PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY, WASHINGTON, DBA VALLEY MEDICAL CENTER

(A Component Unit of the University of Washington)

Financial Statements

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER
(A Component Unit of the University of Washington)

Table of Contents

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
The Board of Commissioner
Public Hospital District No. 1 of King County, Washington
d/b/a Valley Medical Center

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Public Hospital District No. 1 of King County, Washington d/b/a Valley Medical Center (the District), a component unit of the University of Washington, as of and for the year ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the District, as of June 30, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

Seattle Washington
September 20, 2024

The following discussion and analysis provides an overview of the financial position and activities of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center (VMC), as of and for the years ended June 30, 2024 and 2023. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

VMC is a discretely presented component unit of the University of Washington and part of University of Washington Medical Center (UW Medical Center), UW Physicians Network dba UW Medicine Primary Care (UWM PC), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift), and shared service departments that support the entire UW Medicine enterprise.

Using the Financial Statements

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. VMC's basic financial statements consist of three statements: statements of net position; statements of revenues, expense, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of VMC, including resources held by VMC but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statements of net position include all of VMC's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose. The statements of net position also include deferred inflows and outflows of resources as well as information to evaluate the capital structure of VMC and assess the liquidity and financial flexibility of VMC.

The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time period indicated. Net position, the difference between the sum of assets and the sum of liabilities and deferred inflows and outflows, is one way to measure the financial health of VMC and whether the organization has been able to recover all its costs through net patient service revenue and other revenue sources.

The statements of cash flows report the cash provided by VMC's operating activities, as well as other cash sources and uses, such as investment income and cash payments for capital additions and improvements. These statements provide meaningful information on how VMC's cash was generated and what it was used for.

Results of Operations

The novel coronavirus (COVID-19) pandemic has had widespread impacts on societal and economic conditions at a local, national, and global level, and has had a significant impact on VMC's operations. Financial and liquidity support has been received from federal and state sources and has helped VMC to address the negative impacts from COVID-19. VMC received government funding to aid in the reimbursement of additional expenses, which were presented in the financial results for fiscal years 2024 and 2023.

VMC recorded a $42.7 million net operating loss for fiscal year 2024; this is a change of $16.3 million from the net operating loss of $26.4 million in 2023. In 2024, VMC's net position increased by $50.2 million to $285.3 million from $235.1 million. The net operating loss in 2024 was primarily due to increased cost of labor and supplies as a result of inflationary increases; patient service revenue compression from payers; and a significant decrease in contract pharmacy revenues. The increase in net position in 2024 is attributed to an increase of nonoperating revenues as a result of $78.2 million recognized for Federal Emergency Management Agency (FEMA) Public Assistance program funds. FEMA funds are received for the reimbursement of expenses incurred as a result of COVID-19 pandemic in fiscal years 2023 and prior.

The chart below is a summary of the statements of revenue, expenses, and changes in net position for the past three years.

	2024	2023	2022
		(In thousands)	
Total operating revenues	$ 907,671	889,001	797,416
Total operating expenses	950,419	915,387	866,685
Operating loss	(42,748)	(26,386)	(69,269)
Property tax revenue	26,144	25,595	24,965
Interest income	2,059	1,536	1,779
Interest and amortization expense	(15,658)	(16,325)	(16,683)
Investment income (loss), net	5,176	(334)	(8,193)
Other federal and state funding	78,155	29,200	11,583
Other, net	(2,933)	(2,192)	(3,188)
Nonoperating income	92,943	37,480	10,263
Change in net position	50,195	11,094	(59,006)
Net position, beginning of year	235,134	224,040	283,046
Net position, end of year	$ 285,329	235,134	224,040

Performance for fiscal year 2024 and 2023 is primarily being driven by:

- Inpatient days decreased 0.2% from 2023 to 2024 and increased 3% from 2022 to 2023.
- Inpatient discharges increased 4.4% from 2023 to 2024 and 4.3% from 2022 to 2023.
- During fiscal year 2024, VMC continued to focus on reducing high length of stay (LOS) and work on initiatives to safely discharge patients with barriers. Those efforts resulted in 4.4% lower LOS than 2023. As the pandemic officially ended in May 2023, VMC experienced less acuity of patients in 2024 than 2023.

