



Report of Independent Auditors
and Financial Statements for

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

December 31, 2013 and 2012

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, 2013 and 2012, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the District adopted the accounting requirements of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 8 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.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington
October 7, 2014

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.

Change in Net Position for 2013

The District had a change in net position of \$(976,510) for 2013. The majority of the loss is due to three items:

- The settlement of the 2012 Medicaid Critical Access Cost report resulted in an amount due to Medicaid of \$405,800. The large settlement was due to the Washington Health Care Authority incorrectly calculating the District's 2012 reimbursement rate.
- An audit settlement with Medicaid for the period from July 1, 2006, to June 30, 2009 resulted in a settlement due to the state of Washington of \$234,223. The settlement was the result of an error made by the vendor the District used for hospital billing during that period.
- The effect of the sequestration on Medicare payments, which reduced net revenue for the District by \$174,000.

Operational Highlights

The District began construction of a new facility on a 13-acre site near the intersection of State Highway 18 and Interstate 90 in the fall of 2013. The facility is planned as a 70,000-square-foot replacement for the District's existing 25,000-square-foot hospital facility. The new facility will include 25 inpatient rooms (versus 14 rooms in its current 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 will enter into a capital lease with the developer for 30 years and purchase the hospital for \$1.00 at the end of the lease term. The District also has the option to purchase the hospital after substantial completion by the developer.

The new hospital will allow the District to expand its health care services to the community. The District is currently constrained by the size of its existing hospital and its location. The advantages of the new facility are:

- The new facility will have 25 inpatient rooms, versus the current facility, which has 14 inpatient rooms. The current facility limits the number of inpatients the District can accommodate to 20 or fewer. The District frequently hits its maximum inpatient capacity and has to turn away inpatients.

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

Operational Highlights (continued)

- The new facility will enjoy easier access from I-90, the major east-west freeway in the Snoqualmie area. The current facility is difficult to access for residents driving west on the freeway.
- A new, modern facility appears to drive an increase in emergency room and outpatient visits. Experience has shown that critical access hospitals that open new facilities experience a 30%+ increase in patient volumes. The District's current facility was built in 1983 and, although well maintained, does not allow for state-of-the-art health care operations.

Overall, the District expects the new hospital to increase service to its community and further improve its financial performance. The improvement in financial performance has been validated by a number of independent financial analyses the District has had performed while going through the due diligence process for the financing of the new hospital.

The District anticipates that the new hospital will be completed in May 2015.

In July 2014, the District entered into a Letter of Intent with Overlake Medical to affiliate upon completion of the new hospital. The District is currently in negotiations with Overlake Medical Center to finalize the terms of the affiliation agreement.

Medical Services Utilization

Inpatient days continued to grow in 2013, increasing by 4.6% over 2012 levels. This is the fifth consecutive year inpatient days have increased. Clinic visits decreased by 3.4% in 2013. The District added two clinic providers in 2013, which will increase clinic volumes in the future.

**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>2013</u>	<u>2012</u>	<u>2011</u>
Net operating revenue	\$ 23,656,053	\$ 22,522,248	\$ 21,485,049
Nonoperating income	<u>3,286,094</u>	<u>2,763,912</u>	<u>3,149,885</u>
	<u>26,942,147</u>	<u>25,286,160</u>	<u>24,634,934</u>
Total operating expenses	25,818,227	22,641,811	24,222,311
Nonoperating expenses	<u>2,100,430</u>	<u>2,206,478</u>	<u>2,907,200</u>
	<u>27,918,657</u>	<u>24,848,289</u>	<u>27,129,511</u>
Change in net position before gain on sale of hospital campus	(976,510)	437,871	(2,494,577)
Gain on sale of hospital campus	<u>-</u>	<u>9,264,764</u>	<u>615,000</u>
Change in net position	(976,510)	9,702,635	(1,879,577)
Net position, beginning of year	<u>(8,573,660)</u>	<u>(18,276,295)</u>	<u>(16,396,718)</u>
Net position, end of year	<u>\$ (9,550,170)</u>	<u>\$ (8,573,660)</u>	<u>\$ (18,276,295)</u>

Operating Revenue

District revenues included \$23.7 million in operating revenue adjusted for contractual allowances, bad debts, and charity care. Net operating revenue increased by \$1.1 million (+5.0%) due to an increase in inpatient volumes and rate increases implemented in 2013.

Total uncompensated care (bad debt plus charity care) for 2013 was \$1,499,884, which was consistent with the 2012 total of \$1,552,148. The District has an active charity care program that provides discounts to District residents based on income levels.

