Total current liabilities	8,786,252	9,586,680
<i>Noncurrent liabilities</i>		
Long-term debt net of current portion and bond premium	20,353,345	15,419,347
Total liabilities	29,139,597	25,006,027
<i>Net position</i>		
Net investment in capital assets	25,487,179	30,009,644
Restricted under bond agreements	968,665	446,547
Unrestricted	33,217,430	26,690,536
Total net position	59,673,274	57,146,727
<b>Total liabilities and net position</b>	<b>\$ 88,812,871</b>	<b>\$ 82,152,754</b>

*See accompanying notes to basic financial statements.*

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**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	\$ 77,739,992	\$ 70,616,419
Grants	44,837	10,040
Electronic health records incentive payment	-	121,034
Other	1,738,651	798,908
Total operating revenues	79,523,480	71,546,401
<i>Operating expenses</i>		
Salaries and wages	40,233,281	38,214,585
Employee benefits	9,352,681	9,158,983
Professional fees	681,819	756,788
Purchased services	9,036,586	4,433,561
Supplies	8,850,683	8,344,558
Insurance	468,287	510,897
Leases and rentals	1,409,100	1,288,317
Depreciation	3,531,617	2,932,156
Repairs and maintenance	1,997,861	2,017,217
Utilities	982,042	878,436
Licenses and taxes	734,984	853,293
Education and travel	328,058	390,423
Other	661,856	685,548
Total operating expenses	78,268,855	70,464,762
<i>Operating income</i>	1,254,625	1,081,639
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	56,789	16,055
Taxation for debt service	1,424,783	1,396,159
Investment income	273,462	307,147
Interest expense	(405,803)	(246,933)
Debt issuance costs	(300,780)	(198,800)
Gain on disposal of capital assets	-	9,934
Total nonoperating revenues, net	1,048,451	1,283,562
Change in net position before capital grants and contributions	2,303,076	2,365,201
<i>Capital grants and contributions</i>	223,471	283,214
Change in net position	2,526,547	2,648,415
Net position, beginning of year	57,146,727	54,498,312
<b>Net position, end of year</b>	<b>\$ 59,673,274</b>	<b>\$ 57,146,727</b>

See accompanying notes to basic financial statements.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 67,732,005	\$ 70,983,351
Cash received from other revenue	1,551,016	739,909
Cash received from operating grants	44,837	10,040
Cash paid to and on behalf of employees	(50,766,471)	(47,265,029)
Cash paid to suppliers and contractors	(24,454,351)	(20,069,706)
Net cash provided by (used in) operating activities	(5,892,964)	4,398,565
<i>Cash flows from noncapital financing activities</i>		
Taxes received for maintenance and operations	56,789	16,055
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(5,061,067)	(14,565,688)
Proceeds from sale of capital assets	-	41,065
Proceeds from issuance of long-term debt	8,913,789	13,500,000
Principal payments on long-term debt	(4,619,652)	(1,548,713)
Interest paid	(242,906)	(128,020)
Payments for debt issuance costs	(300,780)	(198,800)
Proceeds from capital grants and contributions	160,537	136,109
Taxes received for bond principal and interest	1,428,452	1,396,009
Net cash provided by (used in) capital and related financing activities	278,373	(1,368,038)
<i>Cash flows from investing activities</i>		
Purchase of investments	(935,500)	(3,013,115)
Proceeds from sale and maturity of investments	5,609,343	6,749,233
Interest received	144,118	277,412
Net cash provided by investing activities	4,817,961	4,013,530
Net increase (decrease) in cash and cash equivalents	(739,841)	7,060,112
Cash and cash equivalents, beginning of year	13,693,319	6,633,207
<b>Cash and cash equivalents, end of year</b>	<b>\$ 12,953,478</b>	<b>\$ 13,693,319</b>

