

Report of Independent Auditors  
and Financial Statements for

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

December 31, 2011 and 2010

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

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

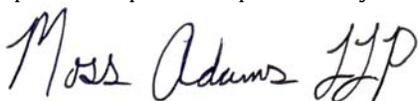
We have audited the balance sheets of Public Hospital District No. 4, King County, Washington (the District), as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, the District sold its hospital campus in July 2008. The District continues to use the existing facility until the new facility is ready for use.

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 2 through 6 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.



Everett, Washington  
August 24, 2012

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

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**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 Assets for 2011**

The District had a net loss for the year of \$1.9 million. The majority of this loss was due to the recognition of items from prior years. The prior-period items total \$1.5 million. Below is a list of these items and their effect on the change in net assets.

- Write-off of impaired assets for a surgery program closed in 2008 (\$310,933 decrease in net assets)
- Settlement for early termination of a lease of a clinic; the clinic was closed in 2008 (\$439,413 decrease in net assets)
- Settlement of a Department of Revenue audit for 2005–2008 (\$184,631 decrease in net assets)
- A decrease in net patient revenue due to the settlement of the 2008 cost report (\$545,167 decrease in net assets)

Excluding the items referenced above, the District's change in net assets for 2011 is a decrease of \$433,568.

In early 2012, the District made changes to its expense base to bring it in line with revenues. The District decreased its expense base by \$1.5 million annually. Through June 2012, the District has a positive change in net assets (unaudited) of \$788,000, excluding the effect of the payoff of the note from the Snoqualmie Tribe (discussed below).

**Note From the Snoqualmie Tribe**

In July 2008, the District sold the existing hospital and campus for \$30,000,000. The sale was financed by the District, which holds a note from the purchaser for that amount. In June 2012, the District negotiated an early payout with the Snoqualmie Tribe. The District received \$14,000,000 from the Tribe in addition to the \$1.8 million already received from the Tribe. The terms of the settlement also allow the District to use the current hospital facility rent-free until its replacement facility is completed.

The settlement gave the District \$14.0 million in cash; \$6.0 million of these proceeds will be used to pay off a note payable to MHC LTRA for the purchase of property. The District will improve its cash position by \$8.0 million in 2012 as a result of settlement of the note with the Snoqualmie Tribe.

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

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**Operational Highlights**

The District currently plans to begin construction of a new facility on a 13-acre site near the intersection of State Highway 18 and Interstate 90 in the spring of 2013 or sooner. 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, a six-room emergency department, and rehabilitation, radiology, and pharmacy services.

In 2011, the District requested quotes from developers to build and finance the new hospital. The District entered into negotiations with developers to build the new hospital in 2011; the District expects the negotiations to be completed in 2012. The District also continued predevelopment work on the new hospital and completed the clearing and grading of the site for the new hospital in 2011.

**Medical Services Utilization**

Inpatient days continued to grow in 2011, increasing by 4.6% over 2010 levels. Clinic visits continued to grow in 2011, increasing by 8.9% over 2010 levels.

**Additional Debt**

The District issued limited tax general obligation bonds in June 2011 with a par value of \$15,360,000. The proceeds from the bonds were used to pay off existing debt and to pay operating and capital costs of the District, including land acquisition and predevelopment costs for the new hospital.

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net operating revenue	\$ 21,485,049	\$ 21,423,400	\$ 19,801,954
Net operating expenses	<u>24,256,446</u>	<u>23,124,432</u>	<u>20,577,119</u>
Operating loss	(2,771,397)	(1,701,032)	(775,165)
Nonoperating income, net	<u>857,685</u>	<u>1,852,611</u>	<u>1,103,952</u>
Change in net assets	(1,913,712)	151,579	328,787
Net deficit, beginning of year	<u>(15,427,513)</u>	<u>(15,579,092)</u>	<u>(15,907,879)</u>
Net deficit, end of year	<u>\$ (17,341,225)</u>	<u>\$ (15,427,513)</u>	<u>\$ (15,579,092)</u>

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

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**Operating Revenue**

District revenues included \$21.5 million in operating revenue adjusted for contractual allowances, bad debts, and charity care. The provision for uncollectible accounts (bad debt plus charity care) increased from \$643,069 in 2010 to \$1,030,971 in 2011. Net patient revenue was affected by a settlement of \$545,167 (payment to Medicare and decrease in net patient revenue) for the settlement of the 2008 Medicare Cost Report.