(Continued)

- Contract labor expenses decreased from $27.7 million in 2023 to $23.6 million in 2024 due to less utilization of agency personnel and continued efforts to negotiate lower rates post COVID-19 pandemic. VMC stayed nimble and reduced expenses such as consulting and travel expenditures.
- To remain competitive in the labor market and retain VMC's talented workforce, VMC implemented a two-phase retention program. Phase I was paid out in June 2022 and phase II was paid out in April 2023. VMC also completed wage reopener negotiations with SEIU in fiscal year 2023. Both initiatives have increased labor expenses for fiscal year 2023. VMC completed and implemented phase III wage analysis, mostly for non-contract non-management employees in fiscal year 2024. The project increased labor expenses for fiscal year 2024.
- In fiscal year 2024, VMC experienced a significant decline in the contract pharmacies program. In fiscal year 2024, revenue decreased 84% from 2023 by $41.5 million to $7.9 million. In fiscal year 2023, revenue increased 25% from 2022 by $9.9 million to $49.4 million.
- VMC continued to invest in information technology. The primary project underway during fiscal year 2021 and continuing into fiscal year 2022 was the transformation of financial and supply chain system from McKesson to Infor Cloudsuite. The Infor Cloudsuite system is branded as "Compass" at VMC. Compass phase I went live on June 2, 2021 for MyFinancial/My Supplies. Compass phase II for MyBudget, also known as dEPM, went live in February 2022. In fiscal year 2024, the primary focus was MyPeople, converting from Kronos to Infor payroll. Infor payroll went live on January 1, 2024.

The chart below represents the key performance statistics for the last three years.

	2024	2023	2022
Available beds	328	325	331
Discharges	17,018	16,298	15,627
Patient days	84,804	84,942	82,352
Average length of stay	4.98	5.21	5.27
Occupancy	71 %	72 %	68 %
Case mix index (CMI)	1.78	1.85	1.82
Surgery cases	11,894	11,866	10,828
Emergency room visits	88,319	83,330	80,237
Primary care clinic visits	236,850	252,201	245,758
Specialty/urgent care clinic visits	502,072	491,133	456,191
Total ambulatory visits	738,922	743,334	701,949
Full time equivalents (FTEs)	3,717	3,639	3,646
Births	2,733	2,507	2,654

(Continued)

Total Operating Revenues

Total operating revenues consist primarily of net patient service revenue and other operating revenues. Net patient service revenues are recorded based on standard gross charges less contractual adjustments, financial assistance, and a provision for uncollectible accounts. VMC has agreements with federal and state agencies and commercial insurers that provide for payments at amounts different from gross charges. The differences between gross charges and contracted payments are identified as contractual adjustments. VMC provides care at no charge or reduced charges to patients who qualify under VMC's financial assistance policy. VMC also estimates the amount of patient responsibility in accounts receivable that will become uncollectible, which is reported as a reduction of net patient service revenues. The difference between gross charges and the estimated net realizable amounts from payers and patients is recorded as an adjustment to charges. The resulting net patient service revenue is shown in the statements of revenues, expenses, and changes in net position.

Net patient service revenue comprises inpatient and outpatient revenue. Outpatient revenue consists of both hospital-based and clinic professional fees. Other operating revenue comprises hospital-related revenues, such as the pharmacies and the cafeteria.

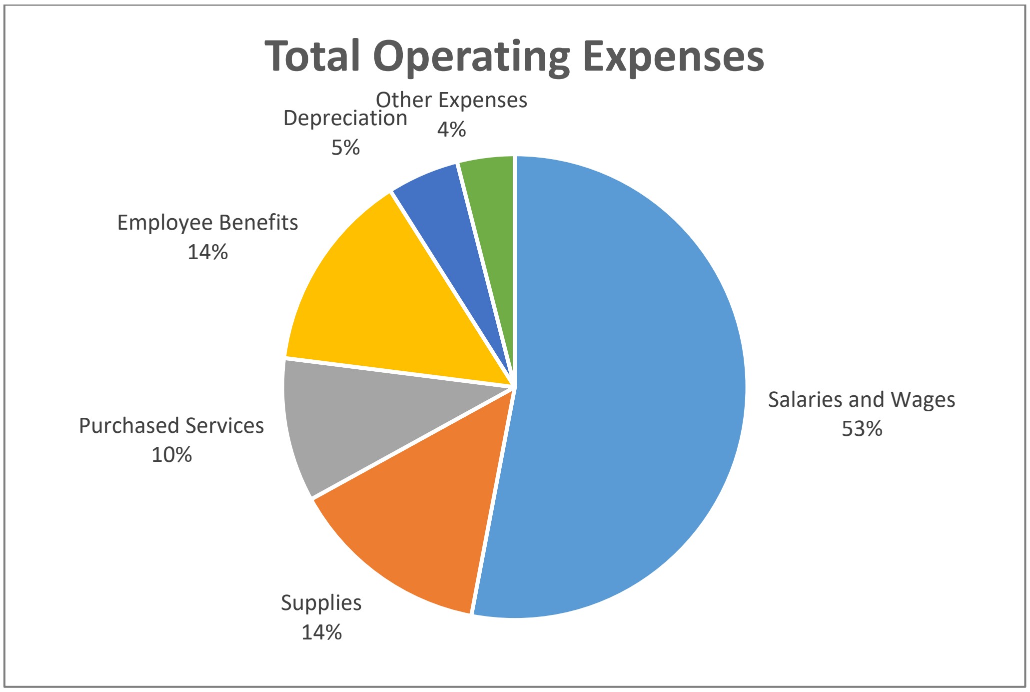
Reimbursement from government payers is generally below commercial rates, and reimbursement rules are complex and subject to both interpretation and retrospective settlements. VMC has significant government revenues subject to settlements as a result of Medicaid and Medicare revenues.