*See accompanying notes to basic financial statements.*

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**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 in current assets	\$ 3,662,913	\$ 2,807,873
Cash and cash equivalents restricted for capital acquisitions	9,290,565	10,885,446
<b>Total cash and cash equivalents</b>	<b>\$ 12,953,478</b>	<b>\$ 13,693,319</b>
<i>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</i>		
Operating income	\$ 1,254,625	\$ 1,081,639
<i>Adjustments to reconcile operating income to net cash provided by (used in) operating activities</i>		
Depreciation	3,531,617	2,932,156
Provision for bad debts	2,800,515	2,657,529
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(11,682,584)	(3,426,931)
Estimated third-party payor settlements	(1,388,704)	965,000
Electronic health records incentive payment	-	(121,034)
Other	(187,635)	6,917
Inventories	(101,133)	(270,411)
Prepaid expenses	203,799	108,446
Increase (decrease) in liabilities:		
Accounts payable	594,259	251,297
Accrued payroll and related liabilities	(994,931)	170,967
Accrued vacation	(185,578)	(62,428)
Estimated third-party payor settlements	262,786	105,418
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (5,892,964)</b>	<b>\$ 4,398,565</b>

*See accompanying notes to basic financial statements.*



**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare (the District) is organized as a municipal corporation pursuant to the laws of the state of Washington for municipal corporations.

The District is a critical access hospital with 25 acute-care, critical care, and birthing place beds. Services offered by the District include medical, surgical, labor/delivery and nursery care, 24-hour emergency, laboratory, imaging services, physical therapy, occupational therapy, speech therapy, wound care, infusion care, respiratory care, home health, hospice, and clinics. Members of the medical staff include specialists in emergency medicine, family practice, internal medicine, general surgery, gynecology, orthopedics, radiology, pathology, dermatology, behavioral health, and inpatient hospitalization. The District owns and operates three rural health clinics, an occupational medicine clinic, a retail pharmacy, four provider based clinics, and an urgent care center.

As organized, the District is exempt from federal income tax. The Board of Commissioners consists of five community members elected to six-year terms.

**Related organization** – The Foundation at Kittitas Valley Healthcare (the Foundation) is a legally separate organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code that acts primarily as a fundraising organization to supplement the resources that are available to the District in support of its programs. The Board consists of 15 to 25 members, of which no more than 25 percent can be associated with Kittitas Valley Healthcare as an employee or medical staff member. At all times, a majority of the Foundation Board of Directors shall be directly appointed by the Board of Commissioners of Kittitas County Public Hospital District No. 1 and the balance by the Foundation Board of Directors. The Foundation is not material to the District and is therefore not reported as a component unit of the District.

**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 the 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. Cash receipts are deposited directly to the District's depository accounts at banks. Periodically, such cash is transferred to the operating accounts and warrants are issued against these accounts.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to 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 are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

***Fair value measurement*** – The District categorizes its fair value measurement 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 are significant unobservable inputs.

The District has recurring fair value measurements for bonds, which are valued using a matrix pricing model (Level 2 inputs).

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

***Cash and cash equivalents restricted for capital acquisitions*** – Such assets are set aside for capital acquisitions as required by bond indenture.

***Investments internally designated for capital acquisitions*** – Assets internally designated for capital acquisitions are assets set aside by the Board of Commissioners in a funded depreciation account for future capital improvements, over which the Board retains control and could subsequently use for other purposes.

***Investments and taxes receivable restricted for debt service*** – Such assets are set aside for repayment of bond principal and interest as required by bond indenture.

***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 depreciation or amortization are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

***Compensated absences*** – The District's nonunion contract employees earn paid time off (PTO) based upon years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, PTO accrues from 200 to 360 hours per year. The District's policy is to permit employees to carry up to 200 of these hours from one year to the next. Teamsters union contract employees earn PTO based on years of service. The related liability is accrued during the period in which it is earned. Depending on years of service, PTO accrues from 200 to 320 hours per year. The collective bargaining agreement permits employees to carry up to 500 of these hours from one year to the next. After using at least 80 hours of PTO, employees may cash out between 40 and 120 hours of PTO, as long as they leave 24 hours in their PTO bank. Washington State Nursing Association (WSNA) union contract employees earn vacation instead of PTO, which is also earned based upon years of service. WSNA union contract employees also receive time off for nine holidays, and may choose to save the holiday and instead accrue up to 48 hours per year of holiday time. On termination of employment, an employee or union contract employee shall be paid all accrued, but unused hours provided he/she has given the notice required by personnel policies and the employee has not been terminated for cause.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to 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)**

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

**Operating revenues and expenses** – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes 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 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 pronouncements** – In June 2017, the Governmental Accounting Standards Board (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 liability and an intangible asset representing the lessee’s right to use the leased asset, 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.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to 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 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.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for the District's year ending December 31, 2020. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

***Subsequent events*** – The District has evaluated subsequent events through May 15, 2019, the date on which the financial statements were available to be issued.

