



Reports of Independent Auditors
and Financial Statements

**Public Hospital District No. 4,
King County, Washington**

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Commissioners
Public Hospital District No. 4,
King County, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Public Hospital District No. 4, King County, Washington, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 4, King County, Washington's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 4, King County, Washington, as of December 31, 2022 and 2021, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Public Hospital District No. 4, King County, Washington, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Hospital District No. 4, King County, Washington's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Public Hospital District No. 4, King County, Washington's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Hospital District No. 4, King County, Washington's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 26, 2023, on our consideration of Public Hospital District No. 4, King County, Washington'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. The purpose of that report is solely 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 Public Hospital District No. 4, King County, Washington's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Hospital District No. 4, King County, Washington's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington

May 26, 2023

Management's Discussion and Analysis (Unaudited)

Public Hospital District No. 4, King County, Washington

Management's Discussion and Analysis

Introduction

Our discussion and analysis provide an overview of the financial position and activities of Public Hospital District No. 4, King County, Washington, doing business as Snoqualmie Valley Hospital and Hospital District No. 4 Clinics (the District). It should be read in conjunction with the financial statements and accompanying notes that follow.

Operational Highlights

- **Puget Sound Physician Group Contract:** The District's contract with Puget Sound Physicians to staff the Emergency Room continues to have a positive effect in ER volumes. ER visit in 2022 increased by 25.5% and generated a total of \$9,244,904 in ER revenue.
- **Overlake Emergency Room Management Services Agreement:** The District discontinued the Emergency Room management services agreement with Overlake Hospital in April of 2023. This was a mutual decision due to resource availability on the Overlake Hospital side. The management change did not affect the contract with Puget Sound Physicians group.
- **COVID-19 Vaccines and Testing Contract:** The District's Drive-Thru Vaccine and Mobile Vaccine department and Covid Testing contract with King County Public Health implemented in 2021 continued in 2022 and provided over \$1.4 million in additional revenue in 2022.
- **EPIC EMR Implementation:** The District made a significant investment (\$3,000,000) in improving the Electronic Medical Record of the facility. On September 19, 2022, the District went live throughout the facility and clinics with Epic. Patient satisfaction, provider satisfaction, and revenue generation have increased since implementation. The District expects a 9 to 12 month glide path of continued EPIC Revenue Cycle optimization.
- **Urgent Care Clinic:** The District opened a seven day per week Urgent Care clinic operation as part of the Snoqualmie Ridge Rural Health Clinic. The UC grew significantly from 2 patients per day in January to over 20 per day by the end of the year. The new clinic totaled over 6,000 visits for 2022.
- **Outsourcing of IT and HIM:** Due to the increased volatility of the employment market and difficulty in finding staff for open positions, the District outsourced the HIM department and the IT department.

Public Hospital District No. 4, King County, Washington Management's Discussion and Analysis

Patient Volumes

Patient volumes compared to 2021 actuals are shown below:

Business Line	Patient Volumes Actual January Through December 2022	Patient Volumes Actual January Through December 2021	Percentage Change
Inpatient days	8,042	8,520	-5.6%
Emergency room visits	5,695	4,243	34.2%
Outpatient service visits	765	753	1.6%
Rehab inpatient procedures	28,603	29,277	-2.3%
Rehab outpatient procedures	7,761	9,024	-14.0%
Laboratory tests	109,466	118,663	-7.8%
Imaging procedures	6,380	5,320	19.9%
Clinic visits	23,395	24,258	-3.6%

Inpatient days decreased due to lower hospitalizations and continued suppression of elective surgeries, along with decreased surge volumes in COVID-19 pandemic hospitalizations.

Outpatient service increased due to increased Endoscopy visits versus 2021 projections.

Imaging and ED visits increased due to lessening restrictions on activity from COVID-19 PHE, and continued community buy into quality of the Puget Sound Physician as the District's emergency room provider group.

