



Report of Independent Auditors
and Financial Statements for

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

December 31, 2016 and 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 4, King County, Washington (the District), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' 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. Those standards require that we plan and perform the audits 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, 2016 and 2015, 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.

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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Moss Adams LLP

Everett, Washington
May 25, 2017

**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Introduction

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

Operational Highlights

The District completed its first full year in its new facility in 2016. We relocated to the new facility in May 2015.

- The new facility has 25 inpatient rooms, versus the old, which had 14 inpatient rooms. The old facility limited the number of inpatients the District could accommodate to 20 or fewer. The District frequently hit its maximum inpatient capacity and had to turn away inpatients. The District averaged 22.4 inpatients per day in 2016, which was 13% above its 2016 budget.
- The new facility enjoys easier access from I-90, the major east-west freeway in the Snoqualmie area. The old facility was difficult to access for residents driving west on the freeway.
- A new, modern facility has driven an increase in emergency room and outpatient visits. See below.

Patient volumes compared to prior year (2016 to 2015):

Business Line	Patient Volumes Actual January Through December 2015	Patient Volumes January Through December 2016	Percentage Change
Inpatient days/month	7,479	8,213	9.8%
Emergency room visits/month	3,590	3,845	7.1%
Endoscopy procedures	242	258	6.6%
Outpatient service visits/month	1,454	1,882	29.4%
Rehab inpatient procedures/month	16,627	19,937	19.9%
Rehab outpatient procedures/month	12,172	11,033	-9.4%
Laboratory tests/month	45,218	45,641	0.9%
Imaging procedures/month	1,313	3,660	178.8%
Clinic visits	20,904	20,867	-0.2%

**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Operational Highlights (continued)

2016 patient volumes compared to budget:

Business Line	Patient Volumes Budget January Through December 2016	Patient Volumes January Through December 2016	Percentage Change
Inpatient days/month	7,254	8,213	13.2%
Emergency room visits/month	4,320	3,845	-11.0%
Endoscopy procedures	258	294	14.0%
Outpatient service visits/month	1,454	1,882	29.4%
Rehab inpatient procedures/month	16,381	19,937	21.7%
Rehab outpatient procedures/month	11,731	11,033	-6.0%
Laboratory tests/month	47,905	45,641	-4.7%
Imaging procedures/month	3,604	3,660	1.6%
Clinic visits	20,867	17,848	-14.5%

The District fell below budget in outpatient service lines (emergency room visits, rehab procedures, laboratory tests, and clinic visits). This led to a loss for the year.

The District conducted two separate productivity assessments in 2016 in order to improve its financial performance (increase productivity and reduce expense). The first assessment was conducted by Eide Bailly LLC on the three largest departments: Nursing, Emergency Room, and Rehabilitation Therapies (Rehab). The District then expanded this effort with the implementation of a benchmarking program purchased from Truven AOI, a subsidiary of IBM and a leader in providing hospital benchmarking solutions. The productivity assessment conducted by Truven looked at all remaining departments within the District. These two programs were implemented throughout the second and third quarter of 2016 and are expected to improve financial performance going forward.

In March 2017 the District entered into an agreement with Huebner Advisory LLC and Sarah Cave Consulting to explore affiliation options for The District. The District will be sending out Requests for Proposals (RFPs) to potential affiliate partners (large hospital systems) during the second half of 2017. The District anticipates that the affiliation process will be finalized in 2018.