***Reclassifications*** – Certain reclassifications of the 2017 amounts have been made in the financial statements in order to conform to the 2018 presentation. These reclassifications had no effect on previously reported change in net position.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**2. 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.

Amounts held in the Washington State Local Government Investment Pool at December 31, 2018 and 2017, were \$9,290,565 and \$10,885,446, respectively.

The District maintains an investment policy designed to maximize return and limit the following types of risks:

***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.

***Credit risk*** – Credit risk is 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 have a policy specifically requiring or limiting investments by type.

***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 a single issuer). The District does 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 does have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**2. Deposits and Investments (Continued):**

The District had the following investments:

	2018				
	Investment Maturities (in Years)				Investment Ratings***
Fair Value	Less Than One	One to Five	More Than Five		
Federal Agricultural Mortgage Corporation	\$ 1,587,430	\$ 1,587,430	\$ -	\$ -	Not Rated
Federal Farm Credit Bank	5,008,599	1,585,996	3,422,603	-	AAA
Federal Home Loan Bank	1,002,659	-	1,002,659	-	AAA
Federal Home Loan Mortgage Corporation	1,743,605	-	1,743,605	-	AAA
Federal National Mortgage Association	3,563,245	-	3,563,245	-	AAA
Resolution Funding Corporation	2,070,093	2,070,093	-	-	AAA
Totals	\$ 14,975,631	\$ 5,243,519	\$ 9,732,112	\$ -	

	2017				
	Investment Maturities (in Years)				Investment Ratings***
Fair Value	Less Than One	One to Five	More Than Five		
Federal Agricultural Mortgage Corporation	\$ 1,574,894	\$ -	\$ 1,574,894	\$ -	Not Rated
Federal Farm Credit Bank	7,639,935	-	7,639,935	-	AAA
Federal Home Loan Bank	999,730	-	999,730	-	AAA
Federal Home Loan Mortgage Corporation	3,741,507	1,999,528	1,741,979	-	AAA
Federal National Mortgage Association	3,525,902	-	3,525,902	-	AAA
Resolution Funding Corporation	2,038,162	-	2,038,162	-	AAA
Totals	\$ 19,520,130	\$ 1,999,528	\$ 17,520,602	\$ -	

\*\*\*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.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**2. Deposits and Investments (Continued):**

The carrying amounts of deposits and investments shown above are included in the District's statements of net position as follows:

	<b>2018</b>	<b>2017</b>
Deposits:		
Cash and cash equivalents	\$ 3,662,913	\$ 2,807,873
Cash and cash equivalents restricted for capital acquisitions	9,290,565	10,885,446
<b>Total deposits</b>	<b>12,953,478</b>	<b>13,693,319</b>
Investments:		
Restricted for debt service	945,710	419,923
Designated for capital acquisitions	14,029,921	19,100,207
<b>Total investments</b>	<b>14,975,631</b>	<b>19,520,130</b>
<b>Total deposits and investments</b>	<b>\$ 27,929,109</b>	<b>\$ 33,213,449</b>

**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 increased significantly from prior years due to an increased amount of patient receivables, as a result of difficulties encountered with the conversion to a new electronic health records system. 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.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

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

	<b>2018</b>	<b>2017</b>
Receivables from patients and their insurance carriers	\$ 13,774,330	\$ 7,994,121
Receivables from Medicare	6,323,775	2,402,608
Receivables from Medicaid	3,141,676	1,047,656
Total patient accounts receivable	23,239,781	11,444,385
Less allowance for uncollectible accounts	5,551,791	2,638,464
<b>Patient accounts receivable, net</b>	<b>\$ 17,687,990</b>	<b>\$ 8,805,921</b>



