



REPORTS OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS

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

December 31, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, and the changes in financial position and, where applicable, cash flows thereof 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 4 through 10 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 20, 2022, 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.

*Morse Adams LLP*

Everett, Washington  
May 20, 2022

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

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## 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 sixth year in its new facility in 2021 after relocating in May 2015.

The District implemented an Emergency Department Management Agreement with Overlake Medical Center and contracted with a new ED Physician Group, Puget Sound Physicians, in December of 2020 to improve quality and revenue.

- **ED Management Agreement Effect** The District's partnership with Overlake Medical Center began in the fourth quarter of 2020. The District's 2021 ED gross revenues increased by 2.7 million dollars over 2020 ED revenues, and additional imaging revenues increased by \$3,000,000 over 2020. While we did not hit the 2021 budgeted volume target, the District did see 500 more Emergency Room patients in 2021.
- **Executive Team Changes** In December 2020, the District hired a new CEO, Renee Jensen. In March 2021, the District hired a new Chief Medical Officer, Dr. Rachel Thompson, and in July 2021, the District hired Dr. Tammy Moore as Vice President of Strategic Initiatives. Renee led the executive staff and the District through a six-month strategic planning initiative, and the District began implementing the strategic plan in August 2021. The Strategic Plan focuses on five areas Financial Stewardship, Foundational Elements, Health System of Choice, People, and Community Health Needs.

## Operational Highlights

### COVID-19 Pandemic Effect 2021

- **COVID-19 Vaccines:** The District established a Drive-Thru Vaccine and Mobile Vaccine department. In May 2021, the District signed a contract with King County Public Health to become a Mass Vaccination site. Reimbursement from King County for the expenses related to the Mass Vaccination will occur in 2022. The District provided 26,178 vaccines in 2021.
- **Paycheck Protection Program (PPP) Loan Forgiveness:** In April 2021, the District received final approval of the PPP Loan forgiveness of \$3,965,000.
- **Sleep Lab:** The Sleep Lab clinic did not fully recover from the mandatory shut down of elective procedures in 2020. In April 2021, the District discontinued the Sleep Lab service line.
- **COVID-19 Testing:** The District continued drive-through COVID-19 testing in the community in 2021. The District performed over 10,900 tests in 2021.

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

## Management's Discussion and Analysis (continued)

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### Operational Highlights (continued)

- **Coronavirus Aid, Relief, and Economic Security Act (CARES) Funds:**
  - ◆ The District received \$5,353,000 in CARES funding through the Provider Relief Fund in 2020. The funds were used per HRSA guidelines and expended by June 30, 2021. The District attested for the use of the funds via the HRSA portal in September 2021.
  - ◆ The District obtained an \$11,028,000 advance from the Centers for Medicare and Medicaid Services (CMS) in April 2020. The District began repayment of the advance in April 2021. Total remuneration is expected by the 29th-month deadline in August 2022.
  - ◆ In November and December 2021, The District received an additional total of \$650,000 of Phase 4 Provider Relief Funds for Rural Health Incentive and revenue shortfalls in 2020.

### Patient Volumes

Patient volumes compared to 2020 actuals are shown below:

Business Line	Patient Volumes Actual January Through December 2021	Patient Volumes Actual January Through December 2020	Percentage Change
Inpatient days	8,520	8,172	4.1%
Emergency room visits	4,243	4,003	5.7%
Outpatient service visits	753	792	-5.2%
Rehab inpatient procedures	29,277	21,907	25.2%
Rehab outpatient procedures	9,024	9,727	-7.8%
Laboratory tests	118,663	44,521	62.5%
Imaging procedures	5,320	4,336	18.5%
Clinic visits	24,258	18,372	24.3%

Inpatient days and inpatient rehab procedures increased due to increased hospitalizations region-wide due to the COVID-19 Pandemic.

Outpatient services decreased due to closure of Sleep Lab Clinic, and shortage of Endoscopy visits versus 2021 projections.

Lab volumes increased due to COVID-19 testing and reference lab services. Imaging and ED visits increased due to the implementation of the Puget Sound Physician as the District's emergency room provider group.