For the years ended June 30, 2024, 2023, and 2022, VMC's total operating revenues were $907.7 million, $889.0 million, and $797.4 million, composed of $855.5 million, $802.5 million, and $730.6 million in net patient service revenue and $52.2 million, $86.5 million, and $66.8 million in other operating revenue, respectively.

In fiscal year 2024, the increase in net patient service revenue of $53.0 million is primarily driven by increased admissions, surgeries, emergency room visits and other rate increases, including the directed payment program (DPP), which is a new program managed by the Washington State Health Care Authority, effective January 1, 2024. The decrease in other operating revenue was due to significant reductions in contract pharmacies' revenue from limitations imposed by drug manufacturers. In fiscal year 2023, the increase in net patient service revenue was due to higher volumes. The increase in other operating revenue was due to distributions from the Proliance joint venture and increases in retail and contract pharmacies.

Total Operating Expenses

Total operating expenses were $950.4 million for the year ended June 30, 2024 compared to $915.4 million for the year ended June 30, 2023. The composition of fiscal year 2024 operating expenses is illustrated in the pie chart below.



Salaries and wages increased $22.7 million from $481.8 million in fiscal year 2023 to $504.5 million in fiscal year 2024 and increased $18.1 million from $463.7 million in fiscal year 2022 to $481.8 million in fiscal year 2023. The increase in 2024 was primarily related to contractually agreed upon wage increases; increases in FTEs due to an increase in volume; and market rate increases from the phase III compensation project. The increase in 2023 was primarily related to contractually agreed upon wage increases; and additional significantly more expensive labor costs in response to the COVID-19 pandemic and high inpatient census.

Employee benefits increased $7.7 million from $121.6 million in fiscal year 2023 to $129.3 million in fiscal year 2024 and increased $13.1 million from $108.5 million in fiscal year 2022 to $121.6 million in fiscal year 2023. Employee benefit costs are a function of employment. In fiscal year 2024, benefits increased by 6% while salaries and wages increased by 5%. In fiscal year 2023, benefits increased by 12% while salaries and wages increased by 4%. The increase in benefit costs for both years was due to higher medical and prescription claims.

Supplies and other expenses include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $5.7 million from $169.3 million in fiscal year 2023 to $175.0 million in fiscal year 2024 and increased $10.9 million from $158.4 million in fiscal year 2022 to $169.3 million in fiscal year 2023. The increase in 2024 was primarily attributed to minor equipment purchases and malpractice insurance expenses. The increase in 2023 was primarily attributed to increased volumes.

Depreciation and amortization expenses decreased $0.1 million from $49.4 million in fiscal year 2023 to $49.3 million in fiscal year 2024 and increased $5.6 million from $43.8 million in fiscal year 2022 to $49.4 million in fiscal year 2023. The increase between 2022 and 2023 was due to adoption of GASB 96 Subscription-Based Information Technology Arrangements (SBITAS) and $5.5 million of amortization expenses recorded in 2023.

Nonoperating income (expense) consists of revenue from property taxes, federal and state funding, interest and investment income offset by interest and amortization expense, and other activities not directly related to patient care. Net nonoperating income increased $55.5 million between fiscal years 2023 and 2024, primarily due to a $49.0 million increase in COVID-19 FEMA public assistance funds as a results of obligated projects in 2024 and a $5.5 million increase in investment income in 2024. Net nonoperating income increased $27.2 million between fiscal years 2022 and 2023, primarily due to $17.6 million more revenue recognized for federal and state funding in 2023 and a decrease in investment loss.

