



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

November 14, 2019

Board of Commissioners
Klickitat Valley Health
Goldendale, 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 Klickitat Valley Health 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,

Pat McCarthy
State Auditor
Olympia, WA

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

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2018 and 2017



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

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (the District) as of and for the years ended December 31, 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 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. We issued a similar report for the year ended December 31, 2017, dated May 4, 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, 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
June 13, 2019

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

ASSETS	2018	2017
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,384,472	\$ 3,245,675
Receivables:		
Patient accounts	3,510,631	3,482,304
Collateralized patient accounts	114,675	94,463
Estimated third-party payor settlements	639,054	395,000
Taxes	34,686	36,909
Taxes restricted for debt service	25,623	27,787
Other	30,668	373,938
Cash and cash equivalents, restricted for debt service	216,079	195,767
Cash and cash equivalents, limited as to use for debt service	894	331
Inventories	224,932	244,407
Prepaid expenses	299,003	328,147
Total current assets	7,480,717	8,424,728
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	240,679	432,439
Collateralized patient accounts receivable	42,076	29,205
Capital grants receivable	75,520	313,612
Capital assets, net	10,704,004	10,985,581
Total noncurrent assets	11,062,279	11,760,837
Total assets	\$ 18,542,996	\$ 20,185,565

See accompanying notes to basic financial statements.

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

LIABILITIES AND NET POSITION	2018	2017
<i>Current liabilities</i>		
Accounts payable	\$ 1,453,548	\$ 1,341,920
Accrued compensation and related liabilities	335,254	286,481
Accrued vacation	684,509	554,986
Accrued interest payable	19,822	20,616
Estimated third-party payor settlements	1,177,709	1,821,050
Current maturities of long-term debt	994,547	877,653
Current portion of net pension liability	49,111	49,454
Total current liabilities	4,714,500	4,952,160
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	5,551,461	6,074,171
Net pension liability, less current portion	88,008	153,693
Total noncurrent liabilities	5,639,469	6,227,864
Total liabilities	10,353,969	11,180,024
<i>Net position</i>		
Net investment in capital assets	4,591,591	4,646,959
Restricted for debt service	241,702	223,554
Unrestricted	3,355,734	4,135,028
Total net position	8,189,027	9,005,541
Total liabilities and net position	\$ 18,542,996	\$ 20,185,565

See accompanying notes to basic financial statements.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Operating revenues</i>		
Net patient service revenue	\$ 21,899,351	\$ 21,571,981
Electronic health records incentive payback	-	(38,864)
Grants	315,776	154,358
Other	256,690	291,918
Total operating revenues	22,471,817	21,979,393
<i>Operating expenses</i>		
Salaries and wages	12,960,932	11,937,679
Employee benefits	2,953,879	2,648,342
Professional fees	1,930,567	2,088,906
Supplies	1,689,687	1,735,989
Utilities	295,941	309,325
Purchased services	2,357,918	2,180,330
Leases and rentals	395,144	403,286
Repairs and maintenance	46,630	52,523
Depreciation	1,206,088	1,208,828
Insurance	166,459	161,408
Other	646,158	710,336
Total operating expenses	24,649,403	23,436,952
<i>Operating loss</i>	(2,177,586)	(1,457,559)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	868,244	836,581
Taxation for bond principal and interest	611,474	604,857
Contributions	75	2,339
Gain on disposal of assets including insurance proceeds of \$277,382 in 2017	550	305,113
Interest income	42,286	40,540
Interest expense	(282,347)	(269,760)
Total nonoperating revenues, net	1,240,282	1,519,670
Excess of revenues over expenses (expenses over revenues) before capital grants	(937,304)	62,111
<i>Capital grants and contributions</i>	120,790	219,000
Change in net position	(816,514)	281,111
<i>Net position, beginning of year</i>	9,005,541	8,724,430
Net position, end of year	\$ 8,189,027	\$ 9,005,541

See accompanying notes to basic financial statements.