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

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net operating revenue	\$ 43,885,293	\$ 37,876,639	\$ 37,473,898
Nonoperating income	<u>10,932,855</u>	<u>6,773,781</u>	<u>3,565,298</u>
	<u>54,818,148</u>	<u>44,650,420</u>	<u>41,039,196</u>
Total operating expenses	44,624,679	39,290,500	35,031,254
Nonoperating expense	<u>5,287,556</u>	<u>6,098,471</u>	<u>5,680,269</u>
	<u>49,912,235</u>	<u>45,388,971</u>	<u>40,711,523</u>
Change in net position	4,905,913	(738,551)	327,673
Net position, beginning of year	<u>(20,783,530)</u>	<u>(20,044,979)</u>	<u>(20,372,652)</u>
Net position, end of year	<u>\$ (15,877,617)</u>	<u>\$ (20,783,530)</u>	<u>\$ (20,044,979)</u>

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

**Operating Revenue**

Operating revenue increased by 16% from 2020 to 2021. The increase was due to increased inpatient census, Emergency Department, Imaging, and lab service line increase.

**Operating Expenses**

Operating expenses increased by 14% in 2021 compared to 2020. The increase was due to:

- Wage increases of 13%—the result of salary increases for District staff, workforce retention payments, and growth in the total staffing from 300 employees to 320 employees due to extra staff required for COVID-19 Vaccination and testing.
- Professional fees increased by 82%—the result of increased agency services for inpatient coverage and the utilization of the Puget Sound Physician group in the Emergency Department.
- Supplies increased by 19% due to the expense associated with COVID-19 PPE, inflationary pressures, and volume increases in the outpatient units.
- Purchased services expenses were 15% above the prior year due to expanding lab services with Sound Medical Lab volume increases and Revenue Cycle Management expenses related to the rise in net revenues.



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

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### Change in Net Position

The net position increase in 2021 was due to higher revenues in Inpatient services, Lab, ED, and Imaging, PPP forgiveness, and recognition of CARES funds.

### Balance Sheet

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>			
Current assets	\$ 30,257,837	\$ 34,336,813	\$ 16,578,299
Capital assets, net	48,001,630	50,159,738	51,807,045
Other noncurrent assets	<u>9,756,558</u>	<u>8,978,977</u>	<u>8,084,923</u>
Total assets	88,016,025	93,475,528	76,470,267
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,548,974</u>	<u>1,641,411</u>	<u>635,711</u>
Total assets and deferred outflows of resources	<u>\$ 89,564,999</u>	<u>\$ 95,116,939</u>	<u>\$ 77,105,978</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 15,697,764	\$ 13,193,637	\$ 6,373,084
Noncurrent liabilities	<u>89,744,852</u>	<u>102,706,832</u>	<u>90,777,873</u>
Total liabilities	<u>105,442,616</u>	<u>115,900,469</u>	<u>97,150,957</u>
<b>NET POSITION</b>			
Net investment in capital assets	(774,731)	610,618	2,719,792
Restricted expendable for debt service	9,995,341	9,016,749	8,510,309
Unrestricted	<u>(25,098,227)</u>	<u>(30,410,897)</u>	<u>(31,275,080)</u>
Total net position	<u>(15,877,617)</u>	<u>(20,783,530)</u>	<u>(20,044,979)</u>
Total liabilities and net position	<u>\$ 89,564,999</u>	<u>\$ 95,116,939</u>	<u>\$ 77,105,978</u>

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

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### **Commentary on Balance Sheet**

#### **Current Assets**

Current assets decreased due to repayment of the CMS Advance.

#### **Current Liabilities**

Current liabilities increased due to the remaining portion of CMS Advance becoming due in 2022.

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

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

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

Net investment in capital assets decreased in 2021 due to accumulated depreciation being higher than the purchase of capital assets in 2021.