**Operating Expenses**

Operating expense increased by 4.9%; this increase was the result of the increase of 4.6% in inpatient days and 8.9% in clinic visits. Wages, employee benefits, and contract labor comprised 69.9% of total operating expenses in 2011, which was the same as the 2009 percentage. There was an 8.8% increase in salaries due to the increased inpatient volumes and salary increases of 3.0% in 2011.

Nonpersonnel expenses decreased by 2.1% from 2010 to 2011.

**Nonoperating Income (Expense)**

Taxation for bond principal and interest decreased by \$944,008 with the payoff of the majority of the UTGO bond debt in 2010. The remainder of the District's UTGO bond debt was retired in 2011.

The District wrote off \$310,933 in capital associated with a surgery program closed in 2008.

The District recognized the expense associated with the termination of leased space for a clinic closed in 2008 for \$439,413.

Grant income increased from \$8,646 to \$786,190 with the reimbursement to the District for the implementation of its electronic medical record (EMR) system under the Medicare EHR incentive program.

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

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**Balance Sheet**

The following is a presentation of certain condensed financial information derived from the District's balance sheet:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Current assets	\$ 19,074,172	\$ 4,900,336	\$ 4,098,659
Capital assets, net	20,704,018	18,469,497	9,921,998
Other noncurrent assets	<u>3,426,889</u>	<u>31,095,198</u>	<u>32,813,093</u>
Total assets	<u>\$ 43,205,079</u>	<u>\$ 54,465,031</u>	<u>\$ 46,833,750</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 20,514,031	\$ 6,581,844	\$ 4,353,080
Noncurrent liabilities	<u>40,032,273</u>	<u>63,310,700</u>	<u>58,059,762</u>
Total liabilities	<u>\$ 60,546,304</u>	<u>\$ 69,892,544</u>	<u>\$ 62,412,842</u>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	\$ (10,926,151)	\$ (8,581,907)	\$ (11,469,656)
Restricted for debt service	438,198	550,174	507,987
Unrestricted	<u>(6,853,272)</u>	<u>(7,395,780)</u>	<u>(4,617,423)</u>
Total net deficit	<u>(17,341,225)</u>	<u>(15,427,513)</u>	<u>(15,579,092)</u>
Total liabilities and net deficit	<u>\$ 43,205,079</u>	<u>\$ 54,465,031</u>	<u>\$ 46,833,750</u>

**Assets**

Assets decreased by \$11.3 million due to the recognition of the re-negotiated value of the note from the Snoqualmie Tribe; negotiations with the Snoqualmie Tribe were completed in June 2012.

**Liabilities and Net Assets (Deficit)**

Liabilities decreased by \$9.3 million due to the decrease in the deferred gain that resulted from the re-negotiation of the note from the Snoqualmie Tribe in June 2012.

Net deficit increased due to the District's loss in 2011.

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

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**Balance Sheet (continued)**

**Deferred Gain**

A deferred gain was recorded on the installment sale of the hospital campus in 2008. With the re-negotiation of the note from the Snoqualmie Tribe, the deferred gain was decreased and moved to a current liability in anticipation of the payoff of the note in June 2012.

**Long-Term Debt**

Long-term debt increased as a result of the issuance of LTGO bonds in 2011.

**Statement of Cash Flows**

Net cash from operating activities (\$5,072,887) was impacted by a number of factors:

- The underpayment by Medicare of \$1,059,877, which was settled in 2012 on our 2011 cost report; with the cost report settlement, our Medicare reimbursement rate was increased.
- The payback of overpayments from prior years to Medicare and private insurers of \$1,970,676. The District has settled all these debts.

With these items settled and the expense reduction plan we implemented in early 2012 (see above), the District expects to have a positive cash flow from operations in the future.

**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**  
**BALANCE SHEETS**

**ASSETS**

	December 31,	
	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 187,139	\$ 316,018
Assets limited as to use required for current liabilities	236,410	416,936
Patient accounts receivable, net of allowances for doubtful accounts and contractual adjustments of \$278,406 in 2011 and \$208,484 in 2010	3,419,593	3,553,925
Other receivables	278,239	13,457
Estimated third-party payor settlements	278,587	-
Note receivable	14,600,000	600,000
Prepaid expenses and other assets	74,204	-
Total current assets	<u>19,074,172</u>	<u>4,900,336</u>
ASSETS LIMITED AS TO USE, net of current portion	<u>2,491,819</u>	<u>1,571,954</u>
NOTE RECEIVABLE, net of current portion	<u>-</u>	<u>29,000,000</u>
<b>CAPITAL ASSETS</b>		
Land	11,763,838	11,763,838
Construction in progress	8,019,723	5,324,491
Depreciable capital assets, net of accumulated depreciation and amortization	<u>920,457</u>	<u>1,381,168</u>
Total capital assets, net of accumulated depreciation and amortization	<u>20,704,018</u>	<u>18,469,497</u>
DEFERRED FINANCING COSTS	<u>935,070</u>	<u>523,244</u>
	<u>\$ 43,205,079</u>	<u>\$ 54,465,031</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,832,352	\$ 2,092,882
Accrued compensation and related liabilities	1,262,006	1,064,218
Accrued interest payable	236,410	191,423
Estimated third-party payor settlements	-	1,470,314
Line of credit	1,286,267	742,000
Deferred gain	9,264,764	491,007
Current maturities of long-term debt	<u>6,632,232</u>	<u>530,000</u>
Total current liabilities	20,514,031	6,581,844
DEFERRED GAIN	-	23,732,001
LONG-TERM DEBT, net of current maturities	<u>40,032,273</u>	<u>39,578,699</u>
Total liabilities	<u>60,546,304</u>	<u>69,892,544</u>
<b>NET ASSETS (DEFICIT)</b>		
Invested in capital assets net of related debt	(10,926,151)	(8,581,907)
Restricted for debt service	438,198	550,174
Unrestricted	<u>(6,853,272)</u>	<u>(7,395,780)</u>
Total net assets (deficit)	<u>(17,341,225)</u>	<u>(15,427,513)</u>
	<u>\$ 43,205,079</u>	<u>\$ 54,465,031</u>

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

	Years Ended December 31,	
	2011	2010
<b>OPERATING REVENUE</b>		
Net patient service revenue (net of provision for bad debts of \$1,030,971 in 2011 and \$643,069 in 2010)	\$ 20,603,359	\$ 20,614,208
Taxation for operations	843,739	755,260
Other	37,951	53,932
Total operating revenue	<u>21,485,049</u>	<u>21,423,400</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	14,224,490	13,072,768
Employee benefits	2,721,840	2,582,360
Professional fees	1,260,763	1,469,345
Supplies	2,066,231	1,932,311
Repairs and maintenance	39,916	49,540
Utilities	376,592	351,956
Purchased services	1,256,500	1,452,298
Insurance	377,125	329,837
Leases and rentals	912,279	842,484
Depreciation and amortization	280,122	345,850
Other	740,588	695,683
Total operating expenses	<u>24,256,446</u>	<u>23,124,432</u>
<b>OPERATING LOSS</b>	<u>(2,771,397)</u>	<u>(1,701,032)</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Investment income, net of accounts capitalized	20,517	36,656
Taxation for bond principal and interest	2,343,178	3,287,186
Interest expense, net of amount capitalized	(2,154,299)	(1,795,449)
Gain on disposal of capital assets	613,908	309,435
Grant income	786,190	8,646
Impairment of capital assets	(310,933)	-
Settlement on early termination of lease	(439,413)	-
Other, net	(1,463)	6,137
Nonoperating income, net	<u>857,685</u>	<u>1,852,611</u>
<b>CHANGE IN NET ASSETS</b>	(1,913,712)	151,579
<b>NET DEFICIT, beginning of year</b>	<u>(15,427,513)</u>	<u>(15,579,092)</u>
<b>NET DEFICIT, end of year</b>	<u>\$ (17,341,225)</u>	<u>\$ (15,427,513)</u>

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

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

	Years Ended December 31,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from and on behalf of patients	\$ 18,988,790	\$ 19,530,374
Cash paid to suppliers	(16,748,542)	(15,247,702)
Cash paid to employees	(7,364,728)	(6,082,319)
Other cash receipts	51,593	40,475
Net cash from operating activities	<u>(5,072,887)</u>	<u>(1,759,172)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash from tax levies considered a noncapital financing activity	843,739	755,260
Other	7,354	14,783
Net cash from noncapital financing activities	<u>851,093</u>	<u>770,043</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(2,825,576)	(2,248,741)
Cash from tax levies for general obligation bonds	2,339,182	3,293,467
Change in line of credit	544,267	742,000
Payment received from note receivable	750,000	400,000
Grant proceeds for electronic health record	498,949	-
Proceeds from issuance of long-term debt	15,330,207	-
Cash paid for issuance of long-term debt	(447,857)	-
Principal payments on long-term debt	(9,227,043)	(967,097)
Interest paid on long-term debt, net of amount capitalized	(2,060,052)	(1,735,567)
Other, net	(94,336)	(34,464)
Net cash from capital and related financing activities	<u>4,807,741</u>	<u>(550,402)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income, net of amount capitalized	20,517	36,656
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	606,464	(1,502,875)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,174,316</u>	<u>3,677,191</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 2,780,780</u>	<u>\$ 2,174,316</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>		
Cash and cash equivalents	\$ 187,139	\$ 316,018
Cash and cash equivalents in assets whose use is limited	2,593,641	1,858,298
	<u>\$ 2,780,780</u>	<u>\$ 2,174,316</u>

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

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

	Years Ended December 31,	
	2011	2010
RECONCILIATION OF OPERATING LOSS TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (2,771,397)	\$ (1,701,032)
Adjustments to reconcile operating loss to net cash from operating activities		
Revenue from tax levies considered noncapital financing activity	(843,739)	(755,260)
Depreciation and amortization	280,122	345,850
Provision for bad debts	1,030,971	643,069
Change in assets and liabilities		
Patient accounts receivable	(896,639)	(1,680,871)
Other receivables	13,642	(13,457)
Prepaid expenses and other assets	(74,204)	-
Estimated third-party payor settlements	(1,748,901)	(46,032)
Accounts payable	(260,530)	1,041,135
Accrued compensation and related liabilities	197,788	407,426
	<u>\$ (5,072,887)</u>	<u>\$ (1,759,172)</u>
Net cash from operating activities		
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL ACTIVITY		
Acquisition of property with note payable to seller	<u>\$ -</u>	<u>\$ 6,754,988</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 1 - Organization**

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

The District was working in preparation for a modernization of existing hospital facilities to improve outpatient access and expand services to improve patient care and reduce ongoing operating losses. During this process, the District recognized that the existing facility will not accommodate the growth anticipated for the communities the District serves. Possible relocation sites were identified and preliminary site evaluations performed.

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.

In November 2010, the District successfully settled a land use lawsuit with MHC LTRA, Inc. that resulted in the District's acquisition of a 22-acre parcel for approximately \$6,700,000. Under the terms of the settlement agreement, the District makes monthly installment payments to MHC LTRA, Inc., contingent upon receipt of payments on the note receivable. The District intends to hold this site for future health care expansion needs.

### **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. During the year ended December 31, 2011, the District recognized a decrease to net patient service revenue of \$545,167 related to changes in previous estimates.

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

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**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. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with GASB pronouncements.

**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 except for debt securities purchased within one year of maturity, which are carried at amortized cost. Investment income earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Realized and unrealized investment income or losses on other investments are 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. The balance at December 31, 2011, represents the amount to be received under the amendment.

**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

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

### **NOTES TO FINANCIAL STATEMENTS**

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

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.

**Deferred gain** - The gain on the sale of the hospital campus is recorded on the installment basis. Deferred gain was originally recorded in the amount of \$24,602,287, with the gain recorded as nonoperating revenue as payments are made on the note receivable. Deferred gain recognized as income during the years ended December 31, 2011 and 2010, was \$613,908 and \$379,279, respectively. The deferred gain was reduced as of December 31, 2011, based on the amendment of the related note (Note1).

**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 assets** - Net assets of the District are classified into three components: Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a specific purpose, as specified by debtors, grantors, or contributors external to the District. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital net of related debt or restricted.

**Operating revenues and expenses** - The District's statements of revenues, expenses, and changes in net assets distinguishes 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.