**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Statements of Revenues, Expenses, and Changes in Net Position

The following is a presentation of certain condensed financial information derived from the District's statements of revenues, expenses, and changes in net position:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net operating revenue	\$ 32,349,281	\$ 29,086,183	\$ 24,830,525
Nonoperating income	<u>3,215,415</u>	<u>2,794,032</u>	<u>3,171,201</u>
	<u>35,564,696</u>	<u>31,880,215</u>	<u>28,001,726</u>
Total operating expenses	32,426,625	31,003,259	27,254,972
Nonoperating expense	<u>5,771,271</u>	<u>6,765,587</u>	<u>2,127,468</u>
	<u>38,197,896</u>	<u>37,768,846</u>	<u>29,382,440</u>
Change in net position	(2,633,200)	(5,888,631)	(1,380,714)
Net position, beginning of year	<u>(16,811,166)</u>	<u>(10,922,535)</u>	<u>(9,541,821)</u>
Net position, end of year	<u>\$ (19,444,366)</u>	<u>\$ (16,811,166)</u>	<u>\$ (10,922,535)</u>

Operating Revenue

District revenues included \$32.3 million in operating revenue adjusted for contractual allowances, bad debts, and charity care. Net operating revenue increased by \$3.3 million (+11%) due to the increased inpatient, emergency department, and outpatient patient volumes that were the result of the District being in the new facility for a full year.

Operating Expenses

Operating expense increased by \$1.4 million (5%):

- Depreciation expense increased by \$1.2 million due to the depreciation expense associated with the new hospital.
- Salary expenses increased by \$733,000 due to the following factors:
 - ◆ Salary increases effective January 2016 for all staff.
 - ◆ Increased staffing on the inpatient unit due to the increased volumes.
- Expenses associated with increased patient volumes also increased by \$971,000. These expenses are:
 - ◆ Supply expense.
 - ◆ Purchased services.
 - ◆ Professional fees.
- Employee benefits expense increased by \$185,000. This was the result of an increase cost in the District's insured benefit plan.

**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Operating Expenses (continued)

Nonoperating income (expense) decreased from the prior year by \$1.4 million due to:

- Interest expense increased in 2016 due to the bonds being in place for the entire year.
- Bond issuance and financing cost decreasing in 2016.

The District had a change in net position of -\$2.6 million. The net change was the result of:

- An increase in depreciation of \$1.2 million; the increase is due to the new hospital capital costs being depreciated for a full year.
- The shortfall in outpatient services compared to budget.
- As referenced above, the District has put in place productivity programs to improve financial results going forward.

Statements of Net Position

The following is a presentation of certain condensed financial information derived from the District's statements of net position:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current assets	\$ 13,321,474	\$ 15,285,843	\$ 9,020,578
Capital assets, net	61,523,284	64,559,344	26,364,702
Other noncurrent assets	<u>5,630,256</u>	<u>4,888,608</u>	<u>1,940,447</u>
Total assets	80,475,014	84,733,795	37,325,727
DEFERRED OUTFLOWS OF RESOURCES	<u>761,613</u>	<u>801,756</u>	<u>135,132</u>
Total assets and deferred outflows of resources	<u>\$ 81,236,627</u>	<u>\$ 85,535,551</u>	<u>\$ 37,460,859</u>
LIABILITIES			
Current liabilities	\$ 6,211,505	\$ 6,713,313	\$ 8,115,989
Noncurrent liabilities	<u>94,469,488</u>	<u>95,633,404</u>	<u>40,267,405</u>
Total liabilities	<u>100,680,993</u>	<u>102,346,717</u>	<u>48,383,394</u>
NET POSITION			
Net investment in capital assets	9,897,600	12,383,375	191,093
Restricted expendable for debt service	2,147,098	1,513,374	406,657
Unrestricted	<u>(31,489,064)</u>	<u>(30,707,915)</u>	<u>(11,520,285)</u>
Total net position	<u>(19,444,366)</u>	<u>(16,811,166)</u>	<u>(10,922,535)</u>
Total liabilities and net position	<u>\$ 81,236,627</u>	<u>\$ 85,535,551</u>	<u>\$ 37,460,859</u>

**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Assets

Current assets - The District's cash balances decreased due to a cost report settlement paid in the 2015 cost report paid in 2016, a decrease in accounts payable, and scheduled debt service payments.