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

## Management's Discussion and Analysis (continued)

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### 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 2021</b> Amount
Change in net position	\$ 4,905,913
Add	
Interest expense	5,126,107
Depreciation and amortization expense	3,909,193
	<u>9,035,300</u>
Less	
Paycheck Protection Program loan income	(3,965,000)
Taxation for bond principal and interest	(3,105,162)
	<u>(7,070,162)</u>
Available for debt service	<u>\$ 6,871,051</u>
Maximum annual debt service	<u>\$ 3,675,188</u>
Actual Coverage Ratio	<u>1.87</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>\$ 16,292,755</u>
Total operating expenses	\$ 44,624,679
Less depreciation and amortization expense	3,909,193
	<u>\$ 40,715,486</u>
Days cash on hand	<u>146.06</u>
Liquidity Requirement for Bond Covenant	<u>60.00</u>
Cash and cash equivalents required for bond covenants	<u>\$ 6,692,957</u>

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

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### **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,	
	2021	2020
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 16,292,755	\$ 22,668,120
Short-term investments	4,809,537	-
Assets limited as to use required for current liabilities	2,319,947	2,195,161
Patient accounts receivable, net of allowances for doubtful accounts of \$693,440 in 2021 and \$895,235 in 2020	6,677,293	7,392,875
Other receivables	60,694	1,411,079
Estimated third-party payor settlements	-	391,000
Inventory	97,611	278,578
Total current assets	<u>30,257,837</u>	<u>34,336,813</u>
ASSETS LIMITED AS TO USE, net of current portion	<u>8,102,735</u>	<u>7,246,674</u>
INTANGIBLE RIGHT TO USE LEASE, net of accumulated amortization	<u>1,653,823</u>	<u>1,732,303</u>
<b>CAPITAL ASSETS</b>		
Land	14,631,178	14,631,178
Construction in progress	59,450	-
Depreciable capital assets, net of accumulated depreciation and amortization	<u>33,311,002</u>	<u>35,528,560</u>
Total capital assets, net of accumulated depreciation and amortization	<u>48,001,630</u>	<u>50,159,738</u>
Total assets	<u>88,016,025</u>	<u>93,475,528</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	<u>1,548,974</u>	<u>1,641,411</u>
Total assets and deferred outflows of resources	<u>\$ 89,564,999</u>	<u>\$ 95,116,939</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,040,561	\$ 2,012,267
Accrued compensation and related liabilities	2,145,284	1,856,945
Accrued interest payable	399,947	375,161
Estimated third-party payor settlements	65,938	-
Other current liabilities	-	2,370,778
Current portion of lease liability	741,180	594,486
Current portion of advance Medicare payments	7,384,854	4,164,000
Current maturities of long-term debt	<u>1,920,000</u>	<u>1,820,000</u>
Total current liabilities	15,697,764	13,193,637
LEASE LIABILITY, net of current portion	916,269	1,178,793
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>88,828,583</u>	<u>90,699,153</u>
Total liabilities	<u>105,442,616</u>	<u>115,900,469</u>
<b>NET POSITION</b>		
Net investment in capital assets	(774,731)	610,618
Restricted expendable for debt service	9,995,341	9,016,749
Unrestricted	<u>(25,098,227)</u>	<u>(30,410,897)</u>
Total net position	<u>(15,877,617)</u>	<u>(20,783,530)</u>
	<u>\$ 89,564,999</u>	<u>\$ 95,116,939</u>

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

	Years Ended December 31,	
	2021	2020
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$644,213 in 2021 and \$513,523 in 2020)	\$ 42,416,507	\$ 36,640,225
Taxation for operations	1,012,472	580,608
Other	456,314	655,806
Total operating revenues	<u>43,885,293</u>	<u>37,876,639</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	20,425,025	19,381,198
Employee benefits	4,297,685	3,948,041
Professional fees	5,756,748	3,166,169
Supplies	3,617,141	3,037,649
Repairs and maintenance	341,879	253,800
Utilities	533,873	494,988
Purchased services	3,686,939	3,194,745
Insurance	169,931	169,966
Depreciation and amortization	3,909,193	4,144,885
Other	1,886,265	1,499,059
Total operating expenses	<u>44,624,679</u>	<u>39,290,500</u>
<b>OPERATING LOSS</b>	<u>(739,386)</u>	<u>(1,413,861)</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Investment income	1,248	124,608
Taxation for bond principal and interest	3,105,162	3,424,503
Interest expense	(5,126,107)	(5,671,527)
Issuance and financing costs	(161,449)	(426,944)
Paycheck Protection Program loan income	3,965,000	-
Provider Relief Funds and other	3,861,445	3,224,670
Nonoperating income (expense), net	<u>5,645,299</u>	<u>675,310</u>
<b>CHANGE IN NET POSITION</b>	4,905,913	(738,551)
<b>NET POSITION, beginning of year</b>	<u>(20,783,530)</u>	<u>(20,044,979)</u>
<b>NET POSITION, end of year</b>	<u>\$ (15,877,617)</u>	<u>\$ (20,783,530)</u>