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

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 20,671,311	\$ 20,170,589
Cash received from grants	315,776	154,358
Cash received from other revenue	332,355	225,642
Cash paid to and on behalf of employees	(15,802,543)	(14,523,944)
Cash paid to suppliers and contractors	(7,368,257)	(7,219,085)
Net cash used in operating activities	(1,851,358)	(1,192,440)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	870,467	840,240
Proceeds from recourse financing	322,382	252,533
Contributions received	75	2,339
Net cash provided by noncapital financing activities	1,192,924	1,095,112
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	613,638	607,790
Interest paid	(292,003)	(282,663)
Proceeds from the issuance of long-term debt	1,366,683	905,388
Principal payments on long-term debt	(1,806,784)	(730,562)
Payments for purchase of capital assets	(923,961)	(2,384,143)
Proceeds from the sale of capital assets	-	27,731
Proceeds from capital grants	358,882	-
Proceeds from insurance settlement	267,605	-
Net cash used in capital and related financing activities	(415,940)	(1,856,459)
<i>Cash flows from investing activities</i>		
Interest received	42,286	40,540
Net decrease in cash and cash equivalents	(1,032,088)	(1,913,247)
Cash and cash equivalents, beginning of year	3,874,212	5,787,459
Cash and cash equivalents, end of year	\$ 2,842,124	\$ 3,874,212

See accompanying notes to basic financial statements.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 2,384,472	\$ 3,245,675
Cash and cash equivalents, restricted for debt service	216,079	195,767
Cash and cash equivalents, limited as to use for debt service	894	331
Cash and cash equivalents, limited as to use for capital acquisitions	240,679	432,439
Total cash and cash equivalents	\$ 2,842,124	\$ 3,874,212
<i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</i>		
Operating loss	\$ (2,177,586)	\$ (1,457,559)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation	1,206,088	1,208,828
Provision for bad debts	864,784	1,497,396
Decrease (increase) in current assets:		
Receivables:		
Patient accounts	(1,205,429)	(2,225,706)
Estimated third-party payor settlements	(244,054)	(395,000)
Other	75,665	(27,708)
Inventories	19,475	(67,586)
Prepaid expenses	29,144	(13,917)
Increase (decrease) in current liabilities:		
Accounts payable	111,628	465,953
Accrued compensation and related liabilities	48,773	64,510
Accrued vacation	129,523	82,620
Estimated third-party payor settlements	(643,341)	(239,218)
Net pension liability	(66,028)	(85,053)
Net cash used in operating activities	\$ (1,851,358)	\$ (1,192,440)

Noncash Investing, Capital, and Financing Activities

The District's recourse financing obligation was reduced by patient payments made to a third-party service organization in the amount of \$281,170 and \$202,792 in 2018 and 2017, respectively.

See accompanying notes to basic financial statements.

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

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity:

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

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

b. Summary of Significant Accounting Policies:

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

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

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

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

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

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

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

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and with estimated useful lives of at least one year; lesser amounts are expensed. The capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

Compensated absences – The District’s policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum range of 416 to 656 hours, depending on their years of service. The District also permits employees to accumulate earned paid sick leave up to 40 hours. All paid time off and paid sick leave are accrued and expensed when earned.

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

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

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

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

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

Recent accounting 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 30, 2020, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

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

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

Recent accounting pronouncements (continued) – 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 new guidance 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 – Subsequent events have been reviewed through June 13, 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 the previously reported change in net position.

2. Bank Deposits and Investments:

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be returned to it.

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

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2018 and 2017, were approximately \$850,000 and \$3,500,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley Health
Notes to 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 patient payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has decreased from the prior year due to a decrease in self-pay patient accounts receivable. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

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

	2018	2017
Receivables from patients and their insurance carriers	\$ 2,664,542	\$ 4,094,556
Receivables from Medicare	1,208,309	818,882
Receivables from Medicaid	899,714	341,800
Total patient accounts receivable	4,772,565	5,255,238
Less allowance for uncollectible accounts	1,261,934	1,772,934
Patient accounts receivable, net	\$ 3,510,631	\$ 3,482,304

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

4. Property Taxes:

The Klickitat County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values assessed as of the same date and are intended to finance the District's activities of the same calendar year. Assessed values are established by the Klickitat County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

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

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

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

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

2018						
	Levy Rate	Assessed Value			Total	
		Regular	Bond	Timber	Levy Amount	
2007 Bond and timber levy	0.4423	\$ -	\$ 1,317,285,573	\$ 38,928,327	\$ 599,817	
M&O levy	0.6058	\$ 1,331,118,633	\$ -	\$ -	\$ 806,427	

2017						
	Levy Rate	Assessed Value			Total	
		Regular	Bond	Timber	Levy Amount	
2007 Bond and timber levy	0.4383	\$ -	\$ 1,320,513,867	\$ 51,237,789	\$ 601,300	
M&O levy	0.5838	\$ 1,333,589,467	\$ -	\$ -	\$ 778,600	

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

5. Capital Assets:

All capital assets other than land are depreciated using the straight-line method of depreciation over these asset lives:

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

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

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

5. Capital Assets (continued):

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	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	358,995	720,395	-	(902,696)	176,694
Total capital assets not being depreciated	562,701	720,395	-	(902,696)	380,400
<i>Capital assets being depreciated</i>					
Buildings and improvements	19,222,219	11,803	-	893,432	20,127,454
Land improvements	1,731,953	3,458	-	-	1,735,411
Equipment	6,800,131	188,855	-	9,264	6,998,250
Total capital assets being depreciated	27,754,303	204,116	-	902,696	28,861,115
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(10,618,573)	(701,049)	-	-	(11,319,622)
Land improvements	(1,131,320)	(105,258)	-	-	(1,236,578)
Equipment	(5,581,530)	(399,781)	-	-	(5,981,311)
Total accumulated depreciation	(17,331,423)	(1,206,088)	-	-	(18,537,511)
Total capital assets being depreciated, net	10,422,880	(1,001,972)	-	902,696	10,323,604
Capital assets, net	\$ 10,985,581	\$ (281,577)	\$ -	\$ -	\$ 10,704,004
	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 203,706	\$ -	\$ -	\$ -	\$ 203,706
Construction in progress	87,181	1,988,687	-	(1,716,873)	358,995
Total capital assets not being depreciated	290,887	1,988,687	-	(1,716,873)	562,701
<i>Capital assets being depreciated</i>					
Buildings and improvements	17,747,246	29,710	-	1,445,263	19,222,219
Land improvements	1,660,085	19,415	-	52,453	1,731,953
Equipment	6,282,587	346,331	(47,944)	219,157	6,800,131
Total capital assets being depreciated	25,689,918	395,456	(47,944)	1,716,873	27,754,303
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(9,991,872)	(626,701)	-	-	(10,618,573)
Land improvements	(1,029,564)	(101,756)	-	-	(1,131,320)
Equipment	(5,149,103)	(480,371)	47,944	-	(5,581,530)
Total accumulated depreciation	(16,170,539)	(1,208,828)	47,944	-	(17,331,423)
Total capital assets being depreciated, net	9,519,379	(813,372)	-	1,716,873	10,422,880
Capital assets, net	\$ 9,810,266	\$ 1,175,315	\$ -	\$ -	\$ 10,985,581

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Capital Assets (continued):

Construction in progress as of December 31, 2018, consisted of the following:

- The Bold Vision 20/20 project which includes a new inpatient wing and surgery unit, repurposing the current inpatient unit for long-term care, and increasing specialty and outpatient services. The project is still in the preliminary stages. There is no estimate of cost to complete.
- The remodel of the clinic's second floor has an estimated cost to complete of \$256,000 and an expected completion date of July 2019.

6. Defined Contribution Retirement Plan:

The District contributes to the Klickitat Valley Hospital Retirement Plan II (the 403(b) Plan), a defined contribution pension plan, for its employees who have completed 12 months of service (1,000 hours in the preceding 12-month period) and have attained age 21. This employer-sponsored 403(b) Plan is administered by VALIC. Benefit terms, including contribution requirements, for the 403(b) Plan are established and may be amended by the District. The District has approved for all employees who are members of a recognized bargaining unit a 2.5 percent contribution on all eligible compensation until further notice. For employees who do not belong to a recognized bargaining unit, the District will match up to 4 percent of an employee's compensation. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. For the years ended December 31, 2018 and 2017, employee contributions were approximately \$587,000 and \$514,000, respectively, and the District's contributions to the 403(b) Plan were approximately \$308,000 and \$278,000, respectively.

All contributions to the 403(b) Plan are 100 percent vested at all times. The District had no material liability to the 403(b) Plan at December 31, 2018 and 2017.

7. Defined Benefit Retirement Plan:

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

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

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

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

7. Defined Benefit Retirement Plan (continued):

Benefits provided (continued) – At December 31, 2018 and 2017, the following employees were covered by the Plan:

	2018	2017
Active employees	-	-
Inactive employees or beneficiaries currently receiving benefits	5	6
Inactive employees entitled to but not yet receiving benefits	-	-
	5	6

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

There is no annual covered payroll and, therefore, the ratio of the unfunded actuarial liability and contributions to annual covered payroll is zero. The District is liable for the unfunded portion of the Plan. The District's required contribution for the years ended December 31, 2018 and 2017, were \$49,111 and \$51,708, respectively. Actual contributions for the years equaled \$49,111 and \$49,454, or 100 percent and 95.6 percent, respectively, of required contributions.

Net pension liability – The District's net pension liability was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability in the December 31, 2018 and 2017, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Inflation	0%	0%
Salary increases	0%	0%
Investment rate of return	2.20%	1.90%

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

7. Defined Benefit Retirement Plan (continued):

Net pension liability (continued) – The actuarial assumptions used in the December 31, 2018 and 2017, valuations were based on the results of an actuarial experience study for the periods January 1, 2018 through December 31, 2018, and January 1, 2017 through December 31, 2017, respectively. In addition, mortality rates were based on the RP-2014 with 2006 Base Rates Male/Female Tables with MP-2018 Improvement Scales.

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

The target allocation and best estimate of arithmetic real rates of return are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash	100%	2.20%

Discount rate – The discount rate used to measure the total pension liability was 2.20 percent. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

7. Defined Benefit Retirement Plan (continued):

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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, December 31, 2017	\$ 275,680	\$ 72,533	\$ 203,147
Changes for the year:			
Interest	6,444	-	6,444
Difference between expected and actual experience	(26,011)	-	(26,011)
Changes of assumptions	2,664	-	2,664
Net investment income	-	84	(84)
Contributions – employer	-	49,111	(49,111)
Benefit payments including refunds of employee contributions	(43,953)	(43,953)	-
Administrative expense	-	(70)	70
Net changes	(60,856)	5,172	(66,028)
Balance, December 31, 2018	\$ 214,824	\$ 77,705	\$ 137,119
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance, December 31, 2016	\$ 364,353	\$ 76,153	\$ 288,200
Changes for the year:			
Interest	5,068	-	5,068
Difference between expected and actual experience	(28,145)	-	(28,145)
Changes of assumptions	(12,580)	-	(12,580)
Net investment income	-	12	(12)
Contributions – employer	-	49,454	(49,454)
Benefit payments including refunds of employee contributions	(53,016)	(53,016)	-
Administrative expense	-	(70)	70
Net changes	(88,673)	(3,620)	(85,053)
Balance, December 31, 2017	\$ 275,680	\$ 72,533	\$ 203,147

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

7. Defined Benefit Retirement Plan (continued):

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

	Discount Rate	Net Pension Liability 2018	Discount Rate	Net Pension Liability 2017
1% decrease	1.20%	\$ 145,364	1.54%	\$ 215,222
Current discount rate	2.20%	\$ 137,119	2.54%	\$ 203,147
1% increase	3.20%	\$ 129,466	3.54%	\$ 192,026

Pension expense, deferred outflows of resources, and deferred inflows of resources – For the years ended December 31, 2018 and 2017, the District recognized pension expense of (\$16,980) and (\$35,823), respectively. At December 31, 2018 and 2017, the District reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

8. Long-term Debt:

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

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due Within One Year
<i>Long-term debt</i>					
Government obligation contract	\$ -	\$ 366,683	\$ (43,399)	\$ 323,284	\$ 48,845
2018 LTGO bonds	-	1,000,000	(13,385)	986,615	23,505
2017 LTGO bond anticipation note	1,000,000	-	(1,000,000)	-	-
2007 LTGO bonds	2,830,000	-	(155,000)	2,675,000	160,000
2007 UTGO bonds	1,640,000	-	(525,000)	1,115,000	545,000
Series 2014B COP	1,155,000	-	(70,000)	1,085,000	75,000
Recourse financing, collateralized					
patient notes receivable	192,553	322,382	(279,235)	235,700	142,197
Bond premiums and discounts	134,271	-	(8,862)	125,409	-
Total long-term debt	\$ 6,951,824	\$ 1,689,065	\$ (2,094,881)	\$ 6,546,008	\$ 994,547

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

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

- Government obligation contract with KS StateBank dated January 22, 2018, in the original amount of \$366,683 payable on the 22nd of each month with payments of \$4,888 including interest at 3.26 percent per annum through January 22, 2025. The District issued the general obligation contract to finance the HVAC upgrade and lighting, in conjunction with an energy grant from the Washington State Department of Commerce.
- USDA limited tax general obligation (LTGO) bond fund note dated June 1, 2018, in the original amount of \$1,000,000, payable monthly starting July 1, 2018, with variable principal payments ranging from \$1,937 to \$3,885, with an interest rate of 2.375 percent per annum, through June 1, 2048. The District issued the bond to provide the funds required to redeem the District's outstanding LTGO bond anticipation note, 2017, which was issued to remodel the District's physical therapy space.

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

8. Long-term Debt (continued):

- LTGO bond anticipation note dated September 28, 2017, in the original amount of \$1,000,000, payable in full to Columbia State Bank by September 28, 2020, with variable rate interest at Columbia Bank Base rate plus 0.50 percent. The District issued the bond as interim financing for United States Department of Agriculture (USDA) Community Facilities Loan of the same amount to remodel the District's physical therapy space. Upon project completion, the USDA will release final project funds, with which the District will pay off the interim financing. Paid off in 2018.
- LTGO bonds dated April 12, 2007, in the original amount of \$4,080,000, payable annually on December 1, with variable principal payments ranging from \$160,000 to \$265,000. Variable rate interest of 4.1 percent to 4.5 percent is payable semiannually through December 2031. The District issued the bonds to purchase an assisted living facility (now the physician clinic building), previously owned by Klickitat Valley Hospital Memorial Foundation.

All LTGO bonds are general obligations of the District and secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

- Unlimited tax general obligation (UTGO) bonds dated April 12, 2007, in the original amount of \$4,870,000, payable annually on December 1, with variable principal payments ranging from \$545,000 to \$570,000, plus semiannual interest rate of 4.5 percent through December 2020. The District issued the bonds to refund a portion of the outstanding 2000 UTGO Bonds. The District is required to levy and collect sufficient taxes each year to pay the bond principal and interest due. The UTGO bonds are direct and general obligations, and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The voters of the District approved the 2007 bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.
- State of Washington Certificates of Participation (COP), Series 2010D dated November 1, 2010, in the original amount of \$128,758, paid off in 2017.
- State of Washington Certificates of Participation (COP), Series 2014B dated August 12, 2014, in the original amount of \$1,350,000, payable semiannually on June 1 and December 1, with variable principal payments ranging from \$75,000 to \$120,000, plus semiannual interest of 2.78 percent through June 2029. The State of Washington issued the COP for the District's physician clinic building remodel and is collateralized by the physician clinic building.

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

8. Long-term Debt (continued):

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

Years Ending December 31,	UTGO Bonds			LTGO Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2019	\$ 545,000	\$ 50,175	\$ 595,175	\$ 183,505	\$ 139,335	\$ 322,840
2020	570,000	25,650	595,650	189,006	132,354	321,360
2021	-	-	-	194,646	124,949	319,595
2022	-	-	-	205,238	117,387	322,625
2023	-	-	-	210,844	109,131	319,975
2024-2028	-	-	-	1,198,716	407,222	1,605,938
2029-2033	-	-	-	911,258	144,682	1,055,940
2034-2038	-	-	-	175,948	57,452	233,400
2039-2043	-	-	-	198,119	35,281	233,400
2044-2048	-	-	-	194,335	10,498	204,833
	\$ 1,115,000	\$ 75,825	\$ 1,190,825	\$ 3,661,615	\$ 1,278,291	\$ 4,939,906

Years Ending December 31,	Certificate of Participation			Recourse Financing		
	Principal	Interest	Totals	Principal	Interest	Totals
2019	\$ 75,000	\$ 45,775	\$ 120,775	\$ 142,197	\$ -	\$ 142,197
2020	80,000	41,900	121,900	93,503	-	93,503
2021	85,000	37,775	122,775	-	-	-
2022	90,000	33,400	123,400	-	-	-
2023	95,000	28,775	123,775	-	-	-
2024-2028	540,000	70,700	610,700	-	-	-
2029-2033	120,000	1,950	121,950	-	-	-
	\$ 1,085,000	\$ 260,275	\$ 1,345,275	\$ 235,700	\$ -	\$ 235,700

Years Ending December 31,	Government Obligation Contract		
	Principal	Interest	Totals
2019	\$ 48,845	\$ 9,814	\$ 58,659
2020	50,461	8,197	58,658
2021	52,131	6,527	58,658
2022	53,856	4,802	58,658
2023	55,638	3,020	58,658
2024-2028	62,353	1,192	63,545
	\$ 323,284	\$ 33,552	\$ 356,836

Years Ending December 31,	Total Long-Term Debt		
	Principal	Interest	Totals
2019	\$ 994,547	\$ 245,099	\$ 1,239,646
2020	982,970	208,101	1,191,071
2021	331,777	169,251	501,028
2022	349,094	155,589	504,683
2023	361,482	140,926	502,408
2024-2028	1,801,069	479,114	2,280,183
2029-2033	1,031,258	146,632	1,177,890
2034-2038	175,948	57,452	233,400
2039-2043	198,119	35,281	233,400
2044-2048	194,335	10,498	204,833
	\$ 6,420,599	\$ 1,647,943	\$ 8,068,542

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

9. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have decreased from the prior year due to an increase in patients qualifying for charity care as well as outsourcing the private pay collections. 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	\$ 11,430,082	\$ 10,450,618
Medicaid	6,030,769	6,522,605
Other third-party payors	4,085,186	4,069,502
Patients	1,953,415	2,310,047
	23,499,452	23,352,772
Less:		
Charity care	735,317	283,395
Provision for bad debts	864,784	1,497,396
Net patient service revenue	\$ 21,899,351	\$ 21,571,981

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

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

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

9. Net Patient Service Revenue (continued):

- *Medicaid* – Medicaid beneficiaries receive coverage through either the Washington State Health Care Authority (HCA) or Medicaid managed care organizations (MCOs). The District is reimbursed for MCO covered inpatient and outpatient services on a prospectively determined rate that is based on historical revenues and expenses of the District. The District is reimbursed by the HCA for inpatient and outpatient services 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 by HCA. 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, 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 \$61,000 and \$39,000 in 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2018 and 2017, were approximately \$431,000 and \$156,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2018 and 2017.

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

10. Risk Management and Contingencies:

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

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

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

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

Self-insurance risk pools – The District has a self-insured workers’ compensation plan and a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Workers’ Compensation Trust and the Public Hospital District Unemployment Trust, which are self-insurance risk pools administered by the Washington State Hospital Association. The District pays a share of actual workers’ compensation claims, unemployment claims, maintenance of reserves, and administrative expenses. Payments by the District charged to workers’ compensation expense were approximately \$25,000 (net of \$141,170 in dividends) and (\$21,000) (net of a \$134,750 dividend) in 2018 and 2017, respectively. Payments by the District charged to unemployment expense were approximately \$14,000 (net of \$28,207 in dividends) and \$64,000 (net of \$-0- in dividends) 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, 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.

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

10. Risk Management and Contingencies (continued):

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

	2018	2017
Collateralized patient accounts receivable	\$ 235,699	\$ 192,553
Less allowance for uncollectible accounts	78,948	68,885
Net collateralized patient accounts receivable	\$ 156,751	\$ 123,668

During 2018 and 2017, the District transferred \$322,382 and \$252,533, respectively, of such receivables.

11. Concentration of Risks:

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

The mix of receivables from patients was as follows:

	2018	2017
Medicare	31 %	23 %
Medicaid	25	11
Other third-party payors	21	36
Patients	23	30
	100 %	100 %

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

Collective bargaining unit – As of December 31, 2018 and 2017, approximately 56 percent and 54 percent, respectively, of the District's employees were represented by the union under a collective bargaining agreement with Service Employees International Union 1199NW. The contract is effective through June 30, 2021.

Public Hospital District No. 1 of Klickitat County
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Subsequent Event:

The District entered into an agreement with Bank of the West on March 29, 2019, for a \$1,000,000 line of credit. The agreement expires May 31, 2020. Interest is variable and is based on the prime rate plus 0.25.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Hospital District No. 1 of Klickitat County doing business as Klickitat Valley Health (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 13, 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
June 13, 2019

**Public Hospital District No. 1 of Klickitat County
doing business as Klickitat Valley 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 December 31, 2016, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2018.