Noncurrent assets - Capital assets decreased due to depreciation recognized in 2016.

Liabilities

Current liabilities - Current liabilities decreased by \$500,000 due to decrease in accounts payable and accrued interest payable (interest payments on debt). These decreases were offset by an increase in payroll-related liabilities, which is due to the timing of the bi-weekly payroll cycle.

Noncurrent liabilities - Noncurrent liabilities decreased slightly with the pay-down of a capital lease and bond principal.

Other - The District failed to meet its revenue bond debt service covenant requirement of 1.20 for 2016. The District forecasted the shortfall in late 2016 and retained a consultant to analyze District operations as prescribed in the Revenue Bond Trust Indenture agreement. The report was completed on February 22, 2017. An investor call was held on March 2, 2017, to review the report. The report and notes from the investor call were posted on the Electronic Municipal Market Access (EMMA) website, a service of the Municipal Securities Rule Making Board (MSRB). The report and notes from the call may be viewed by logging on to the EMMA website (emma.msrb.org). A copy of either the report or the call notes may be obtained by contacting The District at the address shown below.

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.

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PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,310,795	\$ 7,347,118
Assets limited as to use required for current liabilities	1,383,685	1,546,446
Patient accounts receivable, net of allowances for doubtful accounts of \$609,000 in 2016 and \$545,000 in 2015	5,148,533	6,168,470
Other receivables	263,423	223,809
Inventory	215,038	-
Total current assets	<u>13,321,474</u>	<u>15,285,843</u>
ASSETS LIMITED AS TO USE, net of current portion	<u>5,630,256</u>	<u>4,888,608</u>
CAPITAL ASSETS		
Land	14,631,178	14,631,178
Construction in progress	401,251	404,617
Depreciable capital assets, net of accumulated depreciation and amortization	46,490,855	49,523,549
Total capital assets, net of accumulated depreciation and amortization	<u>61,523,284</u>	<u>64,559,344</u>
Total assets	<u>80,475,014</u>	<u>84,733,795</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	761,613	801,756
Total assets and deferred outflows of resources	<u>\$ 81,236,627</u>	<u>\$ 85,535,551</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,364,096	\$ 2,359,520
Accrued compensation and related liabilities	1,938,198	1,489,782
Accrued interest payable	251,525	495,137
Estimated third-party payor settlements	1,477,686	1,298,094
Current maturities of long-term debt	1,180,000	1,070,780
Total current liabilities	<u>6,211,505</u>	<u>6,713,313</u>
LONG-TERM DEBT, net of current maturities	<u>94,469,488</u>	<u>95,633,404</u>
Total liabilities	<u>100,680,993</u>	<u>102,346,717</u>
NET POSITION		
Net investment in capital assets	9,897,600	12,383,375
Restricted expendable for debt service	2,147,098	1,513,374
Unrestricted	(31,489,064)	(30,707,915)
Total net position	<u>(19,444,366)</u>	<u>(16,811,166)</u>
	<u>\$ 81,236,627</u>	<u>\$ 85,535,551</u>

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2016	2015
OPERATING REVENUE		
Net patient service revenue (net of provision for bad debts of \$2,148,932 in 2016 and \$1,759,186 in 2015)	\$ 31,653,449	\$ 28,276,075
Taxation for operations	522,960	720,530
Other	172,872	89,578
Total operating revenue	<u>32,349,281</u>	<u>29,086,183</u>
OPERATING EXPENSES		
Salaries and wages	17,162,961	16,429,830
Employee benefits	3,452,499	3,267,140
Professional fees	1,034,668	1,197,707
Supplies	2,167,522	2,451,400
Repairs and maintenance	185,607	53,035
Utilities	530,845	668,101
Purchased services	1,695,184	1,734,437
Insurance	212,578	190,437
Leases and rentals	1,858,838	2,206,071
Depreciation and amortization	3,286,588	2,038,791
Other	839,335	766,310
Total operating expenses	<u>32,426,625</u>	<u>31,003,259</u>
OPERATING LOSS	<u>(77,344)</u>	<u>(1,917,076)</u>
NONOPERATING INCOME (EXPENSE)		
Investment income	30,471	27,854
Taxation for bond principal and interest	3,115,413	2,769,884
Interest expense	(5,662,114)	(4,338,096)
Issuance and financing costs	(109,157)	(2,427,491)
Other, net	69,531	(3,706)
Nonoperating expense, net	<u>(2,555,856)</u>	<u>(3,971,555)</u>
CHANGE IN NET POSITION	(2,633,200)	(5,888,631)
NET POSITION, beginning of year	<u>(16,811,166)</u>	<u>(10,922,535)</u>
NET POSITION, end of year	<u>\$ (19,444,366)</u>	<u>\$ (16,811,166)</u>