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

## Statements of Cash Flows

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

	Years Ended December 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from and on behalf of patients	\$ 43,589,027	\$ 36,434,291
Cash paid to employees	(23,083,986)	(25,186,268)
Cash paid to suppliers	(15,506,354)	(11,203,245)
Cash (paid to) received from advance Medicare payments	(3,643,032)	11,027,886
Other cash receipts	456,314	655,806
Net cash from operating activities	<u>1,811,969</u>	<u>11,728,470</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash from tax levies considered a noncapital financing activity	1,012,472	580,608
Cash received from Provider Relief Funds	665,646	5,353,525
Cash received from Paycheck Protection Program Loan	-	3,965,000
Other	825,021	439,100
Net cash from noncapital financing activities	<u>2,503,139</u>	<u>10,338,233</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(904,939)	(1,544,591)
Cash from tax levies for general obligation bonds	3,102,224	3,396,725
Proceeds from long-term debt	-	17,456,000
Principal payments on long-term debt	(1,839,583)	(1,580,417)
Interest paid on long-term debt	(5,101,320)	(5,937,393)
Payments for refunding of 2011 LGTO bonds	-	(16,405,844)
Payments on lease liability	(883,496)	(944,933)
Net cash from capital and related financing activities	<u>(5,627,114)</u>	<u>(5,560,453)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(4,809,537)	-
Investment income	1,248	124,608
Net cash from investing activities	<u>(4,808,289)</u>	<u>124,608</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(6,120,295)</u>	<u>16,630,858</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>32,011,199</u>	<u>15,380,341</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 25,890,904</u>	<u>\$ 32,011,199</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	\$ 16,292,755	\$ 22,668,120
Cash and cash equivalents in assets whose use is limited	10,320,988	9,343,079
	<u>\$ 26,613,743</u>	<u>\$ 32,011,199</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITY</b>		
Paycheck Protection Program loan income	<u>\$ 3,965,000</u>	<u>\$ -</u>

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

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

	Years Ended December 31,	
	2021	2020
RECONCILIATION OF OPERATING LOSS TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (739,386)	\$ (1,413,861)
Adjustments to reconcile operating loss to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(1,012,472)	(580,608)
Depreciation and amortization	3,186,354	4,144,885
Provision for bad debts	644,213	513,523
Change in assets and liabilities		
Patient accounts receivable	71,369	(593,028)
Other receivables	1,350,385	(1,370,460)
Inventory	180,967	(85,272)
Estimated third-party payor settlements	456,938	(126,429)
Accounts payable	1,028,294	698,403
Accrued compensation and related liabilities	288,339	(486,569)
Advance Medicare payments	(3,643,032)	11,027,886
Net cash from operating activities	\$ 1,811,969	\$ 11,728,470



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

## Notes to Financial Statements

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### Note 1 – Organization

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

### Note 2 – Summary of Significant Accounting Policies

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

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

**Use of estimates** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

### Notes to Financial Statements

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

**Patient accounts receivable** – Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients' balances (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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

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

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

**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.

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

## Notes to Financial Statements

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

**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 2021 and 2020 measured by the District’s standard charges was approximately \$631,000 and \$310,000, 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.

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

### Notes to Financial Statements

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

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of net position date but before financial statements are 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 issued.

The District has evaluated subsequent events through May 20, 2022, 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 \$29,505,000 and \$26,916,000 for 2021 and 2020, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$5,367,000 and \$4,865,000 in 2021 and 2020, 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 \$4,243,000 and \$2,710,000 for 2021 and 2020, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$404,000 and \$420,000 in 2021 and 2020, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2021 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.

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

## Notes to Financial Statements

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

**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>2021</u>	<u>2020</u>
Gross patient service charges	<u>\$ 64,415,313</u>	<u>\$ 54,164,685</u>
Adjustments to patient service charges		
Contractual discounts	20,723,715	16,700,895
Provision for bad debts	644,213	513,523
Charity care	<u>630,878</u>	<u>310,042</u>
	<u>21,998,806</u>	<u>17,524,460</u>
Net patient service revenue	<u><u>\$ 42,416,507</u></u>	<u><u>\$ 36,640,225</u></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.

