

Reports of Independent Auditors
and Financial Statements

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

December 31, 2025 and 2024

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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, 2025 and 2024, 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, 2025 and 2024, and the changes in net 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 14 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 12, 2026, 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.

Baker Tilly US, LLP

Everett, Washington

May 12, 2026

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 Health (The District). It should be read in conjunction with the financial statements and accompanying notes that follow.

Operational Highlights

Operational Growth:

The District advanced several strategic initiatives in 2025 aimed at expanding patient access, strengthening service offerings, and supporting long-term revenue growth. These efforts reflect a coordinated approach to meeting increasing community demand while positioning the organization for future expansion.

1. Expanded Community Outreach and Engagement

The District increased its visibility and presence across its service area through enhanced participation in community-based programs and events.

- a. In 2025, the District participated in 17 community outreach events, contributing more than 400 hours of staff volunteer time across its primary and secondary service areas, including North Bend, Snoqualmie, Carnation, Duvall, Issaquah, and Fall City. These efforts supported community health education, strengthened local partnerships, built brand trust, and helped increase patient volumes while raising awareness of available services.

2. Expansion of Specialty Services in Outpatient Clinics

Access to specialty care was significantly enhanced through targeted provider recruitment and service line expansion.

- a. The District hired six new providers across six specialty areas, five of which represent entirely new service lines. This expansion reduces the need for patients to seek care outside the community and improves continuity of care.

- (1) Allergy & Immunology (*new service line*)
- (2) Rheumatology (*new service line*)
- (3) General Surgery (*new service line*)
- (4) Orthopedic Surgery (*new service line*)
- (5) Neurology (*new service line*)
- (6) Behavioral Health

3. Investment in New North Bend Clinic

The District expanded its physical footprint to meet growing demand in the region.

- a. A new clinic in North Bend, Washington, opened in October 2025, offering primary care services along with rotating specialty clinics. This location improves geographic access and serves as a key access point for patients in the upper Snoqualmie Valley.

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

4. Introduction of Advanced Mammography Services

The District enhanced its diagnostic imaging capabilities with the addition of advanced screening technology.

- a. In July 2025, the Imaging Department implemented Hologic 3D Mammography services, introducing the first and only mammography unit in the Snoqualmie Valley. This advancement improves early detection capabilities and expands access to high-quality breast imaging within the community.

5. Strengthened Partnerships with Emergency Medical Services (EMS)

Ongoing collaboration with regional EMS partners remained a priority to support coordinated emergency care delivery and reinforce the District's reputation among first responders.

- a. Provided two continuing education sessions for EMS personnel led by Emergency Department physicians.
- b. Supported Snoqualmie Valley Fire through participation in promotional and new hire recognition events at Snoqualmie City Council meetings.
- c. Maintained active involvement in regional coordination efforts by attending bimonthly Central EMS Quality Improvement and Regional Council meetings.
- d. Partnered with EMS to support coordinated, trauma-informed response and access to Snoqualmie Valley Assault Treatment Services.

6. Workforce Stability and Culture Initiatives

The District continued to prioritize employee engagement, recruitment practices, and organizational culture to improve retention.

- a. These efforts contributed to a three-year downward trend in first-year turnover, decreasing from 31% in 2024 to 24% in 2025, reflecting improved onboarding, support systems, and alignment in hiring practices.
- b. The District launched an Employee Recognition Program in 2025 to strengthen a culture of appreciation and reinforce SVH values. The program recognizes staff contributions through values-based awards, supporting engagement and retention.
- c. The finance and human resources (H/R) teams spearheaded the successful transition to a modern, integrated HR, payroll, and timekeeping system. This cross-functional initiative streamlined and standardized core processes, enhanced data accuracy and reporting capabilities, and significantly improved the overall employee experience through more intuitive, self-service tools. In addition, the new system reduced long-term operating and maintenance costs, positioning the organization for greater efficiency, scalability, and future growth.

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

7. Development of The HUB – Major Capital Expansion Project

Construction of The HUB, an approximately 85,000-square-foot facility, commenced in June 2025 as a cornerstone investment in the District's long-term growth strategy. As of May 2026, the project remains on schedule and within budget, with an anticipated opening in the first quarter of 2027. The HUB is designed to significantly expand access to integrated healthcare and community services, and will include:

- a. Comprehensive Therapy and Wellness Services
 - (1) Expanded outpatient physical, occupational, and speech therapy services, including pediatric therapy
 - (2) Massage therapy
 - (3) Community-focused gym with AI-supported equipment and group fitness spaces
 - (4) Indoor climbing wall to support rehabilitation and wellness programming
- b. Retail Pharmacy Services to improve medication access and care coordination
- c. Full-Service Restaurant and Dietary Services to support patient, staff, and community needs
- d. Expanded Clinical Space
 - (1) Addition of approximately 20,000 square feet dedicated to primary and specialty care
 - (2) 33 new exam rooms and three procedure suites to increase patient capacity
- e. Enhanced Diagnostic Capabilities through expanded laboratory and imaging services
- f. Surgical Services Expansion with the addition of four new operating rooms, significantly increasing procedural capacity and reducing the need for out-of-area referrals
- g. Walking trails that connect to local trail networks, supporting staff, patient and community wellness.

Collectively, these initiatives demonstrate the District's continued focus on sustainable growth, improved access to care, and investment in infrastructure to meet the evolving needs of the communities it serves.

Outpatient Volumes Growth: The District's emergency department, clinic network, and outpatient ancillary services experienced meaningful growth in both patient volumes and associated revenue in 2025, reflecting sustained demand for services and the impact of recent operational and strategic investments. This growth was driven in part by the successful recruitment of specialty providers, which expanded the breadth of services available locally and improved patient access to care. In addition, the opening of the North Bend Rural Health Clinic further strengthened the District's outpatient footprint by increasing capacity and extending services into a growing geographic area.