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 32,852,978	\$ 30,938,519
Cash paid to employees	(20,008,664)	(18,912,742)
Cash paid to suppliers	(9,735,039)	(10,514,033)
Other cash receipts	172,872	89,578
Net cash from operating activities	3,282,147	1,601,322
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered a noncapital financing activity	522,960	720,530
Other	(128,463)	(201,700)
Net cash from noncapital financing activities	394,497	518,830
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets, net of disposal	(250,528)	(40,233,433)
Cash from tax levies for general obligation bonds	3,084,268	2,774,032
Change in line of credit	-	(2,461,747)
Net proceeds from issuance of long-term debt	-	81,343,404
Escrow payment for refunding of general obligation bonds	-	(26,390,059)
Principal payments on long-term debt	(1,123,709)	(35,137)
Cash paid for issuance and financing costs	(109,157)	(2,427,491)
Interest paid on long-term debt	(5,796,570)	(3,375,192)
Net cash from capital and related financing activities	(4,195,696)	9,194,377
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	30,471	27,854
NET CHANGE IN CASH AND CASH EQUIVALENTS	(488,581)	11,342,383
CASH AND CASH EQUIVALENTS, beginning of year	13,696,965	2,354,582
CASH AND CASH EQUIVALENTS, end of year	\$ 13,208,384	\$ 13,696,965
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 6,310,795	\$ 7,347,118
Cash and cash equivalents in assets whose use is limited	6,897,589	6,349,847
	\$ 13,208,384	\$ 13,696,965

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
STATEMENTS OF CASH FLOWS (continued)

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (77,344)	\$ (1,917,076)
Adjustments to reconcile operating loss to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(522,960)	(720,530)
Depreciation and amortization	3,286,588	2,038,791
Provision for bad debts	2,148,932	1,759,186
Change in assets and liabilities		
Patient accounts receivable	(1,128,995)	(923,838)
Other receivables	158,380	958,453
Inventory	(215,038)	-
Estimated third-party payor settlements	179,592	1,827,096
Accounts payable	(995,424)	(1,246,535)
Accrued compensation and related liabilities	448,416	(174,225)
	<u>448,416</u>	<u>(174,225)</u>
Net cash from operating activities	<u>\$ 3,282,147</u>	<u>\$ 1,601,322</u>

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.

The District constructed a new facility on a 13-acre site near the intersection of State Highway 18 and Interstate 90 in fall 2013. The facility is a 70,000-square-foot replacement for the District's existing 25,000-square-foot hospital facility. The new facility includes 25 inpatient rooms (versus 14 rooms in its former facility), a six-room emergency department, and rehabilitation, radiology, and pharmacy services.

The District entered into an agreement with Benaroya Capital Company LLC to build the replacement facility in July 2013. Under the terms of the agreement, the District entered into a capital lease with the developer for 30 years and purchase of the hospital for \$1.00 at the end of the lease term.

The District began the process of issuing revenue bonds to fund the purchase of the new hospital in November 2014. This process was completed in July 2015. The purchase price of the hospital from Benaroya Capital Company LLC was \$39,283,895.