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

Operating Expenses

Operating expense increased by \$3.2 million (14.0%):

- Salary expenses increased by \$1.5 million due to the following factors:
 - ◆ Salary increases effective January 2013 for all staff
 - ◆ An increase in inpatient days of 5% over 2012 levels
 - ◆ An increase in inpatient rehabilitation procedures of 8.1% over 2012 levels
 - ◆ An increase in outpatient rehabilitation procedures of 32% over 2012 levels
 - ◆ The addition of two providers to our clinic system
 - ◆ Additions to staff in our Information Technology department to support an upgrade in our medical records and financial reporting systems
- Supplies increased in patient related items; pharmaceuticals, medical supplies and patient food as a result of the increase in inpatient census.
- Depreciation expense increased because the District began the depreciation of its Electronic Medical System that was put in place in 2013.
- Purchased services expense increased because the District hired an outside security company to provide on premises security services.
- "Other expense" increased due to the recognition of the preliminary 2012 Medicaid Critical Access cost report settlement mentioned above.

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

Statements of Net Position

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Current assets	\$ 7,942,041	\$ 11,261,246	\$ 19,074,172
Capital assets, net	24,974,010	23,961,055	20,704,018
Other noncurrent assets	<u>1,989,622</u>	<u>2,034,235</u>	<u>2,491,819</u>
Total assets	34,905,673	37,256,536	42,270,009
 DEFERRED OUTFLOWS OF RESOURCES	 <u>200,772</u>	 <u>266,412</u>	 <u>260,045</u>
Total assets and deferred outflows of resources	<u>\$ 35,106,445</u>	<u>\$ 37,522,948</u>	<u>\$ 42,530,054</u>
 LIABILITIES			
Current liabilities	\$ 4,254,382	\$ 5,630,202	\$ 20,514,031
Noncurrent liabilities	<u>40,393,884</u>	<u>40,458,057</u>	<u>40,292,318</u>
Total liabilities	<u>44,648,266</u>	<u>46,088,259</u>	<u>60,806,349</u>
 NET POSITION			
Net investment in capital assets	(1,279,142)	(1,950,347)	(10,926,151)
Restricted expendable for debt service	397,438	399,925	438,198
Unrestricted	<u>(8,660,117)</u>	<u>(7,014,889)</u>	<u>(7,788,342)</u>
Total net position	<u>(9,541,821)</u>	<u>(8,565,311)</u>	<u>(18,276,295)</u>
Total liabilities and net position	<u>\$ 35,106,445</u>	<u>\$ 37,522,948</u>	<u>\$ 42,530,054</u>

Assets

The District's cash balances decreased in 2013 because the District invested in capital assets associated with the new hospital and the electronic medical records system. The District also paid down estimated third party payable settlements.

Liabilities and Net Position

Current liabilities decreased by \$1.4 million with the pay-down of the District's line of credit, and the decrease in estimated third party payable settlements. The District also settled a payable to a health insurance provider in its favor.

Long-term liabilities decreased slightly with the pay-down of a capital lease.

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

Statements of Cash Flows

The District's cash balances decreased due to the investment in fixed assets and the payment of short-term liabilities previously mentioned.

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, 9575 Ethan Wade Way SE, Snoqualmie, WA 98065-9577.

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

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,663,948	\$ 6,222,798
Assets limited as to use required for current liabilities	288,410	241,910
Patient accounts receivable, net of allowances for doubtful accounts of \$394,000 in 2013 and \$349,000 in 2012	3,919,685	4,660,966
Other receivables	972,500	135,572
Prepaid expenses and other assets	97,498	-
Total current assets	<u>7,942,041</u>	<u>11,261,246</u>
ASSETS LIMITED AS TO USE, net of current portion	<u>1,989,622</u>	<u>2,034,235</u>
CAPITAL ASSETS		
Land	13,387,400	13,374,157
Construction in progress	9,321,645	8,457,330
Depreciable capital assets, net of accumulated depreciation and amortization	<u>2,264,965</u>	<u>2,129,568</u>
Total capital assets, net of accumulated depreciation and amortization	<u>24,974,010</u>	<u>23,961,055</u>
Total assets	<u>34,905,673</u>	<u>37,256,536</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	<u>200,772</u>	<u>266,412</u>
Total assets and deferred outflows of resources	<u><u>\$ 35,106,445</u></u>	<u><u>\$ 37,522,948</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 1,420,311	\$ 1,272,034
Accrued compensation and related liabilities	1,362,761	1,255,074
Accrued interest payable	236,410	241,910
Estimated third-party payor settlements	2,532	1,438,256
Line of credit	1,145,000	1,390,000
Current maturities of long-term debt	<u>87,368</u>	<u>32,928</u>
Total current liabilities	4,254,382	5,630,202
LONG-TERM DEBT, net of current maturities	<u>40,393,884</u>	<u>40,458,057</u>
Total liabilities	<u>44,648,266</u>	<u>46,088,259</u>
NET POSITION		
Net investment in capital assets	(1,279,142)	(1,950,347)
Restricted expendable for debt service	397,438	399,925
Unrestricted	<u>(8,660,117)</u>	<u>(7,014,889)</u>
Total net position	<u>(9,541,821)</u>	<u>(8,565,311)</u>
	<u><u>\$ 35,106,445</u></u>	<u><u>\$ 37,522,948</u></u>