Summary Statement of Revenues, Expenses, and Changes in Net Position

	2022	2021	2020
Net operating revenue	\$ 48,301,818	\$ 43,885,293	\$ 37,876,639
Nonoperating income	4,314,055	10,932,855	6,773,781
	<u>52,615,873</u>	<u>54,818,148</u>	<u>44,650,420</u>
Total operating expenses	46,289,968	44,624,679	39,290,500
Nonoperating expense	5,155,714	5,287,556	6,098,471
	<u>51,445,682</u>	<u>49,912,235</u>	<u>45,388,971</u>
Change in net position	1,170,191	4,905,913	(738,551)
Net position, beginning of year	<u>(15,877,617)</u>	<u>(20,783,530)</u>	<u>(20,044,979)</u>
Net position, end of year	<u>\$ (14,707,426)</u>	<u>\$ (15,877,617)</u>	<u>\$ (20,783,530)</u>

Public Hospital District No. 4, King County, Washington

Management's Discussion and Analysis

Comments on Summary Statement of Revenues, Expenses, and Changes in Net Position

Operating Revenue

Operating revenue increased 10.1% from 2021 to 2022. The increase was due to an increase in Emergency Room visits, Endoscopy procedures, and X-ray, ultrasound, and CT imaging procedures.

Operating Expenses

Operating expenses increased by 3.7% in 2022 compared to 2021. The controlled increase was due to:

- Salary expenses – Expenses were virtually flat compared 2021. The District outsourced the HIM and IT departments, and moved from a physician inpatient model to an Advanced Practice provider model, which saved on salary expenses.
- Employee benefits were virtually flat due to moving to a self-insured model for health care insurance.
- Supplies expense decreased by \$200,000 due to the lower expense outlay for PPE, improved supply control, and the decrease in volume in the inpatient units.
- Purchased services expenses were 13.5% above the prior year due to HIM and IT outsource and Revenue Cycle Management expenses related to the rise in net revenues.

Change in Net Position

The net position increase in 2022 was due to higher revenues in outpatient services and the King County Public Health District contract for COVID-19 testing and vaccination.

Public Hospital District No. 4, King County, Washington
Management's Discussion and Analysis

Summary Statement of Net Position

	<u>2022</u>	<u>2021</u>	<u>2020</u>
ASSETS			
Current assets	\$ 17,733,356	\$ 30,257,837	\$ 34,336,813
Capital assets, net	48,572,695	48,001,630	50,159,738
Other noncurrent assets	<u>11,948,574</u>	<u>9,756,558</u>	<u>8,978,977</u>
Total assets	78,254,625	88,016,025	93,475,528
DEFERRED OUTFLOWS OF RESOURCES	<u>1,469,612</u>	<u>1,548,974</u>	<u>1,641,411</u>
Total assets and deferred outflows of resources	<u>\$ 79,724,237</u>	<u>\$ 89,564,999</u>	<u>\$ 95,116,939</u>
LIABILITIES			
Current liabilities	\$ 8,208,588	\$ 15,697,764	\$ 13,193,637
Noncurrent liabilities	<u>86,223,075</u>	<u>89,744,852</u>	<u>102,706,832</u>
Total liabilities	<u>94,431,663</u>	<u>105,442,616</u>	<u>115,900,469</u>
NET POSITION			
Net investment in capital assets	1,513,199	(774,731)	610,618
Restricted expendable for debt service	8,726,788	9,995,341	9,016,749
Unrestricted	<u>(24,947,413)</u>	<u>(25,098,227)</u>	<u>(30,410,897)</u>
Total net position	<u>(14,707,426)</u>	<u>(15,877,617)</u>	<u>(20,783,530)</u>
Total liabilities and net position	<u>\$ 79,724,237</u>	<u>\$ 89,564,999</u>	<u>\$ 95,116,939</u>

Commentary on Summary Statement of Net Position

Current Assets

Current assets decreased due to repayment of the CMS Advance, and investment in Epic EMR.

Current Liabilities

Current liabilities decreased due to payment of Epic and the CMS Advance.

Long-Term Debt

Long-term debt decreased due to a decrease in the lease liability and payment of Revenue Bonds.

Net Investment in Capital Assets

Net investment in capital assets increased in 2022 due to Epic capital purchase.

Revenue Bond Covenant Compliance

The schedule of revenue bond covenant compliance is shown below. The District complies with all its revenue bond covenants.