Financial Health

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from VMC's statements of net position as of June 30, 2024, 2023, and 2022.

	2024	2023	2022
		(In thousands)	
Current assets	$ 323,972	230,155	227,094
Noncurrent assets:			
Other noncurrent assets	23,731	24,262	27,937
Capital assets, net	357,758	366,763	398,201
Right-to-use and subscription assets, net	100,434	97,241	99,974
Investments, goodwill, intangible assets, and other	72,867	95,794	114,426
Total assets	878,762	814,215	867,632
Deferred outflows of resources	10,689	11,804	12,926
Total assets and deferred outflows	$ 889,451	826,019	880,558

(Continued)

	2024	2023	2022
		(In thousands)	
Current liabilities	$ 200,313	173,944	214,112
Noncurrent liabilities	357,348	367,949	388,074
Total liabilities	557,661	541,893	602,186
Total deferred inflows of resources	46,461	48,992	54,332
Net position	285,329	235,134	224,040
Total liabilities, deferred inflows, and net position	$ 889,451	826,019	880,558

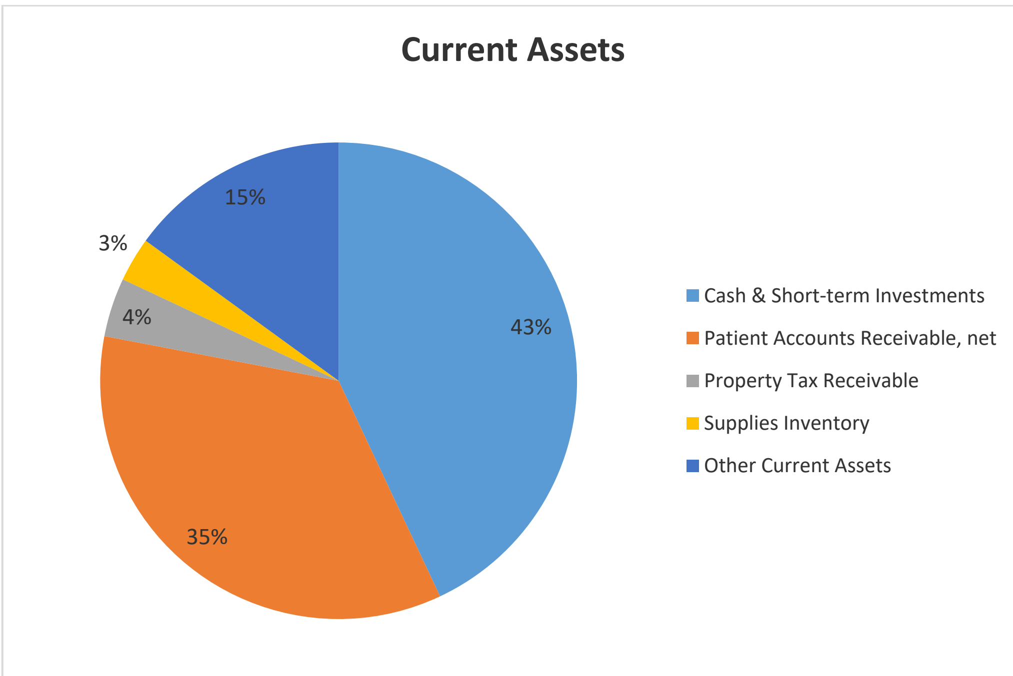
Total assets were $878.8 million at June 30, 2024 compared to $814.2 million at June 30, 2023, an increase of $64.6 million. Significant events during fiscal year 2024 attributed to the increase include an increase in other receivables of $19.0 million due to DPP, which is a new program managed by the Washington State Health Care Authority, effective January 1, 2024. The other significant events were receipt of $70.3 million from FEMA during fiscal year 2024.

Total assets were $814.2 million at June 30, 2023 compared to $867.6 million at June 30, 2022, a decrease of $53.4 million. The decrease was attributed to repayment of Medicare advanced payments, and use of cash and investments to fund operating expenses.