Hospital operations were transferred to the new facility on May 6, 2015.

Note 2 - Summary of Significant Accounting Policies

Use of estimates - The preparation of financial statements in conformity 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.

Enterprise fund accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

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)

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

Interest on borrowed funds less any interest earned on temporarily invested funds is capitalized on construction projects as a cost of the related project from the date of borrowing until the construction period ends and the related asset is placed in service. Capitalized interest is depreciated over the estimated useful life of the related asset.

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 three preceding years.

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

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 2016 and 2015 measured by the District's standard charges was \$1,550,969 and \$1,461,873, 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

Note 2 - Summary of Significant Accounting Policies (continued)

New accounting pronouncements - In December 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this statement during the reporting period, individually or in the aggregate, were significant. This guidance is effective for the District in the year ended December 31, 2016. The District has reviewed and evaluated this statement and has determined there is no material impact to the financial statements for the year ended December 31, 2016.

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 25, 2017, 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 \$18,839,000 and \$20,673,000 for 2016 and 2015, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$2,714,000 and \$2,858,000 in 2016 and 2015, respectively.

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 3 - Net Patient Service Revenue (continued)

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 \$1,000,000 and \$272,000 for 2016 and 2015, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$165,000 and \$275,000 in 2016 and 2015, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2015 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, 2014.

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

	2016	2015
Gross patient service charges	\$ 44,025,062	\$ 40,717,680
Adjustments to patient service charges		
Contractual discounts	8,671,712	9,220,546
Provision for bad debts	2,148,932	1,759,186
Charity care	1,550,969	1,461,873
	12,371,613	12,441,605
Net patient service revenue	\$ 31,653,449	\$ 28,276,075

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).

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 4 - Deposits and Investments (continued)

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

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

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents		
Investment in King County Investment Pool	\$ 6,310,795	\$ 7,347,118
Assets whose use is limited		
UTGO Bond Fund		
Investment in King County Investment Pool	301,886	298,237
Board restricted funds	34,591	-
Taxes receivable	917	1,952
LTGO Bond Fund		
Investment in King County Investment Pool	2,912,129	2,368,453
Taxes receivable	80,844	83,255
Revenue Bond Fund		
Cash and cash equivalents	3,675,188	3,675,188
Construction Fund		
Investment in King County Investment Pool	8,386	7,969
	<u>7,013,941</u>	<u>6,435,054</u>
Total deposits and investments	<u>\$ 13,324,736</u>	<u>\$ 13,782,172</u>

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 4 - Deposits and Investments (continued)

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

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

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

Custodial credit risk - Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk.

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

Interest rate risk - Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District 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, 2016 and 2015, were 99.73% and 100.91% 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.

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Property Taxes (continued)

For 2016 and 2015, the District's regular tax levy was \$0.46 and \$0.48 per \$1,000 on a total assessed valuation of \$7,684,017,071 and \$7,227,041,097, respectively, for a total regular levy of \$3,544,726 and \$3,490,414, respectively. A portion of the tax revenue from the regular levy has been pledged toward payments of the limited tax general obligation (LTGO) bonds.

Note 6 - Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2016 and 2015, were as follows:

	Balance, December 31, 2015	Additions	Retirements	Transfers	Balance, December 31, 2016
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 14,631,178	\$ -	\$ -	\$ -	\$ 14,631,178
Construction in progress	404,617	4,193	(7,559)	-	401,251
Total nondepreciable capital assets	15,035,795	4,193	(7,559)	-	15,032,429
DEPRECIABLE CAPITAL ASSETS					
Land improvements	11,952,082	-	-	-	11,952,082
Buildings and improvements	31,600,295	168,756	-	-	31,769,051
Equipment	11,994,501	85,138	-	-	12,079,639
LESS ACCUMULATED DEPRECIATION					
Buildings and improvements	(2,459,520)	(2,484,360)	-	-	(4,943,880)
Equipment	(3,563,809)	(802,228)	-	-	(4,366,037)
Depreciable capital assets, net	49,523,549	(3,032,694)	-	-	46,490,855
Capital assets, net	<u>\$ 64,559,344</u>	<u>\$ (3,028,501)</u>	<u>\$ (7,559)</u>	<u>\$ -</u>	<u>\$ 61,523,284</u>
Balance, December 31, 2014					
	Balance, December 31, 2014	Additions	Retirements	Transfers	Balance, December 31, 2015
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 13,387,400	\$ 1,243,778	\$ -	\$ -	\$ 14,631,178
Construction in progress	11,162,818	1,882,534	-	(12,640,735)	404,617
Total nondepreciable capital assets	24,550,218	3,126,312	-	(12,640,735)	15,035,795
DEPRECIABLE CAPITAL ASSETS					
Land improvements	60,393	332,619	-	11,559,070	11,952,082
Buildings and improvements	1,195,807	30,404,488	-	-	31,600,295
Equipment	4,542,822	6,370,014	-	1,081,665	11,994,501
LESS ACCUMULATED DEPRECIATION					
Buildings and improvements	(993,210)	(1,466,310)	-	-	(2,459,520)
Equipment	(2,991,328)	(572,481)	-	-	(3,563,809)
Depreciable capital assets, net	1,814,484	35,068,330	-	12,640,735	49,523,549
Capital assets, net	<u>\$ 26,364,702</u>	<u>\$ 38,194,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,559,344</u>

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 6 - Capital Assets (continued)

Depreciation expense for the years ended December 31, 2016 and 2015, was \$3,286,588 and \$2,038,791, respectively.

Note 7 - Line of Credit

The District has a line of credit with a bank totaling \$4,600,000. The interest rate at December 31, 2016, was 5.5% and is payable semiannually. The line of credit expires in 2025. Changes in the District's line of credit for the years ended December 31, 2016 and 2015, are as follows:

Balance, January 1, 2016	Additions	Reductions	Balance December 31, 2016
\$ -	\$ -	\$ -	\$ -
Balance, January 1, 2015	Additions	Reductions	Balance December 31, 2015
\$ 2,461,747	\$ -	\$ (2,461,747)	\$ -

Note 8 - Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2016 and 2015, for the District consisted of the following:

	2016	2015
Limited tax general obligation bonds, series 2011, 6.50% to 7.00%, due semiannually on June 1 and December 1, maturing in 2040, with annual amounts ranging from \$15,000 to \$4,335,000.	\$ 15,360,000	\$ 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 \$490,000 to \$2,880,000, net of unamortized discount of \$614,655.	32,110,345	32,502,406
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 \$690,000 to \$3,455,000, net of unamortized discount of \$1,191,148.	48,179,143	48,840,998
Capital lease obligation, stated at present value of future minimum lease payments.	-	780
	95,649,488	96,704,184
Less current portion	(1,180,000)	(1,070,780)
	\$ 94,469,488	\$ 95,633,404

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 8 - Long-Term Debt and Other Noncurrent Liabilities (continued)

Under the terms of the revenue and refunding bonds, the District has agreed to maintain certain financial ratios and meet certain 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 will be deferred and 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.

Changes in the District's long-term liabilities and line of credit during the years ended December 31, 2016 and 2015, are summarized below:

	Balance, December 31, 2015	Additions	Reductions	Balance, December 31, 2016	Amounts Due Within One Year
Bonds payable					
2015 Revenue bonds	\$ 48,840,998	\$ -	\$ (661,855)	\$ 48,179,143	\$ 690,000
2015 LTGO bonds	32,502,406	-	(392,061)	32,110,345	490,000
2011 LTGO bonds	15,360,000	-	-	15,360,000	-
Capital lease obligation	780	-	(780)	-	-
Total noncurrent liabilities	<u>\$ 96,704,184</u>	<u>\$ -</u>	<u>\$ (1,054,696)</u>	<u>\$ 95,649,488</u>	<u>\$ 1,180,000</u>
	Balance, December 31, 2014	Additions	Reductions	Balance, December 31, 2015	Amounts Due Within One Year
Bonds payable					
2015 Revenue bonds	\$ -	\$ 48,840,998	\$ -	\$ 48,840,998	\$ 650,000
2015 LTGO bonds	-	32,502,406	-	32,502,406	420,000
2011 LTGO bonds	15,360,000	-	-	15,360,000	-
2009 LTGO bonds	21,127,072	-	(21,127,072)	-	-
2005A LTGO bonds	3,889,333	-	(3,889,333)	-	-
Capital lease obligation	35,917	-	(35,137)	780	780
Total noncurrent liabilities	<u>\$ 40,412,322</u>	<u>\$ 81,343,404</u>	<u>\$ (25,051,542)</u>	<u>\$ 96,704,184</u>	<u>\$ 1,070,780</u>

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 8 - Long-Term Debt and Other Noncurrent Liabilities (continued)

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

	2011 LTGO Bonds		2015 LTGO Bonds		2015 Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ -	\$ 1,068,738	\$ 490,000	\$ 1,607,775	\$ 690,000	\$ 2,981,313	\$ 1,180,000	\$ 5,657,826
2018	-	1,068,738	565,000	1,585,725	735,000	2,938,188	1,300,000	5,592,651
2019	-	1,068,738	665,000	1,560,300	780,000	2,892,250	1,445,000	5,521,288
2020	-	1,068,738	765,000	1,530,375	830,000	2,843,500	1,595,000	5,442,613
2021	-	1,068,738	860,000	1,495,950	880,000	2,791,625	1,740,000	5,356,313
Amounts due 2022 - 2026	560,000	5,306,315	5,030,000	6,822,025	5,145,000	13,217,375	10,735,000	25,345,715
Amounts due 2027 - 2031	1,465,000	5,000,364	7,725,000	5,372,750	6,710,000	11,649,725	15,900,000	22,022,839
Amounts due 2032 - 2036	3,140,000	4,285,050	11,045,000	3,127,500	8,945,000	9,420,038	23,130,000	16,832,588
Amounts due 2037 - 2041	10,195,000	2,249,800	5,580,000	423,000	12,060,000	6,305,313	27,835,000	8,978,113
Amounts due 2042 - 2046	-	-	-	-	12,650,000	2,036,563	12,650,000	2,036,563
							97,510,000	<u>\$ 102,786,509</u>
							1,860,512	
								<u>\$ 95,649,488</u>

Less amount representing unamortized discount

Note 9 - 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 approximately \$205,564 and \$203,000 in 2016 and 2015, respectively.

Defined contribution plan - In 2006, the District also began sponsoring a defined contribution plan in accordance with Internal Revenue Code 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 approximately \$142,149 and \$138,000 in 2016 and 2015, respectively. Contributions made by employees to the benefit plan totaled approximately \$791,167 and \$766,000 in 2016 and 2015, 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 10 - 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>2016</u>	<u>2015</u>
Medicare	41%	34%
Medicaid	5%	17%
Other commercial	30%	36%
Patient and self-pay	<u>24%</u>	<u>13%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

Note 11 - Commitments and Contingencies

Operating leases - The District leases certain facilities and equipment under operating lease arrangements. The following is a schedule by year of future minimum lease payments as of December 31, 2016:

2017	\$ 1,174,884
2018	1,047,590
2019	754,393
2020	215,709
2021	<u>11,119</u>
	<u><u>\$ 3,203,695</u></u>

Rent expense on operating leases for 2016 and 2015 was \$1,858,838 and \$2,206,071, respectively.

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 11 - 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 Washington Casualty Company (WCC). 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.