These initiatives contributed not only to higher utilization but also to improved care continuity, as more patients were able to receive comprehensive services within the District rather than seeking care outside the region. The resulting growth in outpatient activity aligns with the District's broader strategic objective of shifting care delivery toward lower-cost, community-based settings while enhancing the patient experience.

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

The construction of The HUB represents the next phase of this strategy, serving as a significant capital investment designed to further expand outpatient capabilities, integrate additional services, and support long-term growth. Upon completion, The HUB is expected to substantially increase access, improve operational efficiency, and position the District to meet evolving healthcare needs within the community.

Patient volumes for the year ending December 31, 2025 compared to 2024 are shown below:

Business Line	Patient Volumes Actual January Through December 2025	Patient Volumes Actual January Through December 2024	Percentage Change
Clinic Visits	30,037	29,763	0.9%
Emergency Department Visits	6,356	6,013	5.7%
Diagnostic Imaging Visits	10,562	8,975	17.7%
Laboratory Tests and Specimen Collections	87,635	77,832	12.6%
Outpatient Therapy Visits	6,751	5,353	26.1%
Inpatient Therapy Visits	11,091	10,311	7.6%
Inpatient and Swing Bed Admits	449	475	-5.5%
Inpatient and Swing Bed Patient Days	6,884	6,968	-1.2%

Key Volume Highlights:

1. Inpatient and Swing Bed Utilization Trends

Total inpatient and swing bed days declined by 5.5% in 2025, primarily driven by a reduction in swing bed volumes. When isolating core acute activity, however, combined inpatient and swing bed days decreased by only 1.2%, reflecting relative stability in acute care utilization. This shift is consistent with the District's ongoing strategy to strengthen its acute care capabilities following the recruitment of a medical director in 2024. Investments in clinical leadership have enhanced the skill set of both physicians and nursing staff, enabling the District to manage higher-acuity patients locally rather than transferring them to outside facilities. This strategic focus on retaining acute patients is further evidenced by a 101% increase in emergency department admissions to inpatient and observation status since 2023 (235 compared to 117), demonstrating measurable progress toward capturing a greater share of the acute care market within the District.

2. Emergency Department Volume Growth

Emergency department volumes increased in 2025, reflecting both stronger community utilization and improved referral patterns. This growth is attributed in part to the District's continued efforts to strengthen relationships with local emergency medical services (EMS) providers, resulting in increased confidence and utilization by first responders. In addition, expanded marketing and community outreach initiatives have improved public awareness of available emergency services, contributing to higher patient volumes.

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

3. **Clinic Volume Expansion and Service Line Growth**

Clinic volumes experienced significant growth in 2025, driven by a combination of expanded provider capacity, the addition of new specialty services, and the opening of the North Bend Rural Health Clinic. The District broadened its specialty offerings to include allergy/immunology, behavioral health, endoscopy, cardiology, general surgery, orthopedic surgery, rheumatology, nephrology, and podiatry, allowing more patients to access comprehensive care within the local community. The North Bend clinic, which opened in late October 2025, contributed 706 patient visits in its initial months of operation and is expected to be a key driver of continued outpatient growth.

4. **Outpatient Therapy Growth and Pediatric Expansion**

Outpatient therapy visits increased as a result of targeted operational improvements and a renewed focus on access. Key initiatives included enhancements in enterprise resource planning systems, leadership changes, and more effective alignment of provider schedules with patient demand. These efforts were further supported by marketing and outreach strategies aimed at increasing utilization. Notably, the District continued to expand its pediatric therapy services across speech, occupational, and physical therapy disciplines. Pediatric therapy visits grew by 181% in 2025 compared to 2024, increasing from 314 to 882 visits, highlighting strong demand and successful program development in this area.

5. **Inpatient Therapy Utilization**

Inpatient therapy visits increased in 2025 despite an overall decline in swing bed volumes. This growth was driven by changes in the case mix of patients, with a higher proportion requiring medically necessary therapy services during their stay. As a result, inpatient therapy encounters for swing bed patients increased by 780 visits year over year, reflecting higher acuity needs and more intensive care requirements.

6. **Laboratory Volume Growth**

Laboratory tests and specimen collections increased by 12.6% in 2025, consistent with overall growth in patient activity across the District. This increase was driven by higher utilization in key service areas, including the emergency department, outpatient clinics, and acute inpatient admissions. The growth in laboratory services underscores the interconnected nature of ancillary services with broader patient volume trends.

7. **Diagnostic Imaging Expansion**

Diagnostic imaging volumes increased by 17.7% in 2025, reflecting both service line expansion and higher overall patient utilization. A key contributor to this growth was the introduction of a new mammography service line, which generated 426 visits during its first year of operation. Additional factors included increased emergency department activity and a higher volume of imaging orders generated by newly added specialty providers in the clinic setting. Together, these elements contributed to a meaningful expansion of the District's imaging services and diagnostic capabilities.

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

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

Here is the District's Statement of Revenues, Expenses, and Changes in Net Position, followed by management's commentary on the results.