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

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**Note 2 - Summary of Significant Accounting Policies (continued)**

**Net 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 2011 and 2010 measured by the District's standard charges was \$561,214 and \$462,990, 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, 2010, financial statements have been reclassified to conform to the December 31, 2011, financial statement presentation.

**Subsequent events** - Subsequent events are events or transactions that occur after the balance sheet 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 balance sheet, 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 balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The District has evaluated subsequent events through August 24, 2012, which is the date the financial statements are issued. The only subsequent event that was identified is the amendment to the note receivable (Note 1).

**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.

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

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**Note 3 - Net Patient Service Revenue (continued)**

**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 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 \$12,131,000 and \$12,597,000 for 2011 and 2010, respectively. Net unsecured patient accounts receivable due from Medicare at December 31 was \$1,150,000 and \$1,171,000 in 2011 and 2010, respectively.

**Medicaid** - As a critical access hospital, the District is reimbursed for inpatient and outpatient services rendered to Medicaid program beneficiaries on a cost reimbursement methodology. Under this methodology, the District is reimbursed at a tentative rate, with final settlement determined after audits by the Medicare 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 \$1,380,000 and \$1,226,000 for 2011 and 2010, respectively. Unsecured patient accounts receivable due from Medicaid at December 31 were \$395,000 and \$397,000 in 2011 and 2010, respectively.

The District's estimates of final settlements to or from Medicare and Medicaid for all years through 2011 have been recorded in the accompanying balance sheets. 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, 2008.

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

	<u>2011</u>	<u>2010</u>
Gross patient service charges	<u>\$ 27,841,296</u>	<u>\$ 24,320,173</u>
Adjustments to patient service charges		
Contractual discounts	5,645,752	2,599,906
Provision for bad debts	1,030,971	643,069
Charity care	<u>561,214</u>	<u>462,990</u>
	<u>7,237,937</u>	<u>3,705,965</u>
Net patient service revenue	<u><u>\$ 20,603,359</u></u>	<u><u>\$ 20,614,208</u></u>

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

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**Note 4 - Deposits and Investments**

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool, eligible bankers' acceptances, and repurchase agreements (up to 30 days).

As a political subdivision of the State, the District categorizes deposits and investments to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name. The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. All cash and cash equivalents held by the County Treasurer's Office are insured by the State of Washington Public Deposit Protection Commission, as provided by Chapter 39.58 of the Revised Code of Washington. Qualified public depositories pledge securities with this Commission, which are available to insure public deposits within the state of Washington.

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

	2011	2010
Cash and cash equivalents		
Investment in King County Investment Pool	\$ 187,139	\$ 316,018
Assets whose use is limited		
UTGO Bond Fund		
Investment in King County Investment Pool	270,757	381,832
Taxes receivable	15,943	31,069
LTGO Bond Fund		
Investment in King County Investment Pool	2,322,760	1,476,422
Taxes receivable	118,645	99,523
Construction Fund		
Investment in King County Investment Pool	124	44
	2,728,229	1,988,890
Total deposits and investments	\$ 2,915,368	\$ 2,304,908

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

### **NOTES TO FINANCIAL STATEMENTS**

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#### **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, as 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.

#### **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.

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 2011 and 2010, the District's regular tax levy was \$0.48 and \$0.46 per \$1,000 on a total assessed valuation of \$6,293,526,535 and \$6,454,809,181, respectively, for a total regular levy of \$3,019,507 and \$2,944,865, respectively. A portion of the tax revenue from the regular levy has been pledged toward payments of the limited tax general obligation (LTGO) bonds. In addition, there is a voter-approved tax levy for service of the unlimited tax general obligation (UTGO) bonds. For 2011 and 2010, the tax levy UTGO for bond service was \$0.00 and \$0.17 per \$1,000 on a total assessed valuation, respectively, for a total UTGO bond levy of \$0 and \$994,731, respectively.