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

	Years Ended December 31,	
	2013	2012
OPERATING REVENUE		
Net patient service revenue (net of provision for bad debts of \$1,102,396 in 2013 and \$540,094 in 2012)	\$ 23,479,449	\$ 22,128,762
Taxation for operations	105,795	346,992
Other	70,809	46,494
Total operating revenue	<u>23,656,053</u>	<u>22,522,248</u>
OPERATING EXPENSES		
Salaries and wages	15,147,575	13,642,194
Employee benefits	3,151,166	2,662,185
Professional fees	699,139	710,411
Supplies	1,918,278	1,709,091
Repairs and maintenance	60,041	54,836
Utilities	491,275	405,207
Purchased services	1,465,755	1,203,147
Insurance	347,142	350,666
Leases and rentals	975,034	967,458
Depreciation and amortization	475,992	356,688
Other	1,086,830	579,928
Total operating expenses	<u>25,818,227</u>	<u>22,641,811</u>
OPERATING LOSS	<u>(2,162,174)</u>	<u>(119,563)</u>
NONOPERATING INCOME (EXPENSE)		
Investment income, net of accounts capitalized	18,351	22,436
Taxation for bond principal and interest	2,836,937	2,626,076
Interest expense, net of amount capitalized	(2,100,430)	(2,184,301)
Grant income	273,546	8,387
Settlement on early termination of lease	-	(22,177)
Other, net	157,260	107,013
Nonoperating income, net	<u>1,185,664</u>	<u>557,434</u>
CHANGE IN NET POSITION BEFORE GAIN ON SALE OF HOSPITAL CAMPUS	(976,510)	437,871
GAIN ON SALE OF HOSPITAL CAMPUS	<u>-</u>	<u>9,264,764</u>
CHANGE IN NET POSITION	(976,510)	9,702,635
NET POSITION, beginning of year	<u>(8,565,311)</u>	<u>(18,267,946)</u>
NET POSITION, end of year	<u>\$ (9,541,821)</u>	<u>\$ (8,565,311)</u>

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

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 22,785,006	\$ 22,604,232
Cash paid to employees	(18,766,342)	(16,311,311)
Cash paid to suppliers	(6,992,715)	(6,466,858)
Other cash (disbursements) receipts	70,809	46,309
Net cash from operating activities	(2,903,242)	(127,628)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered a noncapital financing activity	105,795	346,992
Other	169,166	115,400
Net cash from noncapital financing activities	274,961	462,392
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,488,947)	(3,513,665)
Cash from tax levies for general obligation bonds	2,867,064	2,635,498
Change in line of credit	(245,000)	103,733
Payment received on note receivable	-	14,600,000
Grant proceeds for electronic health record	-	142,852
Principal payments on long-term debt	(32,928)	(6,659,363)
Interest paid on long-term debt, net of amount capitalized	(2,017,095)	(2,051,081)
Other, net	-	(22,177)
Net cash from capital and related financing activities	(916,906)	5,235,797
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income, net of amount capitalized	18,351	22,436
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,526,836)	5,592,997
CASH AND CASH EQUIVALENTS, beginning of year	8,373,777	2,780,780
CASH AND CASH EQUIVALENTS, end of year	\$ 4,846,941	\$ 8,373,777
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 2,663,948	\$ 6,222,798
Cash and cash equivalents in assets whose use is limited	2,182,993	2,150,979
	\$ 4,846,941	\$ 8,373,777