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Net operating revenue	\$ 59,744,630	\$ 56,031,447	\$ 52,134,655
Nonoperating income	<u>7,477,513</u>	<u>4,108,046</u>	<u>4,326,173</u>
	<u>67,222,143</u>	<u>60,139,493</u>	<u>56,460,828</u>
Total operating expenses	59,186,910	52,200,066	48,783,256
Nonoperating expense	<u>11,687,658</u>	<u>5,267,013</u>	<u>4,937,080</u>
	<u>70,874,568</u>	<u>57,467,079</u>	<u>53,720,336</u>
Capital contributions	<u>3,088,000</u>	-	-
Change in net position	(564,425)	2,672,414	2,740,492
Net position, beginning of year	<u>(9,294,520)</u>	<u>(11,966,934)</u>	<u>(14,707,426)</u>
Net position, end of year	<u>\$ (9,858,945)</u>	<u>\$ (9,294,520)</u>	<u>\$ (11,966,934)</u>

2025 Compared to 2024 Comments:

- 1) **Net operating Revenue:** Net operating revenue increased by approximately 7% from 2024 to 2025, reflecting continued strengthening in the District's core service lines. The growth was primarily driven by increased outpatient volumes across multiple service areas, supported by expanded provider capacity and enhanced access to care. In addition, overall charges increased by approximately 5%, contributing further to the year-over-year revenue growth. This performance reflects sustained demand for services and the District's ongoing efforts to expand outpatient access and service availability.
- 2) **Nonoperating Revenue:** Nonoperating revenue increased by 82% from 2024 to 2025, reflecting significant growth across multiple revenue streams and strengthened overall financial performance outside of core operations. The increase was driven by the following key factors:
 - a) Investment and interest income rose by approximately \$1,593,000, largely attributable to the strategic deployment of proceeds from the 2025 revenue bond issuance. The temporary investment of these funds, combined with a favorable interest rate environment, generated a meaningful increase in earnings on cash and investments.
 - b) Annual tax revenues increased by nearly \$128,000 compared to 2024, reflecting routine fluctuations in assessed values and collections rather than any significant change in underlying funding dynamics. This revenue source remains a relatively minor component of the District's overall financial structure and was not a primary driver of the year's financial results.

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

- c) Grant revenue, excluding capital contributions, grew by approximately \$385,000 year over year, driven by expanded funding opportunities and continued success in securing external support for targeted programs and initiatives. This increase underscores the District's ongoing efforts to leverage grant funding to enhance services and offset operating costs.
- 3) Operating Expenses:** Operating expenses increased by 13% in 2025 compared to 2024, and the largest increase was due to a 23% increase in total labor costs.
- a) Labor costs, including salaries, wages, and employee benefits, represented approximately 56% of total operating expenses, underscoring their significance as the District's largest cost driver. The 23% increase in 2025 compared to 2024 was primarily attributable to targeted market-based compensation adjustments for clinical staff to remain competitive and support retention, as well as the addition of new personnel to accommodate expanded service lines. In addition, the District strategically transitioned a number of previously contracted agency nursing and therapy roles to direct employment, resulting in higher reported labor costs but improved continuity of care, workforce stability, and reduced reliance on external staffing vendors.
- b) Contract labor costs within professional fee expense declined by more than \$1,100,000 in 2025 compared to 2024, reflecting a deliberate and successful effort by the District to reduce dependency on higher-cost agency staffing. This reduction was achieved through focused recruitment and onboarding of permanent staff, as well as workforce planning initiatives implemented throughout 2025. The shift away from contract labor is expected to generate longer-term cost efficiencies while enhancing team integration, employee engagement, and overall quality of patient care.
- c) Other professional fee expenses rose by nearly \$850,000 in 2025 compared to 2024. This increase was driven primarily by legal costs associated with property acquisition, bond issuance, and project management for the construction of The HUB and the North Bend Clinic, as well as expanded information technology and informatics support staffing to accommodate growth in services and personnel. Management anticipates that professional fees will remain elevated through 2026, until construction of The HUB is completed.
- d) Supplies expense increased by approximately \$720,000 in 2025 compared to 2024, which we are attributing to the overall patient volume increases and inflation costs. Specifically, these increases are a result of pharmaceuticals (including 340b costs), food/serving costs, and minor equipment purchases for North Bend and IT networking equipment. The District did, however, migrate to a new GPO purchasing contract in July of 2025 and has seen an 8% decrease in supply chain costs since the change.
- e) Non-operating expenses rose by 122%, driven primarily by costs associated with bond issuances and higher interest expense. This increase reflects the impact of the 2025A Revenue Bond issuance fees, which were undertaken to finance construction of the HUB, and to refund the 2015A LTGO Bonds, which were both completed in 2025.
- 4) Capital Contributions:** The District received a \$3,088,000 capital contribution in the form of state appropriations in support of the HUB project in 2025. This contribution helped offset some of the HUB investment expense.

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

- 5) Change in Net Position:** The District reported a negative net position of approximately (\$564,000) in 2025. The net position loss was directly related to its investment in the HUB. The HUB investment included \$3,722,000 in bond issuance costs which were incurred during 2025. The District expects that the Hub investment will improve financial position once complete in late 2026 or early 2027.

2024 Compared to 2023 Comments:

- 1) Operating Revenue:** Operating revenue grew by approximately 7.5% from 2023 to 2024, driven by enhanced charge capture with our new electronic medical record system and increased volumes across the organization for outpatient services.
- 2) Operating Expenses:** Operating expenses increased by 7% in 2024 compared to 2023.
 - a) Salaries, wages, and employee benefits account for approximately 52% of our total operating expenses. In 2024, total labor costs increased by about 4%, primarily due to the District's annual wage adjustments, which took effect for hours worked as of March 31, 2024. Additionally, starting January 1, 2024, the District introduced a 4% employer matching contribution for all benefits eligible employees' retirement plans.
 - b) Contract labor costs represent approximately 9% of our total operating expenses. In 2024, we established processes to ensure that all contract labor expenses were consistently recorded in this category. This improvement allows for better tracking of contract and agency labor costs both by department and overall.
 - c) Supplies expenses, which account for approximately 5% of total operating costs, decreased by more than \$700,000 due to improved vendor contract negotiations on product pricing and a strategic effort to control spending.
 - d) Purchased services account for approximately 11% of total operating expenses, largely due to the continued outsourcing of information technology services and informatics services.
- 3) Change in Net Position:** The positive net position change in 2024 resulted from disciplined cost management alongside growing service volumes. The net position increase in 2023 was due to higher revenues in outpatient services.