**Note 6 - Capital Assets**

Capital asset additions, retirements, and balances for the years ended December 31, 2011 and 2010, were as follows:

	Balance, December 31, 2010	Additions	Retirements	Balance, December 31, 2011
<b>NONDEPRECIABLE CAPITAL ASSETS</b>				
Land	\$ 11,763,838	\$ -	\$ -	\$ 11,763,838
Construction in progress	5,324,491	2,695,232	-	8,019,723
Total nondepreciable capital assets	<u>17,088,329</u>	<u>2,695,232</u>	<u>-</u>	<u>19,783,561</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>				
Land improvements	30,285	2,307	-	32,592
Buildings and improvements	1,126,523	38,746	-	1,165,269
Equipment	2,889,797	89,291	(615,073)	2,364,015
<b>LESS ACCUMULATED DEPRECIATION</b>				
Buildings and improvements	(224,054)	(192,539)	-	(416,593)
Equipment	<u>(2,441,383)</u>	<u>(87,583)</u>	<u>304,140</u>	<u>(2,224,826)</u>
Depreciable capital assets, net	<u>1,381,168</u>	<u>(149,778)</u>	<u>(310,933)</u>	<u>920,457</u>
Capital assets, net	<u>\$ 18,469,497</u>	<u>\$ 2,545,454</u>	<u>\$ (310,933)</u>	<u>\$ 20,704,018</u>
	Balance, December 31, 2009	Additions	Retirements	Balance, December 31, 2010
<b>NONDEPRECIABLE CAPITAL ASSETS</b>				
Land	\$ 5,008,850	\$ 6,754,988	\$ -	\$ 11,763,838
Construction in progress	3,895,220	1,429,271	-	5,324,491
Total nondepreciable capital assets	<u>8,904,070</u>	<u>8,184,259</u>	<u>-</u>	<u>17,088,329</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>				
Land improvements	9,459	20,826	-	30,285
Buildings and improvements	516,316	610,207	-	1,126,523
Equipment	2,811,740	78,057	-	2,889,797
<b>LESS ACCUMULATED DEPRECIATION</b>				
Buildings and improvements	(129,583)	(94,471)	-	(224,054)
Equipment	<u>(2,190,004)</u>	<u>(251,379)</u>	<u>-</u>	<u>(2,441,383)</u>
Depreciable capital assets, net	<u>1,017,928</u>	<u>363,240</u>	<u>-</u>	<u>1,381,168</u>
Capital assets, net	<u>\$ 9,921,998</u>	<u>\$ 8,547,499</u>	<u>\$ -</u>	<u>\$ 18,469,497</u>

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

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**Note 6 - Capital Assets (continued)**

The District capitalized interest cost of \$752,396 and \$677,165 during the years ended December 31, 2011 and 2010.

Depreciation expense of operating assets for the years ended December 31, 2011 and 2010, was \$280,122 and \$345,850, respectively.

**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, 2011, was 7.0% and is payable monthly. The line of credit expires in June 2013. Changes in the District's line of credit for the years ended December 31, 2011 and 2010, are as follows:

Balance, January 1, 2011	Additions	Reductions	Balance December 31, 2011
\$ 742,000	\$ 1,944,267	\$ (1,400,000)	\$ 1,286,267
Balance, January 1, 2010	Additions	Reductions	Balance December 31, 2010
\$ -	\$ 742,000	\$ -	\$ 742,000

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

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**Note 8 - Long-Term Debt and Other Noncurrent Liabilities**

Interest rates and maturities of long-term debt at December 31, 2011 and 2010, for the District consisted of the following:

	<u>2011</u>	<u>2010</u>
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, net of unamortized loss on refinancing of \$72,007.	\$ 15,287,993	\$ -
Limited tax general obligation bonds, series 2009, 7.00% to 7.25%, due semiannually on June 1 and December 1, maturing in 2025, with annual amounts ranging from \$240,000 to \$2,615,000, net of unamortized discount of \$582,008 and \$603,368 and unamortized loss on refinancing of \$260,045 and \$325,685 in 2011 and 2010, respectively.	20,802,947	20,715,947
Limited tax general obligation bonds, series 2006B, defeased in 2011.	-	5,712,000
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	6,874,000
Unlimited tax general obligation and refunding bonds, series 2005, paid off in 2011.	-	126,764
Note payable to MHC LTRA, Inc., for purchase of property, 6.00%, principal payments due monthly contingent upon receipt of Snoqualmie Indian Reservation Tribe Receivable payments.	6,304,988	6,679,988
Note payable to MVPB, LLC, for a legal settlement, 8.00%, principal payments due monthly contingent upon receipt of Snoqualmie Indian Reservation Tribe Receivable payments.	<u>327,244</u>	<u>-</u>
	46,664,505	40,108,699
Less current portion	<u>(6,632,232)</u>	<u>(530,000)</u>
	<u>\$ 40,032,273</u>	<u>\$ 39,578,699</u>