**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**4. Capital Assets:**

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

Land improvements	5 to 25 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

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	\$ 2,324,730	\$ -	\$ -	\$ -	\$ 2,324,730
Construction in progress	4,212,310	4,224,965	-	(8,137,795)	299,480
Total capital assets not being depreciated	6,537,040	4,224,965	-	(8,137,795)	2,624,210
<i>Capital assets being depreciated</i>					
Land improvements	418,230	-	-	-	418,230
Buildings and improvements	38,655,106	67,483	-	2,039,544	40,762,133
Fixed equipment	4,609,905	-	-	-	4,609,905
Major movable equipment	23,966,112	768,619	(66,657)	6,098,251	30,766,325
Total capital assets being depreciated	67,649,353	836,102	(66,657)	8,137,795	76,556,593
<i>Less accumulated depreciation for</i>					
Land improvements	(413,847)	(7,564)	-	-	(421,411)
Buildings and improvements	(14,234,136)	(1,353,068)	-	-	(15,587,204)
Fixed equipment	(3,439,403)	(242,569)	-	-	(3,681,972)
Major movable equipment	(19,168,717)	(1,928,416)	66,657	-	(21,030,476)
Total accumulated depreciation	(37,256,103)	(3,531,617)	66,657	-	(40,721,063)
<i>Total capital assets being depreciated, net</i>					
	30,393,250	(2,695,515)	-	8,137,795	35,835,530
<b>Capital assets, net</b>	<b>\$ 36,930,290</b>	<b>\$ 1,529,450</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,459,740</b>

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Community Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

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

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 1,499,300	\$ 825,430	\$ -	\$ -	\$ 2,324,730
Construction in progress	1,674,508	11,886,358	-	(9,348,556)	4,212,310
Total capital assets not being depreciated	3,173,808	12,711,788	-	(9,348,556)	6,537,040
<i>Capital assets being depreciated</i>					
Land improvements	409,791	-	-	8,439	418,230
Buildings and improvements	29,188,760	471,477	-	8,994,869	38,655,106
Fixed equipment	4,650,787	-	(40,882)	-	4,609,905
Major movable equipment	23,713,504	1,054,682	(1,147,322)	345,248	23,966,112
Total capital assets being depreciated	57,962,842	1,526,159	(1,188,204)	9,348,556	67,649,353
<i>Less accumulated depreciation</i>					
Land improvements	(406,565)	(7,282)	-	-	(413,847)
Buildings and improvements	(13,079,657)	(1,154,479)	-	-	(14,234,136)
Fixed equipment	(3,233,801)	(246,485)	40,883	-	(3,439,403)
Major movable equipment	(18,760,999)	(1,523,910)	1,116,192	-	(19,168,717)
Total accumulated depreciation	(35,481,022)	(2,932,156)	1,157,075	-	(37,256,103)
<i>Total capital assets being depreciated, net</i>					
	22,481,820	(1,405,997)	(31,129)	9,348,556	30,393,250
<b>Capital assets, net</b>	<b>\$ 25,655,628</b>	<b>\$ 11,305,791</b>	<b>\$ (31,129)</b>	<b>\$ -</b>	<b>\$ 36,930,290</b>

Significant construction in progress at December 31, 2018, consisted of the following:

- Renovation of KVH Medical Arts Center. This project is expected to be completed in 2020 with an estimated remaining cost, including equipment, of approximately \$9,300,000.

Total interest costs incurred were \$713,302 and \$392,850, of which \$307,499 and \$145,917 were capitalized during the years ended December 31, 2018 and 2017, respectively. Total interest income received was \$309,170, of which \$165,062 was capitalized during the year ended December 31, 2018.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**5. 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
<i>Bonds and notes payable</i>					
2008 Unlimited Tax General Obligation					
Refunding Bonds	\$ 1,355,000	\$ -	\$ (1,355,000)	\$ -	\$ -
Bond Premium	18,397	-	(18,397)	-	-
2009 Limited Tax General Obligation and Revenue Bonds	2,754,616	-	(2,754,616)	-	-
2017B Taxable Revenue Bond	1,000,000	-	(100,302)	899,698	396,283
2017A Tax Exempt Revenue Bond	12,500,000	-	-	12,500,000	438,505
2018 Hospital Revenue Bond	-	6,000,000	-	6,000,000	360,000
2018 Limited Tax General Obligation and Revenue Refunding Bond	-	2,913,789	(372,940)	2,540,849	392,414
<b>Total long-term debt</b>	<b>\$ 17,628,013</b>	<b>\$ 8,913,789</b>	<b>\$ (4,601,255)</b>	<b>\$ 21,940,547</b>	<b>\$ 1,587,202</b>