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

Summary Statement of Net Position

Here is the District's Statement of Net Position, followed by management's commentary on the results.

	2025	2024	2023
ASSETS			
Current assets	\$ 40,098,455	\$ 32,450,796	\$ 18,914,606
Capital assets, net	73,323,539	42,937,806	44,824,846
Other noncurrent assets	125,587,332	23,268,010	16,346,868
Total assets	239,009,326	98,656,612	80,086,320
DEFERRED OUTFLOWS OF RESOURCES	2,376,986	1,284,740	1,377,176
Total assets and deferred outflows of resources	\$ 241,386,312	\$ 99,941,352	\$ 81,463,496
LIABILITIES			
Current liabilities	\$ 13,782,181	\$ 9,243,650	\$ 8,229,800
Noncurrent liabilities	237,463,076	99,992,222	85,200,630
Total liabilities	251,245,257	109,235,872	93,430,430
NET POSITION			
Net investment in capital assets	(10,719,280)	(2,523,781)	(1,295,673)
Restricted expendable for debt service	13,784,400	9,997,298	9,235,571
Unrestricted	(12,924,065)	(16,768,037)	(19,906,832)
Total net position	(9,858,945)	(9,294,520)	(11,966,934)
Total liabilities and net position	\$ 241,386,312	\$ 99,941,352	\$ 81,463,496

2025 Compared to 2024 Comments:

- 1) **Current Assets:** Current assets increased by approximately \$8 million in 2025, primarily driven by the receipt and deployment of bond proceeds. This growth reflects increased cash balances associated with the 2025A Revenue Bonds, issued to support capital investment initiatives, including The HUB project. These inflows materially strengthened liquidity during the year in anticipation of significant upcoming expenditures related to the continued development and construction of The HUB expansion project.

- 2) **Capital Assets:** Capital assets increased by \$30 million in 2025, driven primarily by ongoing construction activity and capital investment. Key contributors include construction in progress for the HUB, acquisition and installation of the new MRI (estimated to be completed in June 2026), and renovations associated with the North Bend Rural Health Clinic, which officially opened during the year. These investments reflect the District's continued focus on expanding infrastructure and service capacity.

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

- 3) **Other Noncurrent Assets:** Other noncurrent assets increased by approximately \$102 million, primarily due to restricted cash reserves designated for the construction of The HUB, including amounts invested in bonds that are classified as noncurrent based on their maturity dates. This increase reflects the continued accumulation, investment, and segregation of bond proceeds and other funding sources committed to the District's major capital expansion initiative. In addition, right-of-use lease assets also increased during the year, reflecting the District's continued use of leasing arrangements as a strategic financing tool to support operational needs and capital flexibility.
- 4) **Current Liabilities:** Current liabilities increased by \$4.5 million in 2025, reflecting normal fluctuations associated with higher operational and capital activity. The increase was primarily due to higher accounts payable related to The HUB construction costs, increased accrued payroll resulting from additional staffing levels, and recognition of the current portion of interest expense associated with outstanding LTGO and Revenue Bonds.
- 5) **Non-Current Liabilities:** Long-term debt increased by \$137 million, primarily due to the issuance of the 2025A Revenue Bonds. The issuance was undertaken to finance major capital projects, including The HUB, and to support long-term strategic infrastructure investments across the District.
- 6) **Net Investment in Capital Assets:** The net investment in capital assets increased by \$8 million in 2025, reflecting the combined impact of ongoing depreciation expense and outstanding long-term debt exceeding the net book value of capital assets. This trend is consistent with the District's continued investment in large-scale capital projects financed through debt issuance.
- 7) **Revenue Bond Covenant Compliance:** No bond covenant compliance reporting was required for 2025 due to the refunding of the 2015A Revenue Bonds as part of the 2025A Revenue Bond issuance. Covenant compliance reporting for the 2025A Revenue Bonds will commence in 2027, in accordance with the terms outlined in the bond documentation.

2024 Compared to 2023 Comments:

- 1) **Current Assets:** Current assets increased due to an increase in cash in 2024 and 2023.
- 2) **Current Liabilities:** Current liabilities increased due to timing of payments of accounts payable in 2024. Current liabilities decreased due to payment of deferred tax liability in 2023.
- 3) **Long-Term Debt:** Long-term debt increased due to the issuance of the 2024 LTGO Bond. Long-term debt decreased due to a decrease in the lease liability and payment of Revenue Bonds in 2023.
- 4) **Net Investment in Capital Assets:** Net investment in capital assets decreased in 2024 and 2023 due to depreciation.

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, 2025 and 2024

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,110,022	\$ 15,595,281
Short-term investments	6,271,259	-
Current portion of other noncurrent cash and investments	-	2,769,374
Patient accounts receivable, net of allowances for doubtful accounts of \$1,963,648 in 2025 and \$1,361,480 in 2024	9,177,078	12,436,829
Prepays and other receivables	4,627,595	424,184
Estimated third-party payor settlements	703,082	1,052,000
Inventory	209,419	173,128
Total current assets	40,098,455	32,450,796
OTHER NONCURRENT CASH AND INVESTMENTS		
Restricted bond project funds	106,668,244	10,827,987
Restricted bond reserve funds	13,784,400	9,997,298
OTHER NONCURRENT CASH AND INVESTMENTS, net of current portion	120,452,644	20,825,285
RIGHT-TO-USE ASSET (RUA) LEASES, net of accumulated amortization	4,121,581	1,655,700
SUBSCRIPTION-BASED TECHNOLOGY ARRANGEMENTS (SBITA), net	1,013,107	787,025
CAPITAL ASSETS		
Land	19,018,382	14,631,178
Construction in progress	28,417,748	1,568,981
Depreciable capital assets, net of accumulated depreciation and amortization	25,887,409	26,737,647
Total capital assets, net of accumulated depreciation and amortization	73,323,539	42,937,806
Total assets	239,009,326	98,656,612
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	2,376,986	1,284,740
Total assets and deferred outflows of resources	\$ 241,386,312	\$ 99,941,352
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 6,468,474	\$ 3,247,675
Accrued compensation and related payables	3,232,794	2,227,089
Accrued interest payable	1,149,894	214,374
Current portion of lease liability	831,893	631,284
Current portion of SBITA obligations	393,750	319,550
Current maturities of long-term debt	1,705,376	2,603,678
Total current liabilities	13,782,181	9,243,650
LEASE LIABILITY, net of current portion	3,509,318	1,106,043
SBITA OBLIGATIONS, net of current portion	657,468	463,232
LONG-TERM DEBT, net of current maturities	233,296,290	98,422,947
Total liabilities	251,245,257	109,235,872
NET POSITION		
Net investment in capital assets	(10,719,280)	(2,523,781)
Restricted expendable for debt service	13,784,400	9,997,298
Unrestricted	(12,924,065)	(16,768,037)
Total net position	(9,858,945)	(9,294,520)
	\$ 241,386,312	\$ 99,941,352

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$2,221,147 in 2025 and \$1,782,800 in 2024)	\$ 57,936,853	\$ 53,531,893
Taxation for operations	-	1,178,205
Other	1,807,777	1,321,349
	59,744,630	56,031,447
OPERATING EXPENSES		
Salaries and wages	27,193,981	21,931,458
Employee benefits	6,007,433	5,070,783
Professional fees	8,988,291	9,251,449
Supplies	3,400,441	2,680,906
Repairs and maintenance	463,474	497,121
Utilities	874,692	795,375
Purchased services	5,968,051	5,676,196
Insurance	331,529	268,044
Depreciation and amortization	4,910,701	4,983,679
Other	1,048,317	1,045,055
	59,186,910	52,200,066
OPERATING INCOME	557,720	3,831,381
NONOPERATING INCOME (EXPENSE)		
Investment income	2,448,288	855,241
Taxation for bond principal and interest	4,513,703	3,207,834
Interest expense	(7,965,508)	(4,885,917)
Issuance and financing costs	(3,722,150)	(381,096)
Other	515,522	44,971
	(4,210,145)	(1,158,967)
Change in net position before capital contributions	(3,652,425)	2,672,414
CAPITAL CONTRIBUTIONS	3,088,000	-
CHANGE IN NET POSITION	(564,425)	2,672,414
NET POSITION, beginning of year	(9,294,520)	(11,966,934)
NET POSITION, end of year	\$ (9,858,945)	\$ (9,294,520)

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

Increase (Decrease) in Cash and Cash Equivalents	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 61,545,522	\$ 51,586,438
Cash paid to employees	(33,311,120)	(27,214,092)
Cash paid to suppliers	(21,435,210)	(20,199,500)
Other cash receipts	1,807,777	1,321,349
Net cash from operating activities	8,606,969	5,494,195
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered a noncapital financing activity	-	1,178,205
Other	515,522	44,971
Net cash from noncapital financing activities	515,522	1,223,176
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(30,503,543)	(1,317,237)
Cash from tax levies for general obligation bonds	4,513,703	3,207,834
Proceeds from issuance of long-term debt	202,312,723	17,335,899
Principal payments on long-term debt	(68,430,118)	(2,293,581)
Interest paid on long-term debt	(11,751,948)	(5,033,419)
Payments on lease liability and SBITA obligations	(1,067,611)	(1,127,595)
Net cash from capital and related financing activities	95,073,206	10,771,901
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments, net	(72,573,113)	880,422
Investment income	2,448,288	855,241
Net cash from investing activities	(70,124,825)	1,735,663
NET CHANGE IN CASH AND CASH EQUIVALENTS	34,070,872	19,224,935
CASH AND CASH EQUIVALENTS, beginning of year	31,613,697	12,388,762
CASH AND CASH EQUIVALENTS, end of year	\$ 65,684,569	\$ 31,613,697
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 19,110,022	\$ 15,595,281
Restricted cash and cash equivalents	46,574,547	16,018,416
	\$ 65,684,569	\$ 31,613,697
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND FINANCING ACTIVITIES		
Capital assets financed through accounts payable	\$ 3,544,923	\$ 652,213
Capital contributions in other receivables	\$ 3,088,000	\$ -
Right-to-use asset obtained in exchange for lease obligations	\$ 3,323,775	\$ 813,236
Right-to-use asset obtained in exchange for SBITA obligations	\$ 616,156	\$ 313,740

See accompanying notes.

Public Hospital District No. 4, King County, Washington
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

Increase (Decrease) in Cash and Cash Equivalents

	2025	2024
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 557,720	\$ 3,831,381
Adjustments to reconcile operating income to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	-	(1,178,205)
Depreciation and amortization	4,910,701	4,983,679
Provision for bad debts	2,221,147	1,782,800
Change in assets and liabilities		
Patient accounts receivable	1,038,604	(3,462,055)
Prepays and other receivables	(1,115,411)	(95,910)
Inventory	(36,291)	(49,474)
Estimated third-party payor settlements	348,918	(266,200)
Accounts payable	(324,124)	64,120
Accrued compensation and related payables	1,005,705	(115,941)
	\$ 8,606,969	\$ 5,494,195

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 Health (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.

Other noncurrent cash and investments – 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 obligations of the United States Government, and 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 current 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, 2025 and 2024.

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 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 2025 and 2024, measured by the District's standard charges, was approximately \$708,000 and \$1,800,000, 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 SBITA 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. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of financial statements with essential information about certain concentrations or constraints that make a government vulnerable to the risk of a substantial impact. The District evaluated the requirements of this Standard and determined that its adoption did not have an impact on the financial statements and did not result in additional disclosures.

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 \$31,110,000 and \$27,019,000 for 2025 and 2024, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 were \$5,969,000 and \$5,691,000 in 2025 and 2024, 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 \$6,438,000 and \$5,879,000 for 2025 and 2024, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$1,229,000 and \$1,248,000 in 2025 and 2024, respectively.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2025 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:

	2025	2024
Gross patient service charges	\$ 113,897,673	\$ 94,021,013
Adjustments to patient service charges		
Contractual discounts	53,032,050	36,906,658
Provision for bad debts	2,221,147	1,782,800
Charity care	707,623	1,799,662
	55,960,820	40,489,120
Net patient service revenue	\$ 57,936,853	\$ 53,531,893

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.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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:

	2025	2024
Cash and cash equivalents	\$ 19,110,022	\$ 15,595,281
Short-term investments		
U.S. government agency obligations	2,432,732	-
Investment in King County Investment Pool	3,838,527	-
	6,271,259	-
Other noncurrent cash and investments		
Investment in King County Investment Pool	-	6,344,806
Taxes receivable	-	78,800
Cash and cash equivalents	42,736,020	9,673,610
U.S. government agency obligations	77,716,624	7,497,443
	120,452,644	23,594,659
Total deposits and investments	\$ 145,833,925	\$ 39,189,940

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.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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, 2025 and 2024, excluding cash and cash equivalents, and other noncurrent cash and investment balances of \$65,684,569 and \$31,692,497, is as follows:

Investment Type as of December 31, 2025	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
U.S. government agency obligations	\$ 80,149,356	100%
Investment Type as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
U.S. government agency obligations	\$ 7,497,443	100%

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.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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 2025 and 2024, the District's regular tax levy was \$0.27 and \$0.28 per \$1,000 on a total assessed valuation of \$16,937,165,329 and \$15,608,361,009, respectively, for a total regular levy of \$4,504,426 and \$4,413,127, 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, 2025 and 2024, were as follows:

	Balance, December 31, 2024	Additions	Retirements	Transfers	Balance, December 31, 2025
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 14,631,178	\$ 4,387,204	\$ -	\$ -	\$ 19,018,382
Construction in progress	1,568,981	28,313,781	-	(1,465,014)	28,417,748
Total nondepreciable capital assets	<u>16,200,159</u>	<u>32,700,985</u>	<u>-</u>	<u>(1,465,014)</u>	<u>47,436,130</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,973,793	-	-	-	11,973,793
Buildings and improvements	33,537,301	156,867	-	1,465,014	35,159,182
Equipment	17,243,916	1,190,614	-	-	18,434,530
LESS ACCUMULATED DEPRECIATION					
Land improvements	(7,065,771)	(538,391)	-	-	(7,604,162)
Buildings and improvements	(16,483,930)	(1,620,867)	-	-	(18,104,797)
Equipment	(12,467,662)	(1,503,475)	-	-	(13,971,137)
Depreciable capital assets, net	<u>26,737,647</u>	<u>(2,315,252)</u>	<u>-</u>	<u>1,465,014</u>	<u>25,887,409</u>
Capital assets, net	<u>\$ 42,937,806</u>	<u>\$ 30,385,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,323,539</u>
	Balance, December 31, 2023	Additions	Retirements	Transfers	Balance, December 31, 2024
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Construction in progress	38,511	1,530,470	-	-	1,568,981
Total nondepreciable capital assets	<u>14,669,689</u>	<u>1,530,470</u>	<u>-</u>	<u>-</u>	<u>16,200,159</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,973,793	-	-	-	11,973,793
Buildings and improvements	33,213,026	324,275	-	-	33,537,301
Equipment	17,129,211	114,705	-	-	17,243,916
LESS ACCUMULATED DEPRECIATION					
Land improvements	(6,445,470)	(620,301)	-	-	(7,065,771)
Buildings and improvements	(14,895,513)	(1,588,417)	-	-	(16,483,930)
Equipment	(10,819,890)	(1,647,772)	-	-	(12,467,662)
Depreciable capital assets, net	<u>30,155,157</u>	<u>(3,417,510)</u>	<u>-</u>	<u>-</u>	<u>26,737,647</u>
Capital assets, net	<u>\$ 44,824,846</u>	<u>\$ (1,887,040)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,937,806</u>

Depreciation expense for the years ended December 31, 2025 and 2024, was \$3,662,733 and \$3,856,490, 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, 2025 and 2024, for the District consisted of the following:

	2025	2024
Limited tax general obligation and refunding bonds, series 2015, paid in full in 2025.	\$ -	\$ 26,143,853
Revenue bonds, series 2015, paid in full in 2025.	-	41,622,447
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 \$255,000 to \$4,145,000.	15,565,000	15,945,000
Limited tax general obligation bonds, series 2024, 4.97%, due semiannually on June 1 and December 1, maturing in 2044, with annual amounts ranging from \$0 to \$4,200,000.	16,870,000	17,000,000
Other notes payable, due in monthly installments ranging from \$1,197 to \$4,933, including interest ranging from 1.79% to 9.74%, maturities ranging from September 2028 to March 2030.	369,075	315,325
Revenue and refunding bonds, series 2025A, 5.50% to 7.00%, due semiannually on June 1 and December 1, maturing in 2060, with annual amounts ranging from \$0 to \$12,880,000, net of unamortized premium of \$422,591 and \$0.	178,282,591	-
Limited tax general obligation and refunding bonds, series 2025, 4.13%, due semiannually on June 1 and December 1, maturing in 2038, with annual amounts ranging from \$1,255,000 to \$2,600,000. Interest rate will reset on December 1, 2035 and will range from 4.13% to 8.50%.	23,915,000	-
	235,001,666	101,026,625
Less current portion	(1,705,376)	(2,603,678)
	\$ 233,296,290	\$ 98,422,947

During 2025, the District issued the 2025A revenue bonds to carry out a taxable refunding of the 2015 revenue bonds. The refunding resulted in the recognition of an accounting loss of \$828,323, which will be deferred and amortized over the life of the 2015 bond, which was set to mature in 2045 and is classified as a deferred outflow of resources on the statements of net position. The refunding increased the District's aggregate debt service payments by \$38,551,000 over 36 years and resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$2,275,000.

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

During 2025, the District issued the 2025 limited tax general obligation (LTGO) refunding bond to carry out a taxable refunding of the 2015 limited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of \$363,211, which will be deferred and amortized over the life of the 2015 bond, which was set to mature in 2038 and is classified as a deferred outflow of resources on the statements of net position. The refunding decreased the District's aggregate debt service payments by \$4,152,000 over 13 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$3,186,000.

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.

Changes in the District's long-term liabilities during the years ended December 31, 2025 and 2024, are summarized below:

	Balance, December 31, 2024	Additions	Reductions	Balance, December 31, 2025	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ 15,945,000	\$ -	\$ (380,000)	\$ 15,565,000	\$ 255,000
2015 Revenue bonds	41,622,447	-	(41,622,447)	-	-
2015 LTGO bonds	26,143,853	-	(26,143,853)	-	-
2024 LTGO bonds	17,000,000	-	(130,000)	16,870,000	105,000
2025 LTGO bonds	-	23,915,000	-	23,915,000	1,255,000
2025 Revenue bonds	-	178,285,610	(3,019)	178,282,591	-
Other notes payable	315,325	112,113	(58,363)	369,075	90,376
	<u>315,325</u>	<u>112,113</u>	<u>(58,363)</u>	<u>369,075</u>	<u>90,376</u>
Total noncurrent liabilities	<u>\$ 101,026,625</u>	<u>\$ 202,312,723</u>	<u>\$ (68,337,682)</u>	<u>\$ 235,001,666</u>	<u>\$ 1,705,376</u>
	Balance, December 31, 2023	Additions	Reductions	Balance, December 31, 2024	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ 16,185,000	\$ -	\$ (240,000)	\$ 15,945,000	\$ 380,000
2015 Revenue bonds	42,610,954	-	(988,507)	41,622,447	1,080,000
2015 LTGO bonds	27,095,917	-	(952,064)	26,143,853	965,000
2024 LTGO bonds	-	17,000,000	-	17,000,000	130,000
Other notes payable	-	335,899	(20,574)	315,325	48,678
	<u>-</u>	<u>335,899</u>	<u>(20,574)</u>	<u>315,325</u>	<u>48,678</u>
Total noncurrent liabilities	<u>\$ 85,891,871</u>	<u>\$ 17,335,899</u>	<u>\$ (2,201,145)</u>	<u>\$ 101,026,625</u>	<u>\$ 2,603,678</u>

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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

	2025 LTGO Bonds		2025 Revenue Bonds		2020 LTGO Bonds		2024 LTGO Bonds		Other Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 1,255,000	\$ 926,208	\$ -	\$ 12,066,575	\$ 255,000	\$ 601,476	\$ 105,000	\$ 838,439	\$ 90,376	\$ 34,204	\$ 1,705,376	\$ 14,466,902
2027	1,285,000	934,725	-	12,066,575	295,000	591,535	105,000	833,221	95,020	29,561	1,780,020	14,455,617
2028	1,380,000	881,719	1,715,000	12,066,575	340,000	580,034	95,000	828,002	90,738	21,087	3,620,738	14,377,417
2029	1,470,000	824,794	1,810,000	11,972,250	395,000	566,809	95,000	823,281	59,341	5,352	3,829,341	14,192,486
2030	1,575,000	764,156	1,905,000	11,872,700	445,000	551,492	85,000	818,559	33,600	929	4,043,600	14,007,836
Amounts due 2031-2035	9,595,000	2,754,056	11,220,000	57,671,425	3,105,000	2,453,642	295,000	4,038,622	-	-	24,215,000	66,917,745
Amounts due 2036-2040	7,355,000	618,956	15,010,000	53,892,500	10,730,000	1,612,556	440,000	3,981,218	-	-	33,535,000	60,105,230
Amounts due 2041-2045	-	-	20,690,000	48,216,200	-	-	15,650,000	1,991,727	-	-	36,340,000	50,207,927
Amounts due 2046-2050	-	-	28,725,000	40,178,250	-	-	-	-	-	-	28,725,000	40,178,250
Amounts due 2051-2055	-	-	40,280,000	28,616,000	-	-	-	-	-	-	40,280,000	28,616,000
Amounts due 2056-2060	-	-	56,505,000	12,400,850	-	-	-	-	-	-	56,505,000	12,400,850
											234,579,075	\$ 329,926,260
												422,591
												\$ 235,001,666

Plus amount representing unamortized premium

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 \$225,408 and \$154,083 in 2025 and 2024, 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 over five 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 \$541,201 and \$490,899 in 2025 and 2024, respectively. Contributions made by employees to the benefit plan totaled approximately \$1,275,105 and \$1,032,790 in 2025 and 2024, respectively. For more information on the plans, contact the District's human resources office.