**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, 2011 and 2010, are summarized below:

	Balance, December 31, 2010	Additions	Reductions	Balance, December 31, 2011	Amounts Due Within One Year
Bonds payable					
2011 LTGO bonds	\$ -	\$ 15,287,993	\$ -	\$ 15,287,993	\$ -
2009 LTGO bonds	20,715,947	87,000	-	20,802,947	-
2006B LTGO bonds	5,712,000	-	(5,712,000)	-	-
2005A LTGO bonds	6,874,000	-	(2,932,667)	3,941,333	-
2005 UTGO bonds	126,764	-	(126,764)	-	-
Note payable to MHC LTRA, Inc.	6,679,988	-	(375,000)	6,304,988	6,304,988
Note payable to MVPB, LLC	-	429,209	(101,965)	327,244	327,244
Deferred gain	<u>24,223,008</u>	<u>-</u>	<u>(14,958,244)</u>	<u>9,264,764</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 64,331,707</u>	<u>\$ 15,804,202</u>	<u>\$(24,206,640)</u>	<u>\$ 55,929,269</u>	<u>\$ 6,632,232</u>
	Balance, December 31, 2009	Additions	Reductions	Balance, December 31, 2010	Amounts Due Within One Year
Bonds payable					
2009 LTGO bonds	\$ 20,657,947	\$ -	\$ 58,000	\$ 20,715,947	\$ -
2006B LTGO bonds	5,797,000	-	(85,000)	5,712,000	-
2005A LTGO bonds	6,932,333	-	(58,333)	6,874,000	105,000
2005 UTGO bonds	1,008,528	-	(881,764)	126,764	125,000
Note payable to MHC LTRA, Inc.	-	7,104,988	(425,000)	6,679,988	300,000
Deferred gain	<u>24,602,287</u>	<u>-</u>	<u>(379,279)</u>	<u>24,223,008</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 58,998,095</u>	<u>\$ 7,104,988</u>	<u>\$(1,771,376)</u>	<u>\$ 64,331,707</u>	<u>\$ 530,000</u>

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

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

Scheduled principal and interest repayments on bonds and notes payable are as follows:

	Principal	Interest
2012	\$ 6,632,232	\$ 3,039,298
2013	-	2,852,488
2014	52,000	2,843,077
2015	109,000	2,831,855
2016	185,000	2,823,375
Amounts due 2017 - 2021	2,041,333	13,892,372
Amounts due 2022 - 2026	2,969,000	13,203,238
Amounts due 2027 - 2031	6,630,000	11,838,204
Amounts due 2032 - 2036	11,555,000	8,843,124
Amounts due 2037 - 2040	17,405,000	3,325,691
	47,578,565	\$ 65,492,722
Less amount representing unamortized discount and gains and losses on refinancings	914,060	
	\$ 46,664,505	

**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 \$63,000 and \$85,000 in 2011 and 2010, respectively.

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

## NOTES TO FINANCIAL STATEMENTS

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### Note 9 - Retirement Plans (continued)

**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 \$108,000 and \$96,000 in 2011 and 2010, respectively. Contributions made by employees to the benefit plan totaled approximately \$376,000 and \$302,000 in 2011 and 2010, 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 receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	35%	30%
Medicaid	13%	12%
Other commercial	33%	41%
Patient and self-pay	19%	17%
	<u>100%</u>	<u>100%</u>

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

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**Note 11 - Commitments and Contingencies**

**Operating leases** - The District leases certain facilities and equipment under operating lease arrangements. In 2011, the District vacated a portion of its leased facility space and terminated the related lease agreement before the end of the lease term. As a result, the District recognized a loss of \$439,413. The following is a schedule by year of future minimum lease payments as of December 31, 2011:

2012	\$ 705,000
2013	623,000
2014	531,000
2015	207,000
2016	<u>167,000</u>
	<u><u>\$ 2,233,000</u></u>

**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, these 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.