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

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

### Notes to Financial Statements

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

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

	2021	2020
Cash and cash equivalents	\$ 16,292,755	\$ 22,668,120
Short-term investments		
U.S. government agency obligations	4,809,537	-
Assets whose use is limited		
Board designated		
Investment in King County Investment Pool	426,659	424,404
Taxes receivable	682	682
LTGO Bond Fund		
Investment in King County Investment Pool	6,219,141	5,243,487
Taxes receivable	101,012	98,074
Revenue Bond Fund		
Cash and cash equivalents	3,675,188	3,675,188
	10,422,682	9,441,835
Total deposits and investments	\$ 31,524,974	\$ 32,109,955

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

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

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

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

## Notes to Financial Statements

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

**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.

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

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
U.S. government agency obligations	\$ 4,809,537	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. Tax collections for the years ended December 31, 2021 and 2020, were 99.56% and 99.73% 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 2021 and 2020, the District’s regular tax levy was \$0.37 per \$1,000 on a total assessed valuation of \$11,098,518,955 and \$10,852,032,197, respectively, for a total regular levy of \$4,077,587 and \$3,982,030, 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, 2021 and 2020, were as follows:

	Balance, December 31, 2020	Additions	Retirements	Transfers	Balance, December 31, 2021
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Construction in progress	-	59,450	-	-	59,450
Total nondepreciable capital assets	<u>14,631,178</u>	<u>59,450</u>	<u>-</u>	<u>-</u>	<u>14,690,628</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	11,973,793	-	-	-	11,973,793
Buildings and improvements	32,450,710	538,907	-	-	32,989,617
Equipment	13,528,437	306,582	-	-	13,835,019
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	(4,331,281)	(722,839)	-	-	(5,054,120)
Buildings and improvements	(10,296,827)	(1,541,851)	-	-	(11,838,678)
Equipment	(7,796,272)	(798,357)	-	-	(8,594,629)
Depreciable capital assets, net	<u>35,528,560</u>	<u>(2,217,558)</u>	<u>-</u>	<u>-</u>	<u>33,311,002</u>
Capital assets, net	<u>\$ 50,159,738</u>	<u>\$ (2,158,108)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,001,630</u>
	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	<u>14,631,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,631,178</u>
<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>					
Land improvements	(3,587,525)	(743,756)	-	-	(4,331,281)
Buildings and improvements	(8,690,809)	(1,606,018)	-	-	(10,296,827)
Equipment	(6,954,148)	(842,124)	-	-	(7,796,272)
Depreciable capital assets, net	<u>37,175,867</u>	<u>(1,647,307)</u>	<u>-</u>	<u>-</u>	<u>35,528,560</u>
Capital assets, net	<u>\$ 51,807,045</u>	<u>\$ (1,647,307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,159,738</u>

Depreciation expense for the years ended December 31, 2021 and 2020, was \$3,063,047 and \$3,191,898, respectively.



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

### Notes to Financial Statements

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

Interest rates and maturities of long-term debt at December 31, 2021 and 2020, for the District consisted of the following:

	<u>2021</u>	<u>2020</u>
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 \$885,000 to \$2,880,000, net of unamortized discount of \$474,961 and \$502,900.	\$ 28,905,039	\$ 29,737,100
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 \$930,000 to \$3,455,000, net of unamortized discount of \$985,777 and \$1,026,851.	44,467,544	45,326,053
Limited tax general obligation and refunding bonds, series 2020A and 2020B, 3.25% to 4.12% due semiannually on June 1 and December 1, maturing in 2040, with annual amounts ranging from \$105,000 to \$4,145,000.	16,410,000	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>966,000</u>
	90,748,583	92,519,153
Less current portion	<u>(1,920,000)</u>	<u>(1,820,000)</u>
	<u>\$ 88,828,583</u>	<u>\$ 90,699,153</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 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 \$7,723,000 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. Certain conditions were met on September 3, 2021 resulting in a portion of the LTGO bond, a taxable bond, converting to a tax exempt bond with an interest rate of 3.25%.