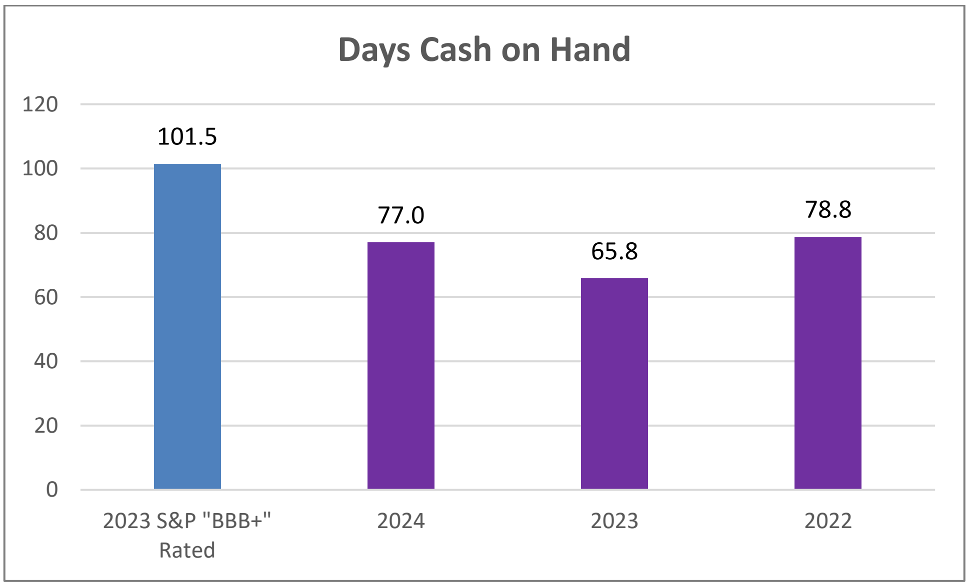
Current Assets

Current assets consist of cash and cash equivalents and other assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers. Total current assets were $324.0 million at fiscal year-end

2024, compared to $230.2 million at year-end 2023. Fiscal year 2024 composition of current assets is illustrated in the pie chart below.



Cash and short-term investments held by VMC consist of cash, cash equivalents, and investments expected to mature in 12 months or less. Cash and short-term investments increased $56.7 million in 2024 from $84.0 million at June 30, 2023 to $140.7 million at June 30, 2024 and decreased $9.8 million in 2023 from $93.8 million at June 30, 2022 to $84.0 million at June 30, 2023. The increase in 2024 was attributed to the receipts of FEMA funds. The majority of these funds were invested in short-term investments. The decrease in 2023 was attributed to recoupment of Medicare advanced payments and loss from operations. Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, including short and long-term investments but excluding Medicare advanced payments, as of June 30 for fiscal years 2024, 2023 and 2022 are illustrated in the graph below.



VMC's total days cash on hand, including short and long-term investments but excluding Medicare advanced payments, increased 11.2 days from 65.8 days at June 30, 2023 to 77.0 days at June 30, 2024 and decreased 13.0 days from 78.8 days at June 30, 2022 to 65.8 days at June 30, 2023. The increase in 2024 was attributed to the receipts of FEMA funds. The decrease in 2023 was attributed to significant operating loss from very increased labor costs and deterioration of payer mix.

Net patient accounts receivable was $112.5 million as of June 30, 2024, compared to $100.6 million as of June 30, 2023. The increase of $11.9 million was driven by growth in revenue and residual effects from the Change Healthcare cyber incident in February 2024. Net patient accounts receivable was $100.6 million as of June 30, 2023, compared to $88.5 million as of June 30, 2022. The increase of $12.1 million was driven by growth in revenue.

Other current assets were $48.6 million at June 30, 2024 and $23.5 million at June 30, 2023, an increase of $25.1 million in 2024. The increase was attributed to $19.0 million DPP receivable, new in 2024 due to DPP becoming effective January 1, 2024.

Noncurrent Assets

Long-term investments decreased $22.8 million from $74.1 million at June 30, 2023 to $51.3 million at June 30, 2024. The decrease between 2023 and 2024 was primarily attributed to investment strategies where more funds are invested in short-term securities for better yields. Long-term investments decreased $31.8 million from $105.9 million at June 30, 2022 to $74.1 million at June 30, 2023. The decrease between 2022 and 2023 was primarily attributed to liquidating investments to fund capital projects and operations.