Public Hospital District No. 4, King County, Washington
Management's Discussion and Analysis

SCHEDULE OF BOND COVENANT COMPLIANCE

Coverage Requirement	DECEMBER 2022 Amount
Change in net position	\$ 1,170,191
Add	
Interest expense	5,007,338
Depreciation and amortization expense	4,015,779
	9,023,117
Less	
Taxation for bond principal and interest	(3,139,124)
	(3,139,124)
Available for debt service	\$ 7,054,184
Maximum annual debt service	\$ 3,675,188
Actual Coverage Ratio	1.92
Coverage Requirement	1.20
Available for debt service required by covenant	\$ 4,410,226
 Reserve Requirement For the Bonds	
Max annual debt service on all bonds	\$ 3,675,188
125% of average annual debt service	4,492,886
10% of proceeds on all bonds	5,007,500
Reserve Requirement	\$ 3,675,188
Hospital reserve fund	\$ 3,675,188
 Liquidity Requirement for the Bonds	
Cash and cash equivalents	\$ 7,763,768
Total operating expenses	\$ 46,289,968
Less depreciation and amortization expense	4,015,779
	\$ 42,274,189
Days cash on hand	67.03
Liquidity Requirement for Bond Covenant	60.00
Cash and cash equivalents required for bond covenants	\$ 6,949,182

Contacting the District's Financial Management

This financial report is designed to provide the District's patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and show its accountability for the money it receives. If you have questions about this report or need additional information, contact the District's finance office at Snoqualmie Valley Hospital, 9801 Frontier Avenue SE, Snoqualmie, WA 98065.

Financial Statements

Public Hospital District No. 4, King County, Washington
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,980,702	\$ 16,292,755
Short-term investments	-	4,809,537
Assets limited as to use required for current liabilities	2,474,906	2,319,947
Patient accounts receivable, net of allowances for doubtful accounts of \$343,030 in 2022 and \$693,440 in 2021	10,576,432	6,677,293
Other receivables	189,113	60,694
Estimated third-party payor settlements	1,344,045	-
Inventory	168,158	97,611
Total current assets	17,733,356	30,257,837
ASSETS LIMITED AS TO USE, net of current portion	11,034,948	8,102,735
INTANGIBLE RIGHT TO USE LEASE, net of accumulated amortization	913,626	1,653,823
CAPITAL ASSETS		
Land	14,631,178	14,631,178
Construction in progress	147,280	59,450
Depreciable capital assets, net of accumulated depreciation and amortization	33,794,237	33,311,002
Total capital assets, net of accumulated depreciation and amortization	48,572,695	48,001,630
Total assets	78,254,625	88,016,025
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	1,469,612	1,548,974
Total assets and deferred outflows of resources	\$ 79,724,237	\$ 89,564,999
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 3,335,909	\$ 3,040,561
Accrued compensation and related liabilities	1,852,983	2,145,284
Accrued interest payable	394,906	399,947
Estimated third-party payor settlements	-	65,938
Current portion of lease liability	544,790	741,180
Current portion of advance Medicare payments	-	7,384,854
Current maturities of long-term debt	2,080,000	1,920,000
Total current liabilities	8,208,588	15,697,764
LEASE LIABILITY, net of current portion	371,479	916,269
LONG-TERM DEBT, net of current maturities	85,851,596	88,828,583
Total liabilities	94,431,663	105,442,616
NET POSITION		
Net investment in capital assets	1,513,199	(774,731)
Restricted expendable for debt service	8,726,788	9,995,341
Unrestricted	(24,947,413)	(25,098,227)
Total net position	(14,707,426)	(15,877,617)
	\$ 79,724,237	\$ 89,564,999

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$666,612 in 2022 and \$644,213 in 2021)	\$ 46,766,082	\$ 42,416,507
Taxation for operations	1,113,908	1,012,472
Other	421,828	456,314
	48,301,818	43,885,293
OPERATING EXPENSES		
Salaries and wages	20,487,092	20,425,025
Employee benefits	4,399,902	4,297,685
Professional fees	6,499,815	5,756,748
Supplies	3,414,382	3,617,141
Repairs and maintenance	412,947	341,879
Utilities	617,768	533,873
Purchased services	4,186,072	3,686,939
Insurance	209,498	169,931
Depreciation and amortization	4,015,779	3,909,193
Other	2,046,713	1,886,265
	46,289,968	44,624,679
OPERATING INCOME (LOSS)	2,011,850	(739,386)
NONOPERATING INCOME (EXPENSE)		
Investment income (loss)	(317,296)	1,248
Taxation for bond principal and interest	3,139,124	3,105,162
Interest expense	(5,007,338)	(5,126,107)
Issuance and financing costs	(148,376)	(161,449)
Paycheck Protection Program loan income	-	3,965,000
Provider Relief Funds and other	1,492,227	3,861,445
	(841,659)	5,645,299
CHANGE IN NET POSITION	1,170,191	4,905,913
NET POSITION, beginning of year	(15,877,617)	(20,783,530)
NET POSITION, end of year	\$ (14,707,426)	\$ (15,877,617)

