



Reports of Independent Auditors and
Financial Statements

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

December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 24, 2024, 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 24, 2024

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

- **EPIC EMR Improvements:** The District made a significant investment (\$3,000,000) in improving the Electronic Medical Record of the facility in third quarter of 2022. This investment led to increased revenue in all patient service departments. 2023 Net revenue was 8.5% higher than 2022. 2023 improvements to Epic included self-scheduling availability to patients in MyChart, integration of telemetry services, and remote telemetry monitoring integration.
- **ERP Implementation:** The district implemented Premier ERP system in the second quarter of 2023. ERP implementation has improved supply chain efficiency, reduced duplication of work, reduced duplicate invoice approvals, and a virtual elimination of manually inputting invoices. There has been a modest increase in supply chain rebates due to better utilization of GPO contracts. With increased understanding of the system over time the District should expand upon the modest gains earned in 2023.
- **Outpatient Volumes Growth:** Emergency Room, Clinic, Imaging, Rehab, and Ancillary Outpatient services all had increased volumes and revenue in 2023. Department managers implemented changes which led to increased accessibility for patients. Growth in outpatient revenues outperformed growth in inpatient revenues in 2023. The improvement coincides with the District's long term strategic plan to grow outpatient services.
- **Inpatient Volumes:** The end of the COVID-19 Public Health Emergency in May of 2023 eliminated the temporary waivers set in place by CMS to ease access to inpatient care. Two of the waivers that particularly impacted inpatient care in Critical Access Hospitals were: Expiration of the 3-day qualifying stay, and expiration of the 25 Bed Limit waiver for Critical Access Hospital. Inpatient days were 3.3% less in 2023. An intentional volume reduction on the inpatient unit was related to decreased length of stay in 2023. 2023 average length of stay was 23 days vs 26 average length of stay in 2022. The reduction in the length of stay was due to a management initiative to improve skilled nursing and rehab services provided to patients. Patient advantages to a shorter stay

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

include less chance of HAI, less utilization of SNF days to allow for discharge to lower level of care facilities, and less out of pocket expense to patient.

Patient Volumes

Patient volumes compared to 2023 actuals are shown below:

<u>Business Line</u>	<u>Patient Volumes Actual January Through December 2023</u>	<u>Patient Volumes Actual January Through December 2022</u>	<u>Percentage Change</u>
Inpatient days	7,775	8,042	-3.3%
Emergency room visits	5,856	5,695	2.8%
Outpatient service visits	2,458	765	221.3%
Rehab inpatient procedures	28,083	28,603	-1.8%
Rehab outpatient procedures	13,156	7,761	69.5%
Laboratory tests	71,603	109,466	-34.6%
Imaging procedures	8,419	6,380	32.0%
Clinic visits	26,205	23,395	12.0%

Inpatient days decreased outlined above in Operational Highlights.

ED Volumes increased due to improved relationships with local EMS services.

Outpatient service increased due to increased Endoscopy procedures, increased cardiology procedures, and the ramp up of Podiatry services.

Rehab procedures increased due to Epic efficiencies and management changes that led to opening access to patients by changing availability of providers to meet patient demand.

Laboratory tests decreased due to discontinuation of Sound Medical Lab reference lab services in the 3rd quarter 2022. This was a management decision to reduce costs and focus on hospital services.

Imaging increased due to management initiatives to increase MRI, and CT and DEXA scan services by increasing accessibility through scheduling and improved prior authorization process implemented with Epic.

Clinic increased through management initiatives to improve accessibility by changing provider availability to meet patient demand.

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net operating revenue	\$ 52,134,655	\$ 48,301,818	\$ 43,885,293
Nonoperating income	4,326,173	4,314,055	10,932,855
	<u>56,460,828</u>	<u>52,615,873</u>	<u>54,818,148</u>
Total operating expenses	48,783,256	46,289,968	44,624,679
Nonoperating expense	4,937,080	5,155,714	5,287,556
	<u>53,720,336</u>	<u>51,445,682</u>	<u>49,912,235</u>
Change in net position	2,740,492	1,170,191	4,905,913
Net position, beginning of year	<u>(14,707,426)</u>	<u>(15,877,617)</u>	<u>(20,783,530)</u>
Net position, end of year	<u>\$ (11,966,934)</u>	<u>\$ (14,707,426)</u>	<u>\$ (15,877,617)</u>

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

Operating Revenue

Operating revenue increased 8.5% from 2022 to 2023. The increase was due to an increase in charge capture and improved volumes in Emergency Room, Endoscopy, Cardiology, Imaging, and Clinics. 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 6.4% in 2023 compared to 2022.

- Salary, Benefits –32% of operating expenses. The combined labor expenses were 14% higher in 2023. Much of the increase was due to benefit costs for employees. The district implemented a matching retirement of 4% for physicians and executives. Employee health insurance and RX claims on the district's self-insured plan increased by \$300,000. Direct salaries were only 2% higher year over year.
- Pro Fee/Contract Labor - 23% of the total operating expenses. A year over year 13% increase in expenses was due to open night CNA and RN positions in Emergency and Inpatient departments and open MA positions in clinic.
- Purchased services expenses were 9% above the prior year. Outsourced Informatics Department for improved Epic utilization.

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

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 2023 was due to higher revenues in outpatient services and invest income of \$1,098,519. 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>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Current assets	\$ 18,914,606	\$ 17,733,356	\$ 30,257,837
Capital assets, net	44,824,846	48,572,695	48,001,630
Other noncurrent assets	<u>16,346,868</u>	<u>11,948,574</u>	<u>9,756,558</u>
Total assets	80,086,320	78,254,625	88,016,025
DEFERRED OUTFLOWS OF RESOURCES	<u>1,377,176</u>	<u>1,469,612</u>	<u>1,548,974</u>
Total assets and deferred outflows of resources	<u>\$ 81,463,496</u>	<u>\$ 79,724,237</u>	<u>\$ 89,564,999</u>
LIABILITIES			
Current liabilities	\$ 8,229,800	\$ 8,208,588	\$ 15,697,764
Noncurrent liabilities	<u>85,200,630</u>	<u>86,223,075</u>	<u>89,744,852</u>
Total liabilities	<u>93,430,430</u>	<u>94,431,663</u>	<u>105,442,616</u>
NET POSITION			
Net (deficit) investment in capital assets	(1,295,673)	1,513,199	(774,731)
Restricted expendable for debt service	9,235,571	8,726,788	9,995,341
Unrestricted	<u>(19,906,832)</u>	<u>(24,947,413)</u>	<u>(25,098,227)</u>
Total net position	<u>(11,966,934)</u>	<u>(14,707,426)</u>	<u>(15,877,617)</u>
Total liabilities and net position	<u>\$ 81,463,496</u>	<u>\$ 79,724,237</u>	<u>\$ 89,564,999</u>

Commentary on Summary Statement of Net Position

Current Assets

Current assets increased due to an increase in cash in 2023. Current assets decreased due to repayment of the CMS Advance, and investment in Epic EMR in 2022.

Current Liabilities

Current liabilities decreased due to payment of deferred tax liability in 2023. Current liabilities decreased due to payment of Epic and the CMS Advance in 2022.

Long-Term Debt

Long-term debt decreased due to a decrease in the lease liability and payment of Revenue Bonds in 2023 and 2022.

Net (Deficit) Investment in Capital Assets

Net (deficit) investment in capital assets decreased in 2023 due to depreciation. Net (deficit) investment in capital assets increased in 2022 due to Epic capital purchase.

Public Hospital District No. 4, King County, Washington

Management's Discussion and Analysis

Revenue Bond Covenant Compliance

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

SCHEDULE OF BOND COVENANT COMPLIANCE

	DECEMBER 2023
Coverage Requirement	Amount
Change in net position	\$ 2,740,492
Add	
Interest expense	4,775,631
Depreciation and amortization expense	4,703,728
	<u>9,479,359</u>
Less	
Taxation for bond principal and interest	(3,207,834)
	<u>(3,207,834)</u>
Available for debt service	<u>\$ 9,012,017</u>
Maximum annual debt service	<u>\$ 3,675,188</u>
Actual Coverage Ratio	<u>2.45</u>
Coverage Requirement	<u>1.20</u>
Available for debt service required by covenant	<u>\$ 4,410,226</u>
 Reserve Requirement For the Bonds	
Max annual debt service on all bonds	\$ 3,675,188
125% of average annual debt service	4,593,985
10% of proceeds on all bonds	5,007,500
Reserve Requirement	<u>\$ 3,675,188</u>
Hospital reserve fund	<u>\$ 3,772,293</u>
 Liquidity Requirement for the Bonds	
Cash and cash equivalents	<u>\$ 11,609,856</u>
Total operating expenses	\$ 48,783,256
Less depreciation and amortization expense	4,703,728
	<u>\$ 44,079,528</u>
Days cash on hand	<u>96.14</u>
Liquidity Requirement for Bond Covenant	<u>60.00</u>
Cash and cash equivalents required for bond covenants	<u>\$ 7,245,950</u>

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, 2023 and 2022

	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,508,652	\$ 2,980,702
Assets limited as to use required for current liabilities	2,410,652	2,474,906
Patient accounts receivable, net of allowances for doubtful accounts of \$1,050,806 in 2023 and \$343,030 in 2022	10,757,574	10,576,432
Other receivables	328,274	189,113
Estimated third-party payor settlements	785,800	1,344,045
Inventory	123,654	168,158
Total current assets	18,914,606	17,733,356
ASSETS LIMITED AS TO USE, net of current portion	13,926,123	11,034,948
INTANGIBLE RIGHT-TO-USE LEASE, net of accumulated amortization	1,618,557	913,626
SUBSCRIPTION-BASED TECHNOLOGY ARRANGEMENTS (SBITA)	802,188	-
CAPITAL ASSETS		
Land	14,631,178	14,631,178
Construction in progress	38,511	147,280
Depreciable capital assets, net of accumulated depreciation and amortization	30,155,157	33,794,237
Total capital assets, net of accumulated depreciation and amortization	44,824,846	48,572,695
Total assets	80,086,320	78,254,625
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	1,377,176	1,469,612
Total assets and deferred outflows of resources	\$ 81,463,496	\$ 79,724,237
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 2,531,342	\$ 3,335,909
Accrued compensation and related liabilities	2,343,030	1,852,983
Accrued interest payable	165,652	394,906
Current portion of lease liability	670,244	544,790
Current portion of SBITA obligations	274,532	-
Current maturities of long-term debt	2,245,000	2,080,000
Total current liabilities	8,229,800	8,208,588
LEASE LIABILITY, net of current portion	1,005,379	371,479
SBITA OBLIGATIONS, net of current portion	548,380	-
LONG-TERM DEBT, net of current maturities	83,646,871	85,851,596
Total liabilities	93,430,430	94,431,663
NET POSITION		
Net (deficit) investment in capital assets	(1,295,673)	1,513,199
Restricted expendable for debt service	9,235,571	8,726,788
Unrestricted	(19,906,832)	(24,947,413)
Total net position	(11,966,934)	(14,707,426)
	\$ 81,463,496	\$ 79,724,237

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$987,737 in 2023 and \$666,612 in 2022)	\$ 50,707,564	\$ 46,766,082
Taxation for operations	1,173,629	1,113,908
Other	253,462	421,828
Total operating revenues	52,134,655	48,301,818
OPERATING EXPENSES		
Salaries and wages	21,188,550	20,487,092
Employee benefits	4,873,131	4,399,902
Professional fees	6,418,705	6,499,815
Supplies	2,816,408	3,414,382
Repairs and maintenance	429,447	412,947
Utilities	651,634	617,768
Purchased services	4,827,039	4,186,072
Insurance	204,070	209,498
Depreciation and amortization	4,703,728	4,015,779
Other	2,670,544	2,046,713
Total operating expenses	48,783,256	46,289,968
OPERATING INCOME	3,351,399	2,011,850
NONOPERATING INCOME (EXPENSE)		
Investment income (loss)	540,369	(317,296)
Taxation for bond principal and interest	3,207,834	3,139,124
Interest expense	(4,775,631)	(5,007,338)
Issuance and financing costs	(161,449)	(148,376)
Other	577,970	1,492,227
Nonoperating income (expense), net	(610,907)	(841,659)
CHANGE IN NET POSITION	2,740,492	1,170,191
NET POSITION, beginning of year	(14,707,426)	(15,877,617)
NET POSITION, end of year	\$ (11,966,934)	\$ (14,707,426)

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

Increase (Decrease) in Cash and Cash Equivalents	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 51,084,667	\$ 41,456,960
Cash paid to employees	(25,710,795)	(25,307,714)
Cash paid to suppliers	(18,777,910)	(17,162,394)
Cash paid to advance Medicare payments	-	(7,384,854)
Other cash receipts	253,462	421,828
Net cash from operating activities	6,849,424	(7,976,174)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered a noncapital financing activity	1,173,629	1,113,908
Other	577,970	1,492,227
Net cash from noncapital financing activities	1,751,599	2,606,135
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(77,026)	(3,846,647)
Cash from tax levies for general obligation bonds	3,207,834	3,139,124
Principal payments on long-term debt	(2,108,738)	(2,886,000)
Interest paid on long-term debt	(5,004,885)	(5,012,380)
Payments on lease liability and SBITA obligations	(803,706)	(741,180)
Net cash from capital and related financing activities	(4,786,521)	(9,347,083)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments	(250,912)	380,666
Investment income (loss)	540,369	(317,296)
Net cash from investing activities	289,457	63,370
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,103,959	(14,653,752)
CASH AND CASH EQUIVALENTS, beginning of year	8,284,803	22,938,555
CASH AND CASH EQUIVALENTS, end of year	\$ 12,388,762	\$ 8,284,803
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 4,508,652	\$ 2,980,702
Cash and cash equivalents in assets whose use is limited	7,880,110	5,304,101
	\$ 12,388,762	\$ 8,284,803
NONCASH OPERATING ACTIVITIES		
Right-to-use asset obtained in exchange for lease obligations	\$ 1,393,353	\$ -
Right-to-use asset obtained in exchange for SBITA obligations	\$ 1,036,771	\$ -

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

Increase (Decrease) in Cash and Cash Equivalents

	2023	2022
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 3,351,399	\$ 2,011,850
Adjustments to reconcile operating income to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(1,173,629)	(1,113,908)
Depreciation and amortization	4,703,728	4,015,779
Provision for bad debts	987,737	666,612
Change in assets and liabilities		
Patient accounts receivable	(1,168,879)	(4,565,751)
Other receivables	(139,161)	(128,419)
Inventory	44,504	(70,547)
Estimated third-party payor settlements	558,245	(1,409,983)
Accounts payable	(804,567)	295,348
Accrued compensation and related liabilities	490,047	(292,301)
Advance Medicare payments	-	(7,384,854)
Net cash from operating activities	\$ 6,849,424	\$ (7,976,174)

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.

Reclassification – Certain amounts in the financial statements for prior years have been reclassified to conform to the current financial statement presentation.

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, 2023 and 2022.

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 (deficit) 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 (deficit) 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 2023 and 2022, measured by the District's standard charges was approximately \$2,449,000 and \$1,732,000, 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

Subscription-Based Information Technology Arrangements (SBITA) – The District is the end user for various SBITAs. Short-term SBITAs, which have a maximum possible term of 12 months or less, are recognized as an outflow of resources when payment is made. For SBITAs with subscription terms extending beyond one year, the District recognizes an intangible right-to-use subscription asset and a corresponding subscription liability.

Initial measurement of the subscription asset/liability is calculated at the present value of payments expected to be paid during the subscription term, discounted using the incremental borrowing rate. The right-to use-asset is amortized on a straight-line basis over the subscription term.

There have been no outflows of resources recognized in the reporting periods for variable payments not previously included in the measurement of the SBITA liability, or other payments such as termination penalties.

Adoption of new accounting standards – The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The District did not have any such arrangements as of December 31, 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the year ending December 31, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. During the year ended December 31, 2023, the District implemented GASB Statement No. 96 on a retroactive basis with no restatement of December 31, 2022, balances. The District recognized a subscription liability of approximately \$816,000 as of January 1, 2023, due to the implementation of GASB Statement No. 96; however, this entire amount was offset by an intangible right-to-use subscription asset.

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.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Net patient service revenue under the Medicare program totaled approximately \$27,146,000 and \$31,184,000 for 2023 and 2022, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$4,463,000 and \$6,867,000 in 2023 and 2022, 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 \$5,580,000 and \$5,408,000 for 2023 and 2022, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$1,010,000 and \$977,000 in 2023 and 2022, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2023 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.

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

	2023	2022
Gross patient service charges	\$ 85,888,499	\$ 70,932,005
Adjustments to patient service charges		
Contractual discounts	31,743,954	21,767,300
Provision for bad debts	987,737	666,612
Charity care	2,449,244	1,732,011
	35,180,935	24,165,923
Net patient service revenue	\$ 50,707,564	\$ 46,766,082

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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.

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

	2023	2022
Cash and cash equivalents	\$ 4,508,652	\$ 2,980,702
Assets whose use is limited		
Board-designated		
Cash and cash equivalents	2,162,241	-
U.S. government agency obligations	4,601,615	4,454,834
Investment in King County Investment Pool	337,348	327,550
Taxes receivable	-	682
LTGO Bond Fund		
Investment in King County Investment Pool	5,380,521	4,976,551
Taxes receivable	82,757	75,049
Revenue Bond Fund		
U.S. government agency obligations	3,772,293	3,675,188
	16,336,775	13,509,854
Total deposits and investments	\$ 20,845,427	\$ 16,490,556

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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.

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 manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

The composition of investments, reported at fair value by investment type at December 31, 2023 and 2022, excluding cash and cash equivalents, and assets whose use is limited balances of \$12,471,835 and \$8,360,534, is as follows:

Investment Type as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
U.S. government agency obligations	\$ 8,373,908	100%

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

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>\$ 8,130,022</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, 2023 and 2022, were 99.83% and 99.03% 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 2023 and 2022, the District's regular tax levy was \$0.25 and \$0.32 per \$1,000 on a total assessed valuation of \$17,469,683,771 and \$13,004,604,863, respectively, for a total regular levy of \$4,334,593 and \$4,174,613, 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, 2023 and 2022, were as follows:

	Balance, December 31, 2022	Additions	Retirements	Transfers	Balance, December 31, 2023
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Construction in progress	147,280	378,441	(237,246)	(249,964)	38,511
Total nondepreciable capital assets	<u>14,778,458</u>	<u>378,441</u>	<u>(237,246)</u>	<u>(249,964)</u>	<u>14,669,689</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,973,793	-	-	-	11,973,793
Buildings and improvements	33,319,274	-	(235,725)	129,477	33,213,026
Equipment	17,256,718	159,716	(407,710)	120,487	17,129,211
LESS ACCUMULATED DEPRECIATION					
Land improvements	(5,809,638)	(635,832)	-	-	(6,445,470)
Buildings and improvements	(13,509,970)	(1,668,288)	282,745	-	(14,895,513)
Equipment	(9,435,940)	(1,520,755)	136,805	-	(10,819,890)
Depreciable capital assets, net	<u>33,794,237</u>	<u>(3,665,159)</u>	<u>(223,885)</u>	<u>249,964</u>	<u>30,155,157</u>
Capital assets, net	<u>\$ 48,572,695</u>	<u>\$ (3,286,718)</u>	<u>\$ (461,131)</u>	<u>\$ -</u>	<u>\$ 44,824,846</u>
	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>

Depreciation expense for the years ended December 31, 2023 and 2022, was \$3,824,875 and \$3,275,582, 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, 2023 and 2022, for the District consisted of the following:

	2023	2022
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 \$419,083 and \$447,022.	\$ 27,095,917	\$ 28,047,978
Revenue bonds, series 2015, 5.00% to 6.25%, due semiannually on June 1 and December 1, maturing in 2046, with annual amounts ranging from \$1,025,000 to \$3,455,000, net of unamortized discount of \$903,629 and \$944,703.	42,610,954	43,578,618
Limited tax general obligation and refunding bonds, series 2020A and 2020B, 4.12% due semiannually on June 1 and December 1, maturing in 2040, with annual amounts ranging from \$240,000 to \$4,145,000.	16,185,000	16,305,000
	85,891,871	87,931,596
Less current portion	(2,245,000)	(2,080,000)
	\$ 83,646,871	\$ 85,851,596

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, 2023 and 2022, are summarized below:

	Balance, December 31, 2022	Additions	Reductions	Balance, December 31, 2023	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ 16,305,000	\$ -	\$ (120,000)	\$ 16,185,000	\$ 240,000
2015 Revenue bonds	43,578,618	-	(967,664)	42,610,954	980,000
2015 LTGO bonds	28,047,978	-	(952,061)	27,095,917	1,025,000
Total noncurrent liabilities	<u>\$ 87,931,596</u>	<u>\$ -</u>	<u>\$ (2,039,725)</u>	<u>\$ 85,891,871</u>	<u>\$ 2,245,000</u>
	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	<u>\$ 90,748,583</u>	<u>\$ -</u>	<u>\$ (2,816,987)</u>	<u>\$ 87,931,596</u>	<u>\$ 2,080,000</u>

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
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
2028	1,430,000	1,151,500	1,265,000	2,475,650	340,000	580,034	3,035,000	4,207,184
Amounts due 2029 - 2033	8,940,000	4,570,500	7,515,000	11,260,163	2,520,000	2,660,330	18,975,000	18,490,993
Amounts due 2034 - 2038	12,660,000	1,983,750	10,070,000	8,878,325	4,105,000	2,054,663	26,835,000	12,916,738
Amounts due 2039 - 2043	-	-	13,610,000	5,551,563	8,050,000	469,505	21,660,000	6,021,068
Amounts due 2044 - 2046	-	-	6,624,583	1,245,938	-	-	6,624,583	1,245,938
							87,214,583	<u>\$ 60,970,497</u>
							1,322,712	
							<u>\$ 85,891,871</u>	

Less amount representing unamortized discount

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 \$114,003 and \$88,954 in 2023 and 2022, 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 \$208,196 and \$116,693 in 2023 and 2022, respectively. Contributions made by employees to the benefit plan totaled approximately \$900,322 and \$736,582 in 2023 and 2022, 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:

	2023	2022
Medicare	43%	50%
Medicaid	9%	10%
Other commercial	39%	31%
Patient and self-pay	9%	9%
	100%	100%

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, 2023:

	Principal	Interest
2024	\$ 670,244	\$ 96,739
2025	507,125	70,963
2026	358,981	59,641
2027	125,703	8,720
2028	13,570	1,993
	\$ 1,675,623	\$ 238,056

The following is a summary of the changes in lease liability for the years ended December 31, 2023 and 2022:

	January 1, 2023	Increases	Decreases	December 31, 2023	Amounts Due Within One Year
Lease liability	\$ 916,269	\$ 1,481,033	\$ (721,679)	\$ 1,675,623	\$ 670,244

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

The District reported \$688,422 and \$740,197 as amortization expense on the statements of revenues, expenses, and changes in net position in 2023 and 2022, respectively. Accumulated amortization was \$769,896 and \$2,610,097 in 2023 and 2022, 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.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

Note 11 – Subscription-Based Information Technology Arrangements

A summary of the SBITA asset activity during the year ended December 31, 2023 is as follows:

	Balance at December 31, 2022	Additions	Deductions	Balance at December 31, 2023	Amounts Due Within One Year
SBITA assets - software	\$ -	\$ 1,036,771	\$ -	\$ 1,036,771	
Less accumulated amortization	-	(234,583)	-	(234,583)	
Total SBITA assets, net	<u>\$ -</u>	<u>\$ 802,188</u>	<u>\$ -</u>	<u>\$ 802,188</u>	
SBITA liabilities	<u>\$ -</u>	<u>\$ 1,036,771</u>	<u>\$ (213,859)</u>	<u>\$ 822,912</u>	<u>\$ 274,532</u>

The future minimum SBITA principal and interest payments as of December 31, 2023, is as follows:

Years Ending December 30,	Principal	Interest	Total
2024	\$ 274,532	\$ 29,929	\$ 304,461
2025	231,430	18,252	249,682
2026	177,117	9,753	186,870
2027	139,833	2,411	142,244
	<u>\$ 822,912</u>	<u>\$ 60,345</u>	<u>\$ 883,257</u>

Note 12 –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.

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.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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.

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, 2023, 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 24, 2024.

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 24, 2024