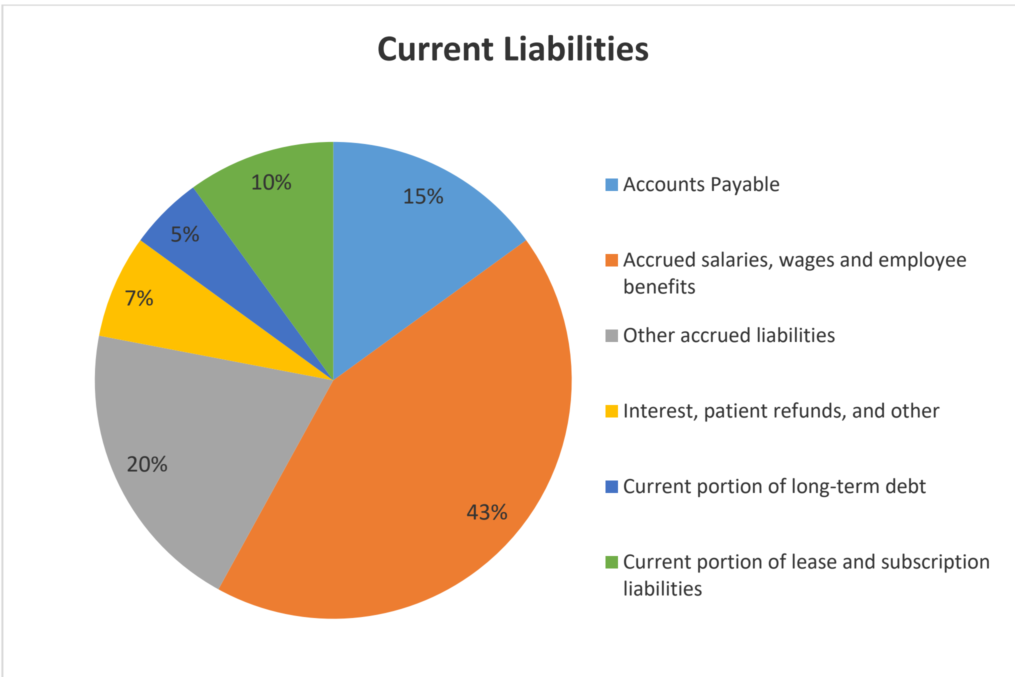
Capital assets decreased $9.0 million during fiscal year 2024 from $366.8 million at June 30, 2023 to $357.8 million at June 30, 2024 and decreased $31.4 million during fiscal year 2023 from $398.2 million at June 30, 2022 to $366.8 million at June 30, 2023. The decreases in both years were attributed to a pause on many capital projects due to the need to preserve cash. VMC has current commitments of $9.0 million at June 30, 2024 related to various construction projects, equipment purchases and information technology implementations.

Right-to-use and subscription assets is a new asset on the Statements of Net Position from the adoption of the GASB 87 accounting standard on leases in fiscal year 2022 and the adoption of the GASB 96 accounting standard on subscription-based information technology arrangements (SBITAs) in fiscal year 2023. Right-to-use and subscription assets are recognized as lessees, with all applicable leases are treated as finance leases and an asset recorded for the discounted value of the payments required under the lease term. More details are disclosed in the notes to the financial statements. VMC recorded $100.4 million and $97.2 million of Right-to-use and subscription assets for the years ended June 30, 2024 and 2023, respectively.

(Continued)

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within one year. Total current liabilities were $200.3 million at June 30, 2024, compared to $173.9 million at June 30, 2023. Fiscal year 2024 composition of current liabilities is illustrated in the pie chart below.



Accounts payable increased $0.9 million between June 30, 2023 and June 30, 2024 from $28.1 million to $29.0 million and increased $0.6 million between June 30, 2022 and June 30, 2023 from $27.5 million to $28.1 million. Changes in accounts payable are primarily driven by timing of payments to vendors, as well as overall volume growth. Included in accounts payable as of June 30, 2024 and 2023 were amounts accrued for capital related expenditures of $2.8 million and $2.1 million, respectively.

Accrued salaries, wages, and employee benefits increased $6.8 million from $79.7 million at June 30, 2023 to $86.5 million at June 30, 2024 and decreased $12.0 million from $91.7 million at June 30, 2022 to $79.7 million at June 30, 2023. Changes in accrued salaries, wages, and employee benefits are related to timing of payments to employees, as well as the overall growth in FTEs due to volume growth. The decrease between 2022 and 2023 was due to lower payroll accrual at June 30, 2023 and pay off of the deferred FICA tax payable in 2023.

Other accrued liabilities, including estimated third-party payer settlements, increased $17.9 million from $22.4 million at June 30, 2023 to $40.3 million at June 30, 2024 and decreased $8.6 million from $31.0 million at June 30, 2022 to $22.4 million at June 30, 2023. The increase in 2024 was primarily due to adjustments to reserves for 2024 Certified Public Expenditures (CPE) Disproportionate (DSH) