



REPORTS OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

**PUBLIC HOSPITAL DISTRICT NO. 4,  
KING COUNTY, WASHINGTON**

December 31, 2020 and 2019

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Management’s Discussion and Analysis</b>	3–9
<b>Financial Statements</b>	
Statements of net position	10
Statements of revenues, expenses, and changes in net position	11
Statements of cash flows	12–13
Notes to financial statements	14–27
<b>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 <i>Government Auditing Standards</i></b>	28–29

## Report of Independent Auditors

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Public Hospital District No. 4, King County, Washington (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 4, King County, Washington, as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Notes 2 and 10 to the financial statements, in 2020 the District adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

**Other Matter***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in the 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 21, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the District'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 the District's internal control over financial reporting and compliance.

*Morse Adams LLP*

Everett, Washington  
May 21, 2021

# 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.

The District completed its fifth year in its new facility in 2020 after relocating in May 2015.

The District implemented two programs in 2019 to improve our long-term financial results. The two new programs produced mixed results in 2020 due to the COVID-19 Pandemic.

- **Expansion of Lab Services.** The District's partnership with Sound Medical Labs began in the third quarter of 2019. Lab Services gross revenues increased by 2.7 million dollars over 2019 lab revenues. Volumes in the lab department doubled.
- **Addition of Sleep Lab Services.** The District initiated sleep study and sleep clinic services in the third quarter of 2019. The District estimated a \$200,000 financial benefit for the program; however, The District's response to the COVID-19 Pandemic required closing the Sleep Lab program from April 2020 through August 2020. The annual gross revenue totaled less than \$138,000. Although the lab reopened in August, it produced no revenue from September through December 2020.

## Operational Highlights

### 2020 Activities and COVID-19 Pandemic Effect

- **First Quarter 2020 Challenges.** January and February inpatient census was 45% below budget. Referring facilities limited their inpatient admissions in anticipation of a prolonged nursing strike. Inpatient days began to rebound in March after the strike's conclusion, along with the increased hospitalizations due to the COVID-19 Pandemic.
- **COVID-19 Pandemic:** COVID-19 impacted the outpatient volumes dramatically in 2020. The Endoscopy Unit was shuttered to provide negative pressure rooms for respiratory patients, Sleep Lab was shut down and has not recovered, Emergency Department volumes are down 20%, and Imaging, Outpatient Rehab, Infusion and Wound, and Clinic volumes were all down 15% or more during 2020.
- **COVID-19 Testing:** The District implemented drive-through COVID testing in the community in April of 2020. The program provided over 10,000 tests in 2020, which generated almost \$850,000 in gross revenue.
- **CARES FUNDS:** In April and May 2020, The District obtained the following funds to maintain a capable workforce during the Pandemic, renovate areas of the hospital to accommodate COVID 19 patients, and secure its cash position.
  - The District secured \$3,965,000 in PPP funds from the SBA program.
  - The District received \$5,353,000 in CARES funding through the Provider Relief Fund.
  - The District obtained an \$11,028,000 advance from CMS.

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

---

### Operational Highlights (continued)

- 2011 Bond Refinance:** In October 2020, The District refinanced \$15,360,000 in principal bond funds. The refunding lowered the interest rate resulting in an annual cash flow savings of \$368,000 with a total cash flow savings of \$7,723,000 over the life of the 20-year bond.
- SVH-Overlake Management Services Agreement:** In March 2019, the District entered into a letter of intent with Overlake Medical Center for Overlake's lease and operation of the District's Snoqualmie Valley Hospital. Due to the COVID-19 Pandemic and its effects on hospital operations throughout Puget Sound, the District and Overlake negotiated a management services agreement for Snoqualmie Valley Hospital Emergency Department. The contract went into effect on December 15, 2020. The District anticipates an increase in Emergency Room revenues of \$2,000,000 in 2021.

### Patient Volumes

Patient volumes compared to budget for 2020 are shown below:

<u>Business Line</u>	<u>Patient Volumes Budget January Through December 2020</u>	<u>Patient Volumes Actual January Through December 2020</u>	<u>Percentage Change</u>
Inpatient days	8,172	8,387	2.6%
Emergency room visits	4,003	3,200	-20.1%
Outpatient service visits	792	483	-39.0%
Rehab inpatient procedures	21,907	24,064	9.8%
Rehab outpatient procedures	9,727	8,068	-17.1%
Laboratory tests	44,521	103,486	132.4%
Imaging procedures	4,336	4,048	-6.6%
Clinic visits	18,372	18,170	-1.1%

Inpatient Days and Inpatient Rehab procedures increased due to increased hospitalizations region-wide due to the COVID-19 Pandemic.

Lab volumes increased due to COVID 19 testing and reference lab services. All other outpatient services decreased due to the COVID-19 Pandemic.

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

---

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net operating revenue	\$ 37,876,639	\$ 37,473,898	\$ 34,241,961
Nonoperating income	6,773,781	3,565,298	3,404,436
	<u>44,650,420</u>	<u>41,039,196</u>	<u>37,646,397</u>
Total operating expenses	39,290,500	35,031,254	32,619,578
Nonoperating expense	6,098,471	5,680,269	5,678,146
	<u>45,388,971</u>	<u>40,711,523</u>	<u>38,297,724</u>
Change in net position	(738,551)	327,673	(651,327)
Net position, beginning of year	<u>(20,044,979)</u>	<u>(20,372,652)</u>	<u>(19,721,325)</u>
Net position, end of year	<u>\$ (20,783,530)</u>	<u>\$ (20,044,979)</u>	<u>\$ (20,372,652)</u>

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

**Operating Revenue**

Operating revenue increased by 1% from 2019 to 2020. The increase was due to increased inpatient census and lab service line increases. Revenues were down 12% in clinic services and 20% in the Emergency Department due to decreased volumes during the quarantine of the COVID19 Pandemic.

**Operating Expenses**

Operating expenses increased by 12% in 2020 compared to 2019. The increase was due to:

- Wage increases of 8%—the result of salary increases for District staff and growth in the total staffing from 212 employees to 300 employees due to extra staff required for COVID19 response.
- Professional fees increase of 174%—the result of increased agency services for med surge coverage, COVID-19 staffing, and SML Lab Services.
- Supplies increases of 10%—the result of the expense associated with COVID-19 PPE supplies and rise in inpatient volumes.
- Purchased services expenses were 34% above the prior year due to expanding lab services and sleep clinic services.
- Bank fees and interest expense increased 2% due to refinancing charges of the 2011 bonds.

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

---

### Change in Net Position

The net position decrease in 2020 was due to lower outpatient revenues and higher expenses related to the COVID-19 Pandemic. The Endoscopy unit was closed to house respiratory patients from April 2020 through October 2020. Sleep Clinic utilization was inconsistent. The ED departments, Imaging, Rehabilitation, and Clinics experienced at least one month in 2020 with a 50% or more decrease in revenue and patient volume.

### Balance Sheet

	2020	2019	2018
<b>ASSETS</b>			
Current assets	\$ 34,336,813	\$ 16,578,299	\$ 15,754,632
Capital assets, net	50,159,738	51,807,045	55,011,500
Other noncurrent assets	8,978,977	8,084,923	6,339,765
	<u>93,475,528</u>	<u>76,470,267</u>	<u>77,105,897</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,641,411</u>	<u>635,711</u>	<u>675,855</u>
	<u>\$ 95,116,939</u>	<u>\$ 77,105,978</u>	<u>\$ 77,781,752</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 13,193,637	\$ 6,373,084	\$ 6,293,860
Noncurrent liabilities	102,706,832	90,777,873	91,860,544
	<u>115,900,469</u>	<u>97,150,957</u>	<u>98,154,404</u>
<b>NET POSITION</b>			
Net investment in capital assets	610,618	2,719,792	5,312,297
Restricted expendable for debt service	9,016,749	8,510,309	7,831,483
Unrestricted	<u>(30,410,897)</u>	<u>(31,275,080)</u>	<u>(33,516,432)</u>
	<u>(20,783,530)</u>	<u>(20,044,979)</u>	<u>(20,372,652)</u>
	<u>\$ 95,116,939</u>	<u>\$ 77,105,978</u>	<u>\$ 77,781,752</u>



## **Public Hospital District No. 4, King County, Washington Management's Discussion and Analysis (continued)**

---

### **Commentary on Balance Sheet**

#### **Current Assets**

Current assets increased due to CARES Funds, PPP Loan, CMS Advance.

#### **Current Liabilities**

Current liabilities increased due to carry over CARES Funds, and the current portion of CMS Advance.

#### **Long-Term Debt**

Long-term debt increased due to CMS Advanced Payment, and PPP Loan held until 100% forgiveness in 2021.

#### **Net Investment in Capital Assets**

Net investment in capital assets decreased in 2020 due to accumulated depreciation being higher than the purchase of capital assets in 2020.

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

## Management's Discussion and Analysis (continued)

---

### 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

<b>Coverage Requirement</b>	<b>DECEMBER 2020</b> Amount
Change in net position	\$ (738,551)
Add	
Interest expense	5,671,527
Depreciation and amortization expense	4,144,885
	<u>9,816,412</u>
Less	
Taxation for bond principal and interest	(3,424,503)
Available for debt service	<u>\$ 5,653,358</u>
Maximum annual debt service	<u>\$ 3,675,188</u>
Actual Coverage Ratio	<u>1.54</u>
Coverage Requirement	<u>1.20</u>
Available for debt service required by covenant	<u>\$ 4,410,226</u>
<b>Reserve Requirement For the Bonds</b>	
Max annual debt service on all bonds	\$ 3,675,188
125% of average annual debt service	4,492,886
10% of proceeds on all bonds	5,007,500
Reserve Requirement	<u>\$ 3,675,188</u>
Hospital reserve fund	<u>3,675,188</u>
<b>Liquidity Requirement for the Bonds</b>	
Cash and cash equivalents	<u>\$ 22,668,120</u>
Total operating expenses	\$ 39,290,500
Less depreciation and amortization expense	4,144,885
	<u>\$ 35,145,615</u>
Days cash on hand	<u>235.42</u>
Liquidity Requirement for Bond Covenant	<u>60.00</u>
Cash and cash equivalents required for bond covenants	<u>\$ 5,777,361</u>

## **Public Hospital District No. 4, King County, Washington Management's Discussion and Analysis (continued)**

---

### **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.

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

## Statements of Net Position

### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2020	2019
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 22,668,120	\$ 6,520,705
Assets limited as to use required for current liabilities	2,195,161	2,048,551
Patient accounts receivable, net of allowances for doubtful accounts of \$895,235 in 2020 and \$188,769 in 2019	7,392,875	7,313,370
Other receivables	1,411,079	237,796
Estimated third-party payor settlements	391,000	264,571
Inventory	278,578	193,306
Total current assets	<u>34,336,813</u>	<u>16,578,299</u>
ASSETS LIMITED AS TO USE, net of current portion	<u>7,246,674</u>	<u>6,882,063</u>
INTANGIBLE RIGHT TO USE LEASE, net of accumulated amortization	<u>1,732,303</u>	<u>1,202,860</u>
<b>CAPITAL ASSETS</b>		
Land	14,631,178	14,631,178
Depreciable capital assets, net of accumulated depreciation and amortization	<u>35,528,560</u>	<u>37,175,867</u>
Total capital assets, net of accumulated depreciation and amortization	<u>50,159,738</u>	<u>51,807,045</u>
Total assets	<u>93,475,528</u>	<u>76,470,267</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	<u>1,641,411</u>	<u>635,711</u>
Total assets and deferred outflows of resources	<u>\$ 95,116,939</u>	<u>\$ 77,105,978</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,012,267	\$ 1,313,864
Accrued compensation and related liabilities	1,856,945	2,343,514
Accrued interest payable	375,161	323,240
Other current liabilities	2,370,778	-
Current portion of lease liability	594,486	797,466
Current portion of advance Medicare payments	4,164,000	-
Current maturities of long-term debt	<u>1,820,000</u>	<u>1,595,000</u>
Total current liabilities	13,193,637	6,373,084
LEASE LIABILITY, net of current portion	1,178,793	438,316
ADVANCE MEDICARE PAYMENTS, net of current portion	6,863,886	-
PAYCHECK PROTECTION PROGRAM LOAN	3,965,000	-
LONG-TERM DEBT, net of current maturities	<u>90,699,153</u>	<u>90,339,557</u>
Total liabilities	<u>115,900,469</u>	<u>97,150,957</u>
<b>NET POSITION</b>		
Net investment in capital assets	610,618	2,719,792
Restricted expendable for debt service	9,016,749	8,510,309
Unrestricted	<u>(30,410,897)</u>	<u>(31,275,080)</u>
Total net position	<u>(20,783,530)</u>	<u>(20,044,979)</u>
	<u>\$ 95,116,939</u>	<u>\$ 77,105,978</u>

**Public Hospital District No. 4, King County, Washington**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	Years Ended December 31,	
	2020	2019
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$513,523 in 2020 and \$555,908 in 2019)	\$ 36,640,225	\$ 36,454,490
Taxation for operations	580,608	584,379
Other	655,806	435,029
Total operating revenues	<u>37,876,639</u>	<u>37,473,898</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	19,381,198	18,000,879
Employee benefits	3,948,041	3,951,303
Professional fees	3,166,169	1,155,073
Supplies	3,037,649	2,773,565
Repairs and maintenance	253,800	123,170
Utilities	494,988	437,930
Purchased services	3,194,745	2,391,088
Insurance	169,966	124,768
Depreciation and amortization	4,144,885	4,335,214
Other	1,499,059	1,738,264
Total operating expenses	<u>39,290,500</u>	<u>35,031,254</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,413,861)</u>	<u>2,442,644</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Investment income	124,608	176,573
Taxation for bond principal and interest	3,424,503	3,294,038
Interest expense	(5,671,527)	(5,571,112)
Issuance and financing costs	(426,944)	(109,157)
Provider Relief Funds and other	3,224,670	94,687
Nonoperating income (expense), net	<u>675,310</u>	<u>(2,114,971)</u>
<b>CHANGE IN NET POSITION</b>	(738,551)	327,673
<b>NET POSITION, beginning of year, as restated</b>	<u>(20,044,979)</u>	<u>(20,372,652)</u>
<b>NET POSITION, end of year</b>	<u>\$ (20,783,530)</u>	<u>\$ (20,044,979)</u>

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

## Statements of Cash Flows

### Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from and on behalf of patients	\$ 36,434,291	\$ 32,904,241
Cash paid to employees	(25,186,268)	(21,527,822)
Cash paid to suppliers	(11,203,245)	(8,302,868)
Cash received from advance Medicare payments	11,027,886	-
Other cash receipts	655,806	435,029
Net cash from operating activities	11,728,470	3,508,580
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash from tax levies considered a noncapital financing activity	580,608	584,379
Cash received from Provider Relief Funds	5,353,525	-
Cash received from Paycheck Protection Program Loan	3,965,000	-
Other	439,100	94,687
Net cash from noncapital financing activities	10,338,233	679,066
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(1,544,591)	(93,860)
Cash from tax levies for general obligation bonds	3,396,725	3,305,995
Proceeds from long-term debt	17,456,000	-
Principal payments on long-term debt	(1,580,417)	(1,440,000)
Interest paid on long-term debt	(5,937,393)	(5,447,500)
Payments for refunding of 2011 LGTO bonds	(16,405,844)	-
Payments on lease liability	(944,933)	(1,003,977)
Net cash used in capital and related financing activities	(5,560,453)	(4,679,342)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	124,608	176,573
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	16,630,858	(315,123)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	15,380,341	15,695,464
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 32,011,199	\$ 15,380,341
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	\$ 22,668,120	\$ 6,520,705
Cash and cash equivalents in assets whose use is limited	9,343,079	8,859,636
	\$ 32,011,199	\$ 15,380,341

**Public Hospital District No. 4, King County, Washington**  
**Statements of Cash Flows (continued)**

---

**Increase (Decrease) in Cash and Cash Equivalents**

	Years Ended December 31,	
	2020	2019
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating (loss) income	\$ (1,413,861)	\$ 2,442,644
Adjustments to reconcile operating income to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(580,608)	(584,379)
Depreciation and amortization	4,144,885	4,335,214
Provision for bad debts	513,523	555,908
Change in assets and liabilities		
Patient accounts receivable	(593,028)	(1,965,135)
Other receivables	(1,370,460)	40,181
Inventory	(85,272)	(59,428)
Estimated third-party payor settlements	(126,429)	(2,141,022)
Accounts payable	698,403	500,418
Accrued compensation and related liabilities	(486,569)	384,179
Advance Medicare payments	11,027,886	-
	11,027,886	-
Net cash from operating activities	\$ 11,728,470	\$ 3,508,580

# 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.

**Change in accounting principles and restatement** – In 2020, the District implemented GASB Statement No. 87 *Leases*. GASB 87 enhances the relevance and consistency of information of the District's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the District's 2020 financial statements and had an effect on the beginning net position of the District. The District recognized \$2,206,837 in a lease liability at January 1, 2019, due to the implementation of GASB 87; however, this entire amount was offset by an intangible right to use lease asset.

The implementation of GASB 87 had the following effect on net position as reported December 31, 2019:

Net position at December 31, 2019, as previously reported	\$ (20,012,057)
GASB 87 Leases	<u>(32,922)</u>
Net position at December 31, 2019, as restated	<u><u>\$ (20,044,979)</u></u>

**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.



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

## Notes to Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

**Patient accounts receivable** – Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility 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.

**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.

**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

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

## Notes to Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

**Risk management** – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and 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 2020 and 2019 measured by the District's standard charges was approximately \$310,000 and \$885,000, respectively.

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

### Notes to Financial Statements

---

#### Note 2 – Summary of Significant Accounting Policies (continued)

**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.

**Reclassifications** – Changes have been made to prior year account classifications as needed to conform to the current year presentation.

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of net position date but before financial statements are available to be issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position but arose after the statement of net position date and before the financial statements are available to be issued.

The District has evaluated subsequent events through May 21, 2021, which is the date the financial statements are issued.

#### 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 \$26,916,000 and \$25,554,000 for 2020 and 2019, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$4,865,000 and \$4,891,000 in 2020 and 2019, 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 \$2,710,000 and \$3,289,000 for 2020 and 2019, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$420,000 and \$492,000 in 2020 and 2019, respectively.

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

### Notes to Financial Statements

---

#### Note 3 – Net Patient Service Revenue (continued)

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2020 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, 2017.

**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:

	<u>2020</u>	<u>2019</u>
Gross patient service charges	\$ 54,164,685	\$ 53,651,129
Adjustments to patient service charges		
Contractual discounts	16,700,895	15,755,858
Provision for bad debts	513,523	555,908
Charity care	<u>310,042</u>	<u>884,873</u>
	<u>17,524,460</u>	<u>17,196,639</u>
Net patient service revenue	<u>\$ 36,640,225</u>	<u>\$ 36,454,490</u>

#### 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

---

#### Note 4 – Deposits and Investments (continued)

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:

	2020	2019
Cash and cash equivalents		
Investment in King County Investment Pool	\$ 22,668,120	\$ 6,520,705
Assets whose use is limited		
Board and other restricted funds		
Investment in King County Investment Pool	424,404	419,623
Taxes receivable	682	682
LTGO Bond Fund		
Investment in King County Investment Pool	5,243,487	4,764,825
Taxes receivable	98,074	70,296
Revenue Bond Fund		
Cash and cash equivalents	3,675,188	3,675,188
	9,441,835	8,930,614
Total deposits and investments	\$ 32,109,955	\$ 15,451,319

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

---

#### Note 4 – Deposits and Investments (continued)

**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 is not exposed to interest rate risk.

#### 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, 2020 and 2019, were 99.73% and 99.72% 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, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2020 and 2019, the District's regular tax levy was \$0.37 and \$0.38 per \$1,000 on a total assessed valuation of \$10,852,032,197 and \$10,212,253,149, respectively, for a total regular levy of \$3,982,030 and \$3,853,089, 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, 2020 and 2019, were as follows:

	Balance, December 31, 2019	Additions	Retirements	Transfers	Balance, December 31, 2020
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Total nondepreciable capital assets	14,631,178	-	-	-	14,631,178
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	11,955,883	17,910	-	-	11,973,793
Buildings and improvements	32,029,212	421,498	-	-	32,450,710
Equipment	12,423,254	1,105,183	-	-	13,528,437
<b>LESS ACCUMULATED DEPRECIATION</b>					
Buildings and improvements	(12,278,334)	(2,349,774)	-	-	(14,628,108)
Equipment	(6,954,148)	(842,124)	-	-	(7,796,272)
Depreciable capital assets, net	37,175,867	(1,647,307)	-	-	35,528,560
Capital assets, net	<u>\$ 51,807,045</u>	<u>\$ (1,647,307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,159,738</u>
	Balance, December 31, 2018	Additions	Retirements	Transfers	Balance, December 31, 2019
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Total nondepreciable capital assets	14,631,178	-	-	-	14,631,178
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	11,955,883	-	-	-	11,955,883
Buildings and improvements	32,029,212	-	-	-	32,029,212
Equipment	12,329,394	93,860	-	-	12,423,254
<b>LESS ACCUMULATED DEPRECIATION</b>					
Buildings and improvements	(9,834,005)	(2,444,329)	-	-	(12,278,334)
Equipment	(6,100,162)	(853,986)	-	-	(6,954,148)
Depreciable capital assets, net	40,380,322	(3,204,455)	-	-	37,175,867
Capital assets, net	<u>\$ 55,011,500</u>	<u>\$ (3,204,455)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,807,045</u>

Depreciation expense for the years ended December 31, 2020 and 2019, was \$3,191,898 and \$3,298,315, 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, 2020 and 2019, for the District consisted of the following:

	<u>2020</u>	<u>2019</u>
Bonds refunded in 2020	\$ -	\$ 15,360,000
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 \$860,000 to \$2,880,000, net of unamortized discount of \$502,900 and \$530,838.	29,737,100	30,479,162
Revenue bonds, series 2015, 5.00% to 6.25%, due semiannually on June 1 and December 1, maturing in 2045, with annual amounts ranging from \$880,000 to \$3,455,000, net of unamortized discount of \$1,026,851 and \$1,067,926.	45,326,053	46,095,395
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 \$80,000 to \$4,145,000, beginning in 2021.	16,490,000	-
Note payable to Overlake Hospital Medical Center bearing interest of 2.17%. If the terms of the note are met, the note is forgiven in full in December 2023.	<u>966,000</u>	<u>-</u>
	92,519,153	91,934,557
Less current portion	<u>(1,820,000)</u>	<u>(1,595,000)</u>
	<u>\$ 90,699,153</u>	<u>\$ 90,339,557</u>

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.

During 2015, the District issued the 2015 limited tax general obligation and refunding bonds to carry out a tax-exempt refunding of the 2005A limited tax general obligation and refunding bonds, as well as the 2009 limited tax general obligation bonds. The refunding resulted in the recognition of an accounting loss of \$857,506, which was deferred and will be amortized over the life of the 2005A and 2009 bonds, which were set to mature in 2025 and 2038, respectively, and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by \$6,778,000 over the next 23 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$4,061,000.



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

### Notes to Financial Statements

#### Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

During 2020, the District issued the 2020 limited tax general obligation and refunding bonds to carry out a tax-exempt refunding of the 2011 limited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of \$1,045,844, which was deferred and will be amortized over the life of the 2011 bonds, which were set to mature in 2040, and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by \$7,7230,000 over the next 20 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$5,517,000. If certain conditions are met, on September 3, 2021, a portion of the LTGO bond, a taxable bond, will convert to a tax exempt bond with an interest rate of 3.25%. If conditions are not met, a portion of the taxable bond remains outstanding, with an interest rate of 4.12% until such time that the conversion occurs or until maturity thereof.

Changes in the District's long-term liabilities during the years ended December 31, 2020 and 2019, are summarized below:

	Balance, December 31, 2019	Additions	Reductions	Balance, December 31, 2020	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ -	\$ 16,490,000	\$ -	\$ 16,490,000	\$ 80,000
2015 Revenue bonds	46,095,395	-	(769,342)	45,326,053	880,000
2015 LTGO bonds	30,479,162	-	(742,062)	29,737,100	860,000
2011 LTGO bonds	15,360,000	-	(15,360,000)	-	-
Note payable	-	966,000	-	966,000	-
	<u>\$ 91,934,557</u>	<u>\$ 17,456,000</u>	<u>\$ (16,871,404)</u>	<u>\$ 92,519,153</u>	<u>\$ 1,820,000</u>
Total noncurrent liabilities					
	<u>\$ 91,934,557</u>	<u>\$ 17,456,000</u>	<u>\$ (16,871,404)</u>	<u>\$ 92,519,153</u>	<u>\$ 1,820,000</u>
	Balance, December 31, 2018	Additions	Reductions	Balance, December 31, 2019	Amounts Due Within One Year
Bonds payable					
2015 Revenue bonds	\$ 46,834,321	\$ -	\$ (738,926)	\$ 46,095,395	\$ 830,000
2015 LTGO bonds	31,111,223	-	(632,061)	30,479,162	765,000
2011 LTGO bonds	15,360,000	-	-	15,360,000	-
	<u>\$ 93,305,544</u>	<u>\$ -</u>	<u>\$ (1,370,987)</u>	<u>\$ 91,934,557</u>	<u>\$ 1,595,000</u>
Total noncurrent liabilities					
	<u>\$ 93,305,544</u>	<u>\$ -</u>	<u>\$ (1,370,987)</u>	<u>\$ 91,934,557</u>	<u>\$ 1,595,000</u>

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

## Notes to Financial Statements

### Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

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

	2015 LTGO Bonds		2015 Revenue Bonds		2020 Refunding Bonds		Note Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 860,000	\$ 1,495,950	\$ 880,000	\$ 2,791,625	\$ 80,000	\$ 669,212	\$ -	\$ -	\$ 1,820,000	\$ 4,956,787
2022	885,000	1,452,950	930,000	2,741,375	105,000	634,463	-	-	1,920,000	4,828,788
2023	980,000	1,408,813	980,000	2,694,875	120,000	630,311	966,000	-	3,046,000	4,733,999
2024	980,000	1,362,250	1,025,000	2,645,875	240,000	625,584	-	-	2,245,000	4,633,709
2025	965,000	1,319,513	1,080,000	2,594,625	380,000	616,218	-	-	2,425,000	4,530,356
Amounts due 2026 - 2030	7,160,000	5,730,750	6,345,000	12,014,563	1,730,000	2,891,344	-	-	15,235,000	20,636,657
Amounts due 2031 - 2035	10,310,000	3,643,000	8,435,000	9,926,138	3,105,000	2,453,642	-	-	21,850,000	16,022,780
Amounts due 2036 - 2040	8,100,000	828,000	11,355,000	7,015,000	10,730,000	1,612,636	-	-	30,185,000	9,455,636
Amounts due 2041 - 2045	-	-	15,322,904	2,996,563	-	-	-	-	15,322,904	2,996,563
									94,048,904	\$ 72,795,275
										1,529,751
										\$ 92,519,153

Less amount representing unamortized discount

Annual debt service is calculated assuming conversion of the 2020 Direct placement LTGO refunding bond to tax-exempt bonds.

### 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 Internal Revenue Code (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 CPI Qualified Plan Consultants, Inc., 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 \$183,594 and \$177,567 in 2020 and 2019, 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 CPI Qualified Plan Consultants, Inc., is limited to its annual contribution. The District's contributions to the employee benefit plan totaled \$156,034 and \$144,309 in 2020 and 2019, respectively. Contributions made by employees to the benefit plan totaled approximately \$901,534 and \$882,098 in 2020 and 2019, 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:

	2020	2019
Medicare	48%	45%
Medicaid	9%	6%
Other commercial	36%	40%
Patient and self-pay	7%	9%
	100%	100%

#### Note 10 – Commitments and Contingencies

**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, 2020:

	Principal	Interest
2021	\$ 594,486	\$ 89,521
2022	443,308	57,027
2023	321,350	34,561
2024	281,152	17,103
2025	132,983	2,361
	\$ 1,773,279	\$ 200,573

**Intangible right to use lease** – The District reported \$952,987 and \$1,003,977 as amortization expense on the statements of revenues, expenses and changes in net position in 2020 and 2019, respectively. Accumulated amortization was \$1,956,964 and \$1,003,977 in 2020 and 2019, 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.

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

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

### Notes to Financial Statements

---

#### Note 10 – Commitments and Contingencies (continued)

**Compliance with laws and regulations** – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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

#### Note 11 – COVID-19 Pandemic

**Current economic outlook** – The global crisis resulting from the spread of COVID-19 had a substantial impact on healthcare operations throughout the country during the year ended December 31, 2020. Management cannot currently estimate the duration or the future impact of the COVID-19 pandemic on the District; neither are they able to predict how the pandemic will evolve nor how various government entities will respond to its evolution. Although the District managed the challenges of COVID-19 through 2020, it could be impacted by future COVID-19 events, including government orders, required scaling back of elective procedures, or limited staff and supply resources. Such material adverse impacts from the COVID-19 pandemic could result in reduced future revenue and cash flow.

**Medicare advance payments** – The District applied for and received \$11,027,886 under the Accelerated Payment Program, administered by the Centers for Medicare and Medicaid Services (CMS). This amount is treated as an advance liability bearing no interest and with a recoupment period that was originally scheduled to begin 120 days following receipt of the accelerated payments. On September 30, 2020, a new funding bill was enacted, which delayed recoupment of such funds. The recently finalized funding bill now gives companies one year before Medicare can claim payments to repay the advance payments. Additionally, the measure lowers the interest rate on outstanding payments after the 29-month period from 10.25% to 4.00%. Recoupment began in April 2021 and the District will have 29 months from that point to fully repay the advance if it is not recouped by Medicare. The District has included \$4,164,000 in current liabilities and \$6,863,886 in long-term liabilities within the statement of net position.

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

### Notes to Financial Statements

---

#### **Note 11 – COVID-19 Pandemic (continued)**

**Provider relief funding** –The District received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of \$5,353,525. The District has recognized \$2,982,747 of the total received as nonoperating revenue with the remaining proceeds included in other current liabilities within the statement of net position. The District was required to agree to the terms and conditions associated with the funds. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for expenses or lost revenue attributable to COVID-19. Also, anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. HHS may issue more specific guidance in the future on how the lost revenue and expenses should be calculated, which may result in modification to management's estimates in future periods.

#### **Note 12 – Paycheck Protection Program Loan**

In April 2020, the District received loan proceeds of \$3,965,000 under the Paycheck Protection Program (the PPP Loan). The Paycheck Protection Program (PPP) was established as part of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and is administered by the U.S. Small Business Administration (SBA). The PPP Loan to the District was made through Northwest Bank.

The original term of the PPP Loan was two years. The annual interest rate on the PPP Loan is 1.0%. Payments of principal and interest on the loan are deferred for the first six months of the term of the loan, as well as through any loan forgiveness application period. The promissory note evidencing the PPP Loan contains customary events of default relating to, among other things, payment defaults, breach of representations and warranties, or provisions of the promissory note. The occurrence of an event of default may trigger the immediate repayment of all amounts outstanding, collection of all amounts owing from the District, and/or filing suit and obtaining a judgement against the District.

Under the terms of the CARES Act, PPP Loan recipients may apply for and be granted forgiveness for all or a portion of the loans granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of the loan proceeds for payroll costs and mortgage interest, rent or utility costs, and the maintenance of employee and compensation levels. At the end of November 2020, the District applied for forgiveness of its total PPP Loan balance through Northwest Bank. In April 2021, the District received notification that the PPP Loan was fully forgiven.

## **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***

To 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 (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 21, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

*Morse Adams LLP*

Everett, Washington  
May 21, 2021