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

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:

	2025	2024
Medicare	42%	45%
Medicaid	9%	10%
Other commercial	44%	39%
Patient and self-pay	5%	6%
	100%	100%

Note 10 – Lease Assets and Lease Liability

The District leases certain facilities and equipment under lease arrangements. A summary of the lease asset and liability activity during the years ended December 31, 2025 and 2024, is as follows:

	Balance at December 31, 2024	Additions	Deductions	Balance at December 31, 2025	Amounts Due Within One Year
Lease assets	\$ 3,146,259	\$ 3,323,775	\$ (947,744)	\$ 5,522,290	
Less accumulated amortization	(1,490,559)	(857,894)	947,744	(1,400,709)	
Total lease assets, net	\$ 1,655,700	\$ 2,465,881	\$ -	\$ 4,121,581	
Lease liabilities	\$ 1,737,327	\$ 3,323,775	\$ (719,891)	\$ 4,341,211	\$ 831,893

	Balance at December 31, 2023	Additions	Deductions	Balance at December 31, 2024	Amounts Due Within One Year
Lease assets	\$ 2,333,023	\$ 813,236	\$ -	\$ 3,146,259	
Less accumulated amortization	(714,466)	(776,093)	-	(1,490,559)	
Total lease assets, net	\$ 1,618,557	\$ 37,143	\$ -	\$ 1,655,700	
Lease liabilities	\$ 1,675,623	\$ 813,236	\$ (751,532)	\$ 1,737,327	\$ 631,284

A summary of the principal and interest amounts for the remaining leases is as follows:

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

Years Ending December 31,	Principal	Interest	Total
2026	\$ 831,893	\$ 218,825	\$ 1,050,718
2027	621,945	163,593	785,538
2028	571,387	130,036	701,423
2029	539,790	102,228	642,018
2030	319,952	78,748	398,700
2031-2035	1,456,244	175,376	1,631,620
	<u>\$ 4,341,211</u>	<u>\$ 868,806</u>	<u>\$ 5,210,017</u>

Note 11 – Subscription-Based Information Technology Arrangements

A summary of the SBITA asset and liability activity during the years ended December 31, 2025 and 2024, is as follows:

	Balance at December 31, 2024	Additions	Deductions	Balance at December 31, 2025	Amounts Due Within One Year
SBITA assets - software	\$ 1,350,511	\$ 616,156	\$ (255,676)	\$ 1,710,991	
Less accumulated amortization	(563,486)	(390,074)	255,676	(697,884)	
Total SBITA assets, net	<u>\$ 787,025</u>	<u>\$ 226,082</u>	<u>\$ -</u>	<u>\$ 1,013,107</u>	
SBITA liabilities	<u>\$ 782,782</u>	<u>\$ 616,156</u>	<u>\$ (347,720)</u>	<u>\$ 1,051,218</u>	<u>\$ 393,750</u>

	Balance at December 31, 2023	Additions	Deductions	Balance at December 31, 2024	Amounts Due Within One Year
SBITA assets - software	\$ 1,036,771	\$ 313,740	\$ -	\$ 1,350,511	
Less accumulated amortization	(234,583)	(328,903)	-	(563,486)	
Total SBITA assets, net	<u>\$ 802,188</u>	<u>\$ (15,163)</u>	<u>\$ -</u>	<u>\$ 787,025</u>	
SBITA liabilities	<u>\$ 822,912</u>	<u>\$ 313,740</u>	<u>\$ (353,870)</u>	<u>\$ 782,782</u>	<u>\$ 319,549</u>

A summary of the principal and interest amounts for the remaining SBITA is as follows:

Years Ending December 31,	Principal	Interest	Total
2026	\$ 393,750	\$ 42,200	\$ 435,950
2027	344,179	24,578	368,757
2028	140,483	13,020	153,503
2029	138,446	5,851	144,297
2030	34,360	401	34,761
	<u>\$ 1,051,218</u>	<u>\$ 86,050</u>	<u>\$ 1,137,268</u>

Public Hospital District No. 4, King County, Washington

Notes to Financial Statements

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 of 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.

The District’s Medicaid and Medicare government reimbursement programs account for a substantial amount of the District’s net patient service revenue. Currently, expenditure reduction efforts and budget concerns within the United States and Washington legislatures have created uncertainty over the level of future health care funding. Ongoing discussions and proposals within Congress, including those pertaining to the “One Big Beautiful Act” (H.R. 1), could lead to modifications in existing programs, funding mechanisms, or reimbursement rates. This bill is estimated to reduce federal Medicaid and Medicare by hundreds of billions of dollars over the next decade, impose new work requirements for many adult Medicaid and Medicare enrollees, require more frequent eligibility redeterminations, and mandate new cost-sharing requirements. Experts project that these changes could lead to millions of people losing their Medicaid or Medicare coverage. The ultimate impact of any such change on the District cannot be determined at this time, but they could materially affect its future operations and financial results.

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, and \$2,000,000 of excess liability coverage. 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, 2025, 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 12, 2026.

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.

Baker Tilly US, LLP

Everett, Washington
May 12, 2026

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