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

Increase (Decrease) in Cash and Cash Equivalents

	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (2,162,174)	\$ (119,563)
Adjustments to reconcile operating loss to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(105,795)	(346,992)
Depreciation and amortization	475,992	356,688
Provision for bad debts	1,102,396	540,094
Change in assets and liabilities		
Patient accounts receivable	(361,115)	(1,781,467)
Other receivables	(575,288)	(185)
Prepaid expenses and other assets	(97,498)	74,204
Estimated third-party payor settlements	(1,435,724)	1,716,843
Accounts payable	148,277	(560,318)
Accrued compensation and related liabilities	107,687	(6,932)
Net cash from operating activities	<u>\$ (2,903,242)</u>	<u>\$ (127,628)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Equipment financed with capital lease obligations	<u>\$ -</u>	<u>\$ 134,195</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 began construction of a new facility on a 13-acre site near the intersection of State Highway 18 and Interstate 90 in the fall of 2013. The facility is planned as a 70,000-square-foot replacement for the District's existing 25,000-square-foot hospital facility. The new facility will include 25 inpatient beds (versus 14 rooms in its current 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 will enter into a capital lease with the developer for 30 years and purchase the hospital for \$1.00 at the end of the lease term. The District also has the option to purchase the hospital after substantial completion by the developer.

The District anticipates that the new hospital will be completed in May 2015.

In July 2014, the District entered into a Letter of Intent with Overlake Medical to affiliate upon completion of the new hospital. The District is currently in negotiations with Overlake Medical Center to finalize the terms of the affiliation agreement.

In July 2008, the District sold the existing hospital and campus for \$30,000,000. The sale was financed by the District, which held a note from the purchaser for that amount. The note originally matured on May 1, 2015. The purchaser began making payments of \$50,000 per month in May 2010, which increased to \$100,000 per month in October 2011 and was to continue until May 1, 2015, at which time the remaining balance on the sale was due in full. On June 20, 2012, the District and purchaser agreed to an amendment of the note. The amendment renegotiated the payment terms to be due no later than July 31, 2012, at the discounted balance of \$14,000,000. In accordance with the amendment, the District may continue to use the hospital and campus on a rent-free basis while it completes a replacement facility to be located at the intersection of Interstate 90 and State Highway 18.

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 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.

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 gains and losses.

Note receivable - The District received a \$30,000,000 noninterest-bearing note receivable in exchange for sale of the hospital buildings and land. Under the original terms, the note matured on May 1, 2015. The purchaser began making payments of \$50,000 per month in May 2010, which increased to \$100,000 in October 2011. The note was amended on June 20, 2012 (Note 1), which reduced the remaining payment at that date to \$14,000,000.

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	5 - 40 years
Equipment	5 - 15 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.

Gain on sale of hospital campus - The gain on the sale of the hospital campus of \$24,602,287 was recorded on the installment basis, with the gain recorded as payments were made on the note receivable. Gain recognized as income during the years ended December 31, 2013 and 2012, was \$0 and \$9,264,764, respectively.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Insurance - The District pays certain medical, dental, prescription, and vision claims for its employees on a self-insured basis. The District has purchased stop-loss insurance to cover claims that exceed stated limits and has recorded estimated reserves for the ultimate costs for both reported claims and claims incurred but not reported.

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.

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, grants, and contributions received for purposes other than capital asset acquisition, 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 bonds and peripheral or incidental transactions 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.

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

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 2013 and 2012 measured by the District's standard charges was \$397,488 and \$1,012,054, 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.

Reclassifications - Certain amounts on the December 31, 2012, financial statements have been reclassified to conform to the December 31, 2013, financial statement presentation.

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

The District has evaluated subsequent events through October 7, 2014, 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 \$14,431,000 and \$15,011,000 for 2013 and 2012, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$2,013,000 and \$1,860,000 in 2013 and 2012, 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 \$1,167,000 and \$972,000 for 2013 and 2012, respectively. Net unsecured patient accounts receivable due from Medicaid at December 31 were \$206,000 and \$611,000 in 2013 and 2012, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2012 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, 2010.

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

	2013	2012
Gross patient service charges	\$ 32,032,559	\$ 29,895,162
Adjustments to patient service charges		
Contractual discounts	7,053,226	6,214,252
Provision for bad debts	1,102,396	540,094
Charity care	397,488	1,012,054
	8,553,110	7,766,400
Net patient service revenue	\$ 23,479,449	\$ 22,128,762

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>2013</u>	<u>2012</u>
Cash and cash equivalents		
Investment in King County Investment Pool	<u>\$ 2,663,948</u>	<u>\$ 6,222,798</u>
Assets whose use is limited		
UTGO Bond Fund		
Investment in King County Investment Pool	289,155	282,613
Taxes receivable	2,549	8,775
LTGO Bond Fund		
Investment in King County Investment Pool	1,886,589	1,864,385
Taxes receivable	92,490	116,391
Construction Fund		
Investment in King County Investment Pool	<u>7,249</u>	<u>3,981</u>
	<u>2,278,032</u>	<u>2,276,145</u>
Total deposits and investments	<u>\$ 4,941,980</u>	<u>\$ 8,498,943</u>

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.

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

Note 4 - Deposits and Investments (continued)

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, 2013 and 2012, were 100.91% and 97.94% 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 2013 and 2012, the District's regular tax levy was \$0.50 and \$0.49 per \$1,000 on a total assessed valuation of \$5,832,341,191 and \$6,044,421,680, respectively, for a total regular levy of \$2,942,732 and \$2,973,068, 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, 2013 and 2012, were as follows:

	Balance, December 31, 2012	Additions	Retirements	Transfers	Balance, December 31, 2013
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 13,374,157	\$ 13,243	\$ -	\$ -	\$ 13,387,400
Construction in progress	8,457,330	1,439,208	-	(574,893)	9,321,645
Total nondepreciable capital assets	<u>21,831,487</u>	<u>1,452,451</u>	<u>-</u>	<u>(574,893)</u>	<u>22,709,045</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	32,592	27,801	-	-	60,393
Buildings and improvements	1,169,984	-	-	-	1,169,984
Equipment	3,959,234	8,695	-	574,893	4,542,822
LESS ACCUMULATED DEPRECIATION					
Buildings and improvements	(625,697)	(182,036)	-	-	(807,733)
Equipment	<u>(2,406,545)</u>	<u>(293,956)</u>	<u>-</u>	<u>-</u>	<u>(2,700,501)</u>
Depreciable capital assets, net	<u>2,129,568</u>	<u>(439,496)</u>	<u>-</u>	<u>574,893</u>	<u>2,264,965</u>
Capital assets, net	<u>\$ 23,961,055</u>	<u>\$ 1,012,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,974,010</u>
	Balance, December 31, 2011	Additions	Retirements	Transfers	Balance, December 31, 2012
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 11,763,838	\$ 1,610,319	\$ -	\$ -	\$ 13,374,157
Construction in progress	8,019,723	1,911,691	-	(1,474,084)	8,457,330
Total nondepreciable capital assets	<u>19,783,561</u>	<u>3,522,010</u>	<u>-</u>	<u>(1,474,084)</u>	<u>21,831,487</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	32,592	-	-	-	32,592
Buildings and improvements	1,165,269	4,715	-	-	1,169,984
Equipment	2,364,015	121,135	-	1,474,084	3,959,234
LESS ACCUMULATED DEPRECIATION					
Buildings and improvements	(416,593)	(209,104)	-	-	(625,697)
Equipment	<u>(2,224,826)</u>	<u>(181,719)</u>	<u>-</u>	<u>-</u>	<u>(2,406,545)</u>
Depreciable capital assets, net	<u>920,457</u>	<u>(264,973)</u>	<u>-</u>	<u>1,474,084</u>	<u>2,129,568</u>
Capital assets, net	<u>\$ 20,704,018</u>	<u>\$ 3,257,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,961,055</u>

The District capitalized interest cost of \$574,893 and \$975,089 during the years ended December 31, 2013 and 2012.

Depreciation expense for the years ended December 31, 2013 and 2012, was \$475,992 and \$390,823, respectively.

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

Note 7 - Line of Credit

The District has a line of credit with a bank for \$1,500,000. The interest rate at December 31, 2013, was 7.0% and is payable monthly. The line of credit expires in 2014. Changes in the District's line of credit for the years ended December 31, 2013 and 2012, are as follows:

Balance, January 1, 2013	Additions	Reductions	Balance December 31, 2013
\$ 1,390,000	\$ -	\$ (245,000)	\$ 1,145,000
Balance, January 1, 2012	Additions	Reductions	Balance December 31, 2012
\$ 1,286,267	\$ 103,733	\$ -	\$ 1,390,000

Note 8 - Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2013 and 2012, for the District consisted of the following:

	2013	2012
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 bonds, series 2009, 7.00% to 7.25%, due semiannually on June 1 and December 1, maturing in 2039, with annual amounts ranging from \$240,000 to \$2,615,000, net of unamortized discount of \$539,217 and \$562,412.	21,105,783	21,082,588
Limited tax general obligation and refunding bonds, series 2005A, 5.35%, due semiannually on June 1 and December 1, maturing in 2025, with annual amounts ranging from \$52,000 to \$583,333.	3,941,333	3,941,333
Capital lease obligation, stated at present value of future minimum lease payments.	74,136	107,064
	40,481,252	40,490,985
Less current portion	(87,368)	(32,928)
	\$ 40,393,884	\$ 40,458,057

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

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

Changes in the District's long-term liabilities and line of credit during the years ended December 31, 2013 and 2012, are summarized below:

	Balance, December 31, 2012	Additions	Reductions	Balance, December 31, 2013	Amounts Due Within One Year
Bonds payable					
2011 LTGO bonds	\$ 15,360,000	\$ -	\$ -	\$ 15,360,000	\$ -
2009 LTGO bonds	21,082,588	-	23,195	21,105,783	-
2005A LTGO bonds	3,941,333	-	-	3,941,333	52,000
Capital lease obligation	107,064	-	(32,928)	74,136	35,368
Total noncurrent liabilities	<u>\$ 40,490,985</u>	<u>\$ -</u>	<u>\$ (9,733)</u>	<u>\$ 40,481,252</u>	<u>\$ 87,368</u>
	Balance, December 31, 2011	Additions	Reductions	Balance, December 31, 2012	Amounts Due Within One Year
Bonds payable					
2011 LTGO bonds	\$ 15,360,000	\$ -	\$ -	\$ 15,360,000	\$ -
2009 LTGO bonds	20,802,947	-	279,641	21,082,588	-
2005A LTGO bonds	3,941,333	-	-	3,941,333	-
Note payable to MHC LTRA, Inc.	6,304,988	-	(6,304,988)	-	-
Note payable to MVPB, LLC	327,244	-	(327,244)	-	-
Capital lease obligation	-	134,195	(27,131)	107,064	32,928
Total noncurrent liabilities	<u>\$ 46,736,512</u>	<u>\$ 134,195</u>	<u>\$ (6,379,722)</u>	<u>\$ 40,490,985</u>	<u>\$ 32,928</u>

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

	Principal	Interest
2014	\$ 87,368	\$ 2,840,132
2015	146,989	2,833,205
2016	185,879	2,823,434
2017	246,667	2,811,828
2018	314,667	2,796,812
Amounts due 2019 - 2023	2,463,333	13,660,592
Amounts due 2024 - 2028	4,165,667	12,815,105
Amounts due 2029 - 2033	8,365,000	10,849,051
Amounts due 2034 - 2038	14,125,000	7,094,864
Amounts due 2039 - 2040	10,920,000	1,074,377
	41,020,569	<u>\$ 59,599,400</u>
Less amount representing unamortized discount and gains and losses on refinancings	<u>539,317</u>	
	<u>\$ 40,481,252</u>	

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

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 \$85,000 and \$153,000 in 2013 and 2012, 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 \$129,000 and \$117,000 in 2013 and 2012, respectively. Contributions made by employees to the benefit plan totaled approximately \$501,000 and \$563,000 in 2013 and 2012, respectively. For more information on the plans, contact the District's human resources office.

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:

	2013	2012
Medicare	34%	35%
Medicaid	18%	11%
Other commercial	33%	39%
Patient and self-pay	15%	15%
	100%	100%

PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

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, 2013:

2014	\$	358,000
2015		205,000
2016		<u>113,000</u>
	\$	<u>676,000</u>

Rent expense on operating leases for 2013 and 2012 was \$975,034 and \$967,458 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.

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.

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

Note 12 - Prior-Period Adjustment

During the year, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. The requirements of this statement are meant to improve financial reporting by clarifying the appropriate use of the financial statement elements. Because this statement is retroactively applicable, as a result of this implementation, the following financial statement line items were restated as of December 31, 2012:

	<u>As Originally Reported</u>	<u>Effect of Change</u>	<u>As Restated</u>
Deferred financing costs	\$ 892,586	\$ (892,586)	\$ -
Total assets	38,149,122	(892,586)	37,256,536
Deferred outflows of resources			
Deferred loss on refunding	-	266,412	266,412
Long-term debt, net of current portion	40,191,645	266,412	40,458,057
Net position			
Unrestricted	(6,122,303)	(892,586)	(7,014,889)
Operating expenses			
Depreciation and amortization	390,823	(34,135)	356,688