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Increase (Decrease) in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 41,456,960	\$ 43,589,027
Cash paid to employees	(25,307,714)	(23,083,986)
Cash paid to suppliers	(17,162,394)	(14,783,515)
Cash paid to advance Medicare payments	(7,384,854)	(3,643,032)
Other cash receipts	421,828	456,314
Net cash from operating activities	(7,976,174)	2,534,808
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered a noncapital financing activity	1,113,908	1,012,472
Cash received from Provider Relief Funds	-	665,646
Other	1,492,227	825,021
Net cash from noncapital financing activities	2,606,135	2,503,139
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(3,846,647)	(904,939)
Cash from tax levies for general obligation bonds	3,139,124	3,102,224
Principal payments on long-term debt	(2,886,000)	(1,839,583)
Interest paid on long-term debt	(5,012,380)	(5,101,320)
Payments on lease liability	(741,180)	(883,496)
Net cash from capital and related financing activities	(9,347,083)	(5,627,114)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments	380,666	(4,809,537)
Investment income (loss)	(317,296)	1,248
Net cash from investing activities	63,370	(4,808,289)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(14,653,752)	(5,397,456)
CASH AND CASH EQUIVALENTS, beginning of year	26,613,743	32,011,199
CASH AND CASH EQUIVALENTS, end of year	\$ 11,959,991	\$ 26,613,743
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 2,980,702	\$ 16,292,755
Cash and cash equivalents in assets whose use is limited	8,979,289	10,320,988
	\$ 11,959,991	\$ 26,613,743
NONCASH CAPITAL AND RELATED FINANCING ACTIVITY		
Paycheck Protection Program loan income	\$ -	\$ 3,965,000

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

Increase (Decrease) in Cash and Cash Equivalents

	2022	2021
RECONCILIATION OF OPERATING LOSS TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 2,011,850	\$ (739,386)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(1,113,908)	(1,012,472)
Depreciation and amortization	4,015,779	3,909,193
Provision for bad debts	666,612	644,213
Change in assets and liabilities		
Patient accounts receivable	(4,565,751)	71,369
Other receivables	(128,419)	1,350,385
Inventory	(70,547)	180,967
Estimated third-party payor settlements	(1,409,983)	456,938
Accounts payable	295,348	1,028,294
Accrued compensation and related liabilities	(292,301)	288,339
Advance Medicare payments	(7,384,854)	(3,643,032)
	\$ (7,976,174)	\$ 2,534,808

See accompanying notes.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Note 1 – Organization

Public Hospital District No. 4, King County, Washington, doing business as Snoqualmie Valley Hospital and as Hospital District No. 4 Clinics (the District), is organized as a municipal corporation under the laws of the state of Washington and operates a licensed 28-bed acute care hospital and primary and specialty care clinics in Eastern King County, Washington. As organized, the District is exempt from payment of federal income tax. The Board of Commissioners consists of five elected community members. The District is not considered to be a component unit of King County.

Note 2 – Summary of Significant Accounting Policies

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Use of estimates – The preparation of financial statements in accordance 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, deferred outflows of resources, and liabilities and disclosures 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.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity date of three months or less, excluding amounts limited as to use by board designation, indenture agreements, or donors.

Assets limited as to use – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. These funds are invested in the King County Investment Pool, which is in accordance with state guidelines.

All District investments are carried at market value. Investment income is reported as nonoperating income and expense.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Patient accounts receivable – Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful 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 doubtful 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 doubtful 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' balances (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 doubtful accounts.

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is \$5,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Buildings and improvements	2 – 40 years
Equipment	3 – 20 years

The District evaluates capital assets for impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Assets to be disposed of would be recognized at the lower of carrying value or fair value less the estimated cost of disposal. Assets that are held and in use are reviewed for impairment whenever indicators of impairment exist. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses. No impairments have been identified as of December 31, 2022 and 2021.

Lease assets and liabilities – The District recognizes lease assets and liabilities for lease contracts that convey the control of the right to use another party's asset and have a term exceeding one year. At the contract inception, the asset and liability are measured at the present value of payments expected during the contract term. The District uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the District's incremental borrowing rate at the start of the lease. Short-term contracts that do not have a term exceeding one year are expensed when incurred. Lease assets are amortized on the straight-line basis over the shorter period of the lease term or the estimated useful life of the equipment.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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 illness; natural disasters; medical malpractice; and employee 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 four preceding years.

Net position – Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets, deferred outflows of resources, and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

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, such as patient service revenue, result from exchange transactions associated with providing health care services—the District's primary business.

Nonexchange revenues, including taxes, are reported as other operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Tax levy income and debt service related to general obligation and revenue bonds and peripheral or incidental transactions, grants, and contributions received for purposes other than capital asset acquisition are reported as nonoperating income or expense.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

Charity care – The District provides care to indigent patients who meet certain criteria under its charity care policies. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during 2022 and 2021 measured by the District's standard charges was approximately \$1,732,000 and \$631,000, respectively.

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code (IRC).

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Note 3 – Net Patient Service Revenue

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 converted to critical access hospital status under the Medicare program on December 1, 2005, under which inpatient, swing-bed, and outpatient services and hospital-based clinics are reimbursed on a cost basis. Inpatient acute, swing-bed, and outpatient care services rendered to Medicare program beneficiaries are paid on an interim basis at a percentage of billed charges. These interim payments will be subject to final settlement upon submission and audit of the cost report to the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Net patient service revenue under the Medicare program totaled approximately \$31,184,000 and \$29,439,000 for 2022 and 2021, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$6,867,000 and \$5,367,000 in 2022 and 2021, respectively.

Medicaid – As a critical access hospital, the District is reimbursed for inpatient and outpatient services rendered to Medicaid program beneficiaries on a cost reimbursement methodology. Under this methodology, the District is reimbursed at a tentative rate, with final settlement determined after audits by the Medicaid fiscal intermediary of annual cost reports submitted by the District. Long-term care services are paid on a cost reimbursement basis, which may not exceed allocated costs plus state-mandated cost limits. Net patient service revenue under the Medicaid program totaled approximately \$5,408,000 and \$4,243,000 for 2022 and 2021, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$977,000 and \$404,000 in 2022 and 2021, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2022 have been recorded in the accompanying statements of net position. Laws and regulations governing the Medicare and Medicaid 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. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2019.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

Public Hospital District No. 4, King County, Washington
Notes to Financial Statements

The following are the components of net patient service revenue for the District for the years ended December 31:

	2022	2021
Gross patient service charges	\$ 70,932,005	\$ 64,415,313
Adjustments to patient service charges		
Contractual discounts	21,767,300	20,723,715
Provision for bad debts	666,612	644,213
Charity care	1,732,011	630,878
	24,165,923	21,998,806
Net patient service revenue	\$ 46,766,082	\$ 42,416,507

Note 4 – Deposits and Investments

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool, eligible bankers' acceptances, and repurchase agreements (up to 30 days).

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. All cash and cash equivalents held by the County Treasurer's Office are insured by the State of Washington Public Deposit Protection Commission, as provided by Chapter 39.58 of the Revised Code of Washington. Qualified public depositories pledge securities with this Commission, which are available to insure public deposits within the state of Washington.

Public Hospital District No. 4, King County, Washington
Notes to Financial Statements

All deposits and investments of the District are categorized as Category 1 and consist of the following at December 31:

	2022	2021
Cash and cash equivalents	\$ 2,980,702	\$ 16,292,755
Short-term investments		
U.S. government agency obligations	-	4,809,537
Assets whose use is limited		
Board-designated		
U.S. government agency obligations	4,454,834	-
Investment in King County Investment Pool	327,550	426,659
Taxes receivable	682	682
LTGO Bond Fund		
Investment in King County Investment Pool	4,976,551	6,219,141
Taxes receivable	75,049	101,012
Revenue Bond Fund		
Cash and cash equivalents	3,675,188	3,675,188
	13,509,854	10,422,682
Total deposits and investments	\$ 16,490,556	\$ 31,524,974

The District participates in the King County Investment Pool (KCIP). The King County Finance and Business Operations Division (FBOD) manages and operates the KCIP. Participation by local governments is voluntary. The investment policies of the KCIP are the responsibility of the FBOD, and any proposed changes are reviewed by King County's Executive Finance Committee. The KCIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the FBOD's investment practices for the KCIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the KCIP are available from King County. The KCIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (PDPC).

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 investment or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District’s investment in a single issuer. The District is not exposed to concentration of credit risk, because all deposits and investments are insured or collateralized.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District is not exposed to interest rate risk.

The composition of investments, reported at fair value by investment type at December 31, 2022 and 2021, excluding cash and cash equivalents, and assets whose use is limited balances of \$12,035,722 and \$26,710,460, is as follows:

Investment Type as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
U.S. government agency obligations	<u>\$ 4,454,834</u>	<u>100%</u>
Investment Type as of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
U.S. government agency obligations	<u>\$ 4,809,537</u>	<u>100%</u>

Note 5 – 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% of the 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. Tax collections for the years ended December 31, 2022 and 2021, were 99.03% and 99.56% of the taxes levied during those respective years.

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

For 2022 and 2021, the District’s regular tax levy was \$0.32 and \$0.37 per \$1,000 on a total assessed valuation of \$13,004,604,863 and \$11,098,518,955, respectively, for a total regular levy of \$4,174,613 and \$4,077,587, respectively. A portion of the tax revenue from the regular levy has been pledged toward payments of the limited tax general obligation (LTGO) bonds.

Public Hospital District No. 4, King County, Washington
Notes to Financial Statements

Note 6 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2022 and 2021, were as follows:

	Balance, December 31, 2021	Additions	Retirements	Transfers	Balance, December 31, 2022
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Construction in progress	59,450	147,280	-	(59,450)	147,280
Total nondepreciable capital assets	<u>14,690,628</u>	<u>147,280</u>	<u>-</u>	<u>(59,450)</u>	<u>14,778,458</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,973,793	-	-	-	11,973,793
Buildings and improvements	32,989,617	514,850	(185,193)	-	33,319,274
Equipment	13,835,019	3,362,249	-	59,450	17,256,718
LESS ACCUMULATED DEPRECIATION					
Land improvements	(5,054,120)	(762,979)	7,461	-	(5,809,638)
Buildings and improvements	(11,838,678)	(1,671,292)	-	-	(13,509,970)
Equipment	(8,594,629)	(841,311)	-	-	(9,435,940)
Depreciable capital assets, net	<u>33,311,002</u>	<u>601,517</u>	<u>(177,732)</u>	<u>59,450</u>	<u>33,794,237</u>
Capital assets, net	<u>\$ 48,001,630</u>	<u>\$ 748,797</u>	<u>\$ (177,732)</u>	<u>\$ -</u>	<u>\$ 48,572,695</u>
	Balance, December 31, 2020	Additions	Retirements	Transfers	Balance, December 31, 2021
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Construction in progress	-	59,450	-	-	59,450
Total nondepreciable capital assets	<u>14,631,178</u>	<u>59,450</u>	<u>-</u>	<u>-</u>	<u>14,690,628</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,973,793	-	-	-	11,973,793
Buildings and improvements	32,450,710	538,907	-	-	32,989,617
Equipment	13,528,437	306,582	-	-	13,835,019
LESS ACCUMULATED DEPRECIATION					
Land improvements	(4,331,281)	(722,839)	-	-	(5,054,120)
Buildings and improvements	(10,296,827)	(1,541,851)	-	-	(11,838,678)
Equipment	(7,796,272)	(798,357)	-	-	(8,594,629)
Depreciable capital assets, net	<u>35,528,560</u>	<u>(2,217,558)</u>	<u>-</u>	<u>-</u>	<u>33,311,002</u>
Capital assets, net	<u>\$ 50,159,738</u>	<u>\$ (2,158,108)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,001,630</u>

Depreciation expense for the years ended December 31, 2022 and 2021, was \$3,275,582 and \$3,063,047, respectively.

Public Hospital District No. 4, King County, Washington
Notes to Financial Statements

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2022 and 2021, for the District consisted of the following:

	2022	2021
Limited tax general obligation and refunding bonds, series 2015, 4.25% to 5.00%, due semiannually on June 1 and December 1, maturing in 2038, with annual amounts ranging from \$980,000 to \$2,880,000, net of unamortized discount of \$447,022 and \$474,961.	\$ 28,047,978	\$ 28,905,039
Revenue bonds, series 2015, 5.00% to 6.25%, due semiannually on June 1 and December 1, maturing in 2045, with annual amounts ranging from \$980,000 to \$3,455,000, net of unamortized discount of \$944,703 and \$985,777.	43,578,618	44,467,544
Limited tax general obligation and refunding bonds, series 2020A and 2020B, 3.25% to 4.12% due semiannually on June 1 and December 1, maturing in 2040, with annual amounts ranging from \$120,000 to \$4,145,000.	16,305,000	16,410,000
Note payable paid in full during 2022.	-	966,000
	87,931,596	90,748,583
Less current portion	(2,080,000)	(1,920,000)
	\$ 85,851,596	\$ 88,828,583