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

### Notes to Financial Statements

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

Changes in the District's long-term liabilities during the years ended December 31, 2021 and 2020, are summarized below:

	Balance, December 31, 2020	Additions	Reductions	Balance, December 31, 2021	Amounts Due Within One Year
Bonds payable					
2020 LTGO bonds	\$ 16,490,000	\$ -	\$ (80,000)	\$ 16,410,000	\$ 105,000
2015 Revenue bonds	45,326,053	-	(858,509)	44,467,544	930,000
2015 LTGO bonds	29,737,100	-	(832,061)	28,905,039	885,000
Note payable	966,000	-	-	966,000	-
<b>Total noncurrent liabilities</b>	<b>\$ 92,519,153</b>	<b>\$ -</b>	<b>\$ (1,770,570)</b>	<b>\$ 90,748,583</b>	<b>\$ 1,920,000</b>

  

	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	-
<b>Total noncurrent liabilities</b>	<b>\$ 91,934,557</b>	<b>\$ 17,456,000</b>	<b>\$ (16,871,404)</b>	<b>\$ 92,519,153</b>	<b>\$ 1,820,000</b>

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

	2015 LTGO Bonds		2015 Revenue Bonds		2020 LTGO Bonds		Note Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
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
2026	1,220,000	1,278,500	1,130,000	2,540,625	255,000	601,476	-	-	2,605,000	4,420,601
Amounts due 2027 - 2031	7,725,000	5,372,750	6,710,000	11,649,725	1,975,000	2,824,070	-	-	16,410,000	19,846,545
Amounts due 2032 - 2036	11,045,000	3,127,500	8,945,000	9,420,038	3,430,000	2,333,198	-	-	23,420,000	14,880,736
Amounts due 2037 - 2041	5,580,000	423,000	12,060,000	6,305,313	9,905,000	1,198,878	-	-	27,545,000	7,927,191
Amounts due 2042 - 2045	-	-	12,593,321	2,036,563	-	-	-	-	12,593,321	2,036,563
									92,209,321	<u>\$ 67,838,488</u>
Less amount representing unamortized discount									1,460,738	
										<u>\$ 90,748,583</u>

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

## Notes to Financial Statements

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### 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 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 \$132,791 and \$183,594 in 2021 and 2020, respectively.

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

The District's liability under the plan, which is also administered by Nationwide Retirement Plans, is limited to its annual contribution. The District's contributions to the employee benefit plan totaled \$137,760 and \$156,034 in 2021 and 2020, respectively. Contributions made by employees to the benefit plan totaled approximately \$861,499 and \$901,534 in 2021 and 2020, respectively. For more information on the plans, contact the District's human resources office.

### Note 9 – Concentrations of Credit Risk

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

	<u>2021</u>	<u>2020</u>
Medicare	53%	48%
Medicaid	10%	9%
Other commercial	32%	36%
Patient and self-pay	<u>5%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

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

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**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, 2021:

	Principal	Interest
2022	\$ 741,180	\$ 79,987
2023	544,790	40,441
2024	291,109	17,671
2025	76,640	2,690
2026	3,730	100
	\$ 1,657,449	\$ 140,889

**Intangible right to use lease** – The District reported \$846,146 and \$952,987 as amortization expense on the statements of revenues, expenses, and changes in net position in 2021 and 2020, respectively. Accumulated amortization was \$1,869,900 and \$1,956,964 in 2021 and 2020, 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.

**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.

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

### Notes to Financial Statements

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#### Note 11 – COVID-19 Pandemic

**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 finalized funding bill gave companies one year before Medicare can claim payments to repay the advance payments. Additionally, the measure lowered 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 has 29 months from that point to fully repay the advance if it is not recouped by Medicare. The District has included \$7,384,854 and \$4,164,000 in current liabilities and \$0 and \$6,863,886 in long-term liabilities within the statement of net position at December 31, 2021 and 2020, respectively.

**Provider relief funding** –The District received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of \$665,646 and \$5,353,525 in 2021 and 2020, respectively. The District recognized \$3,036,424 and \$2,982,747 of the total received as nonoperating revenue in 2021 and 2020, respectively. 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.

#### 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 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 was 1.0%. Payments of principal and interest on the loan were 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 contained 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 could 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. In April 2021, the District received notification that the PPP Loan was fully forgiven. Income from extinguishment of debt has been recorded in the statement of revenues, expenses, and changes in net position of the financial statements for the year ended December 31, 2021.