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>Bonds and notes payable</i>					
2008 Unlimited Tax General Obligation					
Refunding Bonds	\$ 2,575,000	\$ -	\$ (1,220,000)	\$ 1,355,000	\$ 1,355,000
Bond Premium	54,735	-	(36,338)	18,397	-
2009 Limited Tax General Obligation and Revenue Bonds	3,083,329	-	(328,713)	2,754,616	343,505
2017B Taxable Revenue Bond	-	1,000,000	-	1,000,000	315,034
2017A Tax Exempt Revenue Bond	-	12,500,000	-	12,500,000	195,127
<b>Total long-term debt</b>	<b>\$ 5,713,064</b>	<b>\$ 13,500,000</b>	<b>\$ (1,585,051)</b>	<b>\$ 17,628,013</b>	<b>\$ 2,208,666</b>

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

- Unlimited Tax General Obligation Bonds (Refunding), dated May 15, 2008 (the 2008 Bonds), in the original amount of \$8,570,000, paid off in 2018.
- Limited Tax General Obligation and Revenue Bonds, dated October 27, 2009, in the original amount of \$5,000,000, for the purpose of improvements and expansion of District facilities. These bonds were refunded by the Limited Tax General Obligation and Revenue Refunding Bonds, dated July 11, 2018.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**5. Long-term Debt (continued):**

- Taxable Revenue Bonds, dated August 15, 2017, in the original amount of \$1,000,000, for the purpose of improvements and expansion of District facilities. The bonds are payable annually on December 31 in the remaining principal amounts ranging from \$223,773 to \$228,000 through 2021. Interest at 4.21 percent is due semiannually on June 30 and December 31.
- Tax Exempt Revenue Bonds, dated August 15, 2017, in the original amount of \$12,500,000, for the purpose of improvements and expansion of District facilities. The bonds are payable annually on December 31 in the remaining principal amounts ranging from \$396,283 to \$8,200,000 through 2027. Interest at 3.09 percent is due semiannually on June 30 and December 31.
- Limited Tax General Obligation and Revenue Refunding Bonds, dated July 11, 2018, in the original amount of \$2,913,789. The bonds are payable annually on December 1 in the remaining principal amounts ranging from \$392,414 to \$455,800 through 2024. Interest at 3.04 percent is due semiannually on June 1 and December 1. 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.
- Hospital Revenue Bonds, dated May 2, 2018, in the original amount of \$6,000,000, for the purpose of improvements and expansion of District facilities. The bonds are payable annually on December 31 in the remaining principal amounts ranging from \$180,000 to \$4,020,000 through 2029. Interest at 3.43 percent is due semiannually on June 30 and December 31.

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

<b>Years Ending December 31,</b>	<b>Limited Tax General Obligation and Revenue Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 1,587,202	\$ 1,000,889	\$ 2,588,091
2020	1,024,910	652,186	1,677,096
2021	1,053,427	617,494	1,670,921
2022	1,082,761	581,986	1,664,747
2023	1,110,441	554,129	1,664,570
2024-2028	12,061,806	1,954,080	14,015,886
2029	4,020,000	-	4,020,000
	<b>\$ 21,940,547</b>	<b>\$ 5,360,764</b>	<b>\$ 27,301,311</b>

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**6. Deferred Compensation Plan and Pension Plan:**

The District sponsors a deferred compensation plan called the Kittitas Valley Healthcare Employees' Pension Plan (the Plan). The Plan is a defined contribution plan. Benefits depend solely on amounts contributed by the District to the Plan plus investment earnings. The Plan is administered by the District. Employees over the age of 21 are eligible to participate after two years of service. Currently, the District contributes 7 percent of the nonphysician employee's monthly base salary to the Plan. Employees vest 25 percent after two years of service with an additional 25 percent each year thereafter until fully vested after five years of service. Benefit terms, including contribution amounts for the Plan are established and may be amended by the District's Board of Commissioners. Additionally, contribution amounts are negotiated as part of the union contracts, and would have to be re-negotiated in order to change for these employees. Nonvested District contributions and accumulated interest for employees who leave employment before five years of service are used to reduce the District's current period contribution requirement.

The District also sponsors a deferred compensation plan called the Kittitas Valley Healthcare Physician Pension Plan (the Physicians' Plan) for all employed physicians. The Physicians' Plan is a defined contribution plan. Benefits depend solely on amounts contributed by the District to the Physicians' Plan plus investment earnings. The Physicians' Plan is administered by the District. All employed physicians are eligible to participate after their first hour of service. Currently, the District contributes 10 percent of the employed physician's base salary to the Physicians' Plan. Employees are vested immediately, and all contributions to the Physicians' Plan are considered 100 percent vested. Benefit terms, including contribution amounts for the Physicians' Plan are established and may be amended by the District's Board of Commissioners.

The District contributed approximately \$2,393,000 and \$2,312,000 for 2018 and 2017, respectively, to the Plan and the Physicians' Plan. It is the District's policy to currently fund pension contributions accrued.

The District also sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The name of the plan is Kittitas Valley Community Hospital Deferred Compensation Plan. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Employees become eligible to participate in the plan beginning on the first day of employment. Employee contributions to the plan totaled approximately \$1,357,000 and \$1,231,000 for the years ended December 31, 2018 and 2017, respectively.

The plans are administered by the District. Compensation deferred under the plans and all income attributable to the plans are held in trust for the exclusive benefit of the participants and their beneficiaries and are not subject to claims by the District's creditors. While the District has no liability for losses under the plans, it does have the duty of due care that would be required of an ordinary prudent investor.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**7. Healthcare Self-insurance:**

The District partially self-insured the cost of employee healthcare benefits for the year ended December 31, 2017. The District self-insured the first \$150,000 in claims per eligible participant. The District also purchased annual stop-loss insurance coverage for all claims in excess of \$150,000 per eligible participant. The statement of net position includes an accrual for claims that have been incurred but not reported and is included in the accrued payroll and related liabilities balance. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Changes in the District's claim liability amount were as follows:

	<b>2018</b>	<b>2017</b>
Claim liability, beginning of year	\$ 624,204	\$ 398,840
Current year claims and changes in estimates	-	3,606,105
Claims payments	<b>(624,204)</b>	<b>(4,629,149)</b>
Claim liability, end of year	\$ -	\$ (624,204)

**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 that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. 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 between 2018 and 2017. The District has not changed its charity care and uninsured discount policies during the year ended December 31, 2018.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

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:

	<b>2018</b>	<b>2017</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 29,737,051	\$ 29,202,147
Medicaid	10,272,159	8,569,002
Other third-party payors	35,472,342	30,514,883
Patients	6,014,153	6,097,319
	<b>81,495,705</b>	<b>74,383,351</b>
Less:		
Charity care	955,198	1,109,403
Provision for bad debts	2,800,515	2,657,529
<b>Net patient service revenue</b>	<b>\$ 77,739,992</b>	<b>\$ 70,616,419</b>

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 is paid on a cost reimbursement method for substantially all hospital and rural health clinic services provided to Medicare beneficiaries. The District is reimbursed 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. Nonrural health clinic physicians are paid under a fee schedule. Home health and hospice services are paid under prospective payment systems.
- *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 State of Washington Health Care Authority. Rural health clinic services are paid on a prospectively set rate per visit.

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$54,000 in 2018 and increased by approximately \$56,000 in 2017, due to differences between original estimates and final settlements or revised estimates.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

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 \$530,000 and \$599,000, respectively. The District received a small rural indigent disproportionate share hospital payment from the state of Washington to subsidize charity services in the amount of approximately \$136,000 and \$116,000 during the years ended December 31, 2018 and 2017, respectively.

**9. Electronic Health Records Incentive Payment:**

During 2017, the Washington Health Care Authority (HCA) began an audit of Medicaid EHR incentive payments paid to all hospitals. The HCA determined that the District was underpaid by approximately \$121,000. The District recognized this amount as revenue in 2017. The funds were received in January 2019.

**10. 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 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 currently levies taxes at a lower rate, as listed below. Further amounts of tax must be authorized by the vote of the people.

The District's portion of the regular tax levy available for maintenance and operations was \$0.0022 and \$0.0023 per \$1,000 on a total assessed valuation of \$3,885,253,915 and \$3,627,163,630 for a total regular levy of \$8,730 and \$8,504 in 2018 and 2017, respectively. The District also receives local timber taxes in addition to the regular tax levy.

The District's bond levy was \$0.3696 and \$0.3781 per \$1,000 on a total assessed valuation of \$3,855,308,455 and \$3,602,094,390, for a total bond levy of \$1,424,783 and \$1,361,844 in 2018 and 2017, respectively.

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.



**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**11. Commitments Under Noncancellable Operating Leases and Purchased Service Agreements:**

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

<b>Years Ending December 31,</b>	<b>Amount</b>
2019	\$ 913,830
2020	769,314
2021	742,231
2022	689,257
2023	703,270
2024-Thereafter	3,194,175
	<b>\$ 7,012,077</b>

Additionally, the District has a noncancellable agreement with Cerner Corporation to purchase support for its electronic health records system. Following is a summary of future minimum obligations under this agreement:

<b>Years Ending December 31,</b>	<b>Amount</b>
2019	\$ 1,022,880
2020	1,022,880
2021	1,022,880
2022	1,022,880
2023	1,022,880
	<b>\$ 5,114,400</b>

**12. Risk Management and Contingencies:**

***Medical malpractice claims*** – The District has professional liability insurance coverage with Coverys Insurance Company. 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 Coverys Insurance Company on a “claims-made” basis. The excess malpractice insurance provides \$10,000,000 per claim of primary coverage with an aggregate limit of \$10,000,000. The policy has no deductible per claim.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

***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.

***Workers' compensation***– The District has a self-insured workers' compensation plan for its employees. The District participates in the Public Hospital District Workers' Compensation Trust, 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 \$104,000 and \$128,000 (net of approximate dividends of \$233,000 and \$218,000) in 2018 and 2017, respectively.

The District has a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Unemployment Compensation Fund, administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses. Unemployment expense was approximately \$33,000 and \$51,000 in 2018 and 2017, respectively.

***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.

**Kittitas County Public Hospital District No. 1**  
**doing business as Kittitas Valley Healthcare**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**13. Concentration of Risks:**

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

The mix of receivables from patients was as follows:

	<b>2018</b>	<b>2017</b>
Medicare	<b>35 %</b>	27 %
Medicaid	<b>16</b>	14
Other third-party payors	<b>31</b>	40
Patients	<b>18</b>	19
	<b>100 %</b>	100 %

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

***Collective bargaining units*** – The District has two collective bargaining agreements with the Washington State Nurses Association (the WSNA) and Teamsters Local 760 (Teamsters).

The District has a contract with the WSNA for its nursing employees, which is effective through December 31, 2019.

Effective June 1, 2018, the District renewed its contract with the Teamsters labor union which applies to all hospital employees except the following positions: supervisors, confidential employees, RNs, LPNs, office clerical, security, laboratory, imaging, surgical technicians, home care, clinics, engineering, physical rehabilitation, central supply and pharmacy. The contract is effective through July 1, 2022.

As of December 31, 2018 and 2017, approximately 35 percent of the Districts' employees were represented by the union under these collective bargaining agreements with the WSNA and Teamsters.



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. 1  
doing business as Kittitas Valley Healthcare  
Ellensburg, Washington

We have audited, 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, the financial statements of Kittitas County Public Hospital District No. 1 doing business as Kittitas Valley Healthcare (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 15, 2019.

**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.

## **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 15, 2019

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

There are no matters to report in this schedule for the years ended December 31, 2018 or 2017.