Under the terms of the revenue and refunding bonds, the District has agreed to maintain certain financial ratios and meet certain covenants. Management is not aware of any violations with its debt covenants.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Changes in the District's long-term liabilities during the years ended December 31, 2022 and 2021, are summarized below:

	Balance, December 31, 2021	Additions	Reductions	Balance, December 31, 2022	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ 16,410,000	\$ -	\$ (105,000)	\$ 16,305,000	\$ 120,000
2015 Revenue bonds	44,467,544	-	(888,926)	43,578,618	980,000
2015 LTGO bonds	28,905,039	-	(857,061)	28,047,978	980,000
Note payable	966,000	-	(966,000)	-	-
Total noncurrent liabilities	\$ 90,748,583	\$ -	\$ (2,816,987)	\$ 87,931,596	\$ 2,080,000
	Balance, December 31, 2020	Additions	Reductions	Balance, December 31, 2021	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ 16,490,000	\$ -	\$ (80,000)	\$ 16,410,000	\$ 105,000
2015 Revenue bonds	45,326,053	-	(858,509)	44,467,544	930,000
2015 LTGO bonds	29,737,100	-	(832,061)	28,905,039	885,000
Note payable	966,000	-	-	966,000	-
Total noncurrent liabilities	\$ 92,519,153	\$ -	\$ (1,770,570)	\$ 90,748,583	\$ 1,920,000

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

	2015 LTGO Bonds		2015 Revenue Bonds		2020 LTGO Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 980,000	\$ 1,408,813	\$ 980,000	\$ 2,741,375	\$ 120,000	\$ 630,311	\$ 2,080,000	\$ 4,780,499
2024	980,000	1,362,250	1,025,000	2,694,875	240,000	625,584	2,245,000	4,682,709
2025	965,000	1,319,513	1,080,000	2,645,875	380,000	616,218	2,425,000	4,581,606
2026	1,220,000	1,278,500	1,130,000	2,594,625	255,000	601,476	2,605,000	4,474,601
2027	1,320,000	1,217,500	1,195,000	2,540,625	295,000	591,535	2,810,000	4,349,660
Amounts due 2028 - 2032	8,320,000	4,986,500	7,100,000	11,649,725	2,240,000	2,747,311	17,660,000	19,383,536
Amounts due 2033 - 2037	11,830,000	2,575,520	9,490,000	9,420,038	3,755,000	2,200,234	25,075,000	14,195,792
Amounts due 2038 - 2042	2,880,000	144,000	12,810,000	6,305,313	9,020,000	816,986	24,710,000	7,266,299
Amounts due 2043 - 2045	-	-	9,713,321	2,036,563	-	-	9,713,321	2,036,563
							89,323,321	<u>\$ 65,751,265</u>
Less amount representing unamortized discount							1,391,725	
							<u>\$ 87,931,596</u>	

Public Hospital District No. 4, King County, Washington
Notes to Financial Statements

Note 8 – Retirement Plans

Deferred compensation plan – In 2006, the District began offering its employees a deferred compensation plan, the Public Hospital District No. 4, King County, Washington 457 Plan, created in accordance with IRC Section 457. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The District makes no contributions to this plan. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

The plan is administered by Nationwide Retirement Plans, and the District has limited administrative involvement and does not perform the investing function for the plan. The District does not hold the assets of the plan in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the District employees' deferred compensation plan created in accordance with IRC 457 is not reported on the financial statements of the District. Contributions made by employees to the 457 Plan totaled \$88,954 and \$132,791 in 2022 and 2021, respectively.

Defined contribution plan – In 2006, the District also began sponsoring a defined contribution plan in accordance with IRC Section 403(b) covering substantially all qualified employees. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners. Active participants meeting hourly and employee contribution criteria receive an employer matching contribution based on a percentage of the employees' base salary, subject to certain limitations. The employer contribution fully vests upon completion of two qualified years or upon the occurrence of death, disability, or attainment of age 65 for qualified employees. Forfeited contributions, if any, are applied against future employer obligations.

The District's liability under the plan, which is also administered by Nationwide Retirement Plans, is limited to its annual contribution. The District's contributions to the employee benefit plan totaled \$116,693 and \$137,760 in 2022 and 2021, respectively. Contributions made by employees to the benefit plan totaled approximately \$736,582 and \$861,499 in 2022 and 2021, respectively. For more information on the plans, contact the District's human resources office.

Note 9 – Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	50%	53%
Medicaid	10%	10%
Other commercial	31%	32%
Patient and self-pay	9%	5%
	<u>100%</u>	<u>100%</u>

Public Hospital District No. 4, King County, Washington
Notes to Financial Statements

Note 10 – Lease Assets and Lease Liability

The District leases certain facilities and equipment under lease arrangements. A summary of the principal and interest amounts for the remaining leases are as follows December 31, 2022:

	Principal	Interest
2023	\$ 544,790	\$ 40,441
2024	291,109	17,671
2025	76,640	2,690
2026	3,730	100
	\$ 916,269	\$ 60,902

The following is a summary of the changes in lease liability for the years ended December 31, 2022 and 2021:

	January 1, 2022	Increases	Decreases	December 31, 2022	Amounts Due Within One Year
Lease liability	\$ 1,657,449	\$ -	\$ (741,180)	\$ 916,269	\$ 544,790
	January 1, 2021	Increases	Decreases	December 31, 2021	Amounts Due Within One Year
Lease liability	\$ 1,773,279	\$ 478,656	\$ (594,486)	\$ 1,657,449	\$ 741,180

The District reported \$740,197 and \$846,146 as amortization expense on the statements of revenues, expenses, and changes in net position in 2022 and 2021, respectively. Accumulated amortization was \$2,610,097 and \$1,869,900 in 2022 and 2021, respectively. With the implementation of GASB 87, a lease meeting the criteria of this statement requires the lessee to recognize a lease liability and an intangible right-to-use asset.

Note 11 –Contingencies

Litigation – The District is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District’s future financial position or results from operations.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care 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 the fraud and abuse regulations, as well as other applicable government laws and regulations. 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.

Insurance – The District has its professional liability insurance coverage with Physicians Insurance. This 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, they will be covered in the year the claim is filed only if claims-made coverage is obtained in that year or if the District purchases insurance to cover “prior acts.” Current coverage with no deductible is for \$1,000,000 per occurrence subject to a \$5,000,000 annual limit. No liability has been accrued for future claims for acts occurring in the current or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Medicare advance payments – The District applied for and received \$11,027,886 under the Accelerated Payment Program, administered by the Centers for Medicare and Medicaid Services (CMS). This amount was treated as an advance liability bearing no interest and with a recoupment period that was originally scheduled to begin 120 days following receipt of the accelerated payments. Recoupment began in April 2021 and was fully recouped by Medicare by the end of 2022. The District included \$0 and \$7,384,854 in current liabilities and no long-term liabilities within the statements of net position at December 31, 2022 and 2021, respectively.

Provider relief funding – The District received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of \$0 and \$665,646 in 2022 and 2021, respectively. The District recognized \$0 and \$3,036,424 of the total received as nonoperating revenue in 2022 and 2021, respectively. The 2021 nonoperating revenue includes receipts from 2020. The District was required to agree to the terms and conditions associated with the funds. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for expenses or lost revenue attributable to COVID-19. Also, anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General.

Paycheck Protection Program loan – In April 2020, the District received loan proceeds of \$3,965,000 under the Paycheck Protection Program (the PPP Loan). The Paycheck Protection Program (PPP) was established as part of the CARES Act and is administered by the U.S. Small Business Administration (SBA). The PPP Loan to the District was made through Northwest Bank. Under the terms of the CARES Act, PPP Loan recipients may apply for and be granted forgiveness for all or a portion of the loans granted under the PPP. In April 2021, the District received notification that the PPP Loan was fully forgiven. Income from extinguishment of debt has been recorded in the statement of revenues, expenses, and changes in net position of the financial statements for the year ended December 31, 2021.

Report of Independent Auditors 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*

The Board of Commissioners
Public Hospital District No. 4,
King County, 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. 4, King County, Washington, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 4, King County, Washington's financial statements, and have issued our report thereon dated May 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District No. 4, King County, Washington's internal control over financial reporting (internal control) as a basis for designing 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 Public Hospital District No. 4, King County, Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Hospital District No. 4, King County, Washington'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Hospital District No. 4, King County, Washington'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 financial statements. 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington
May 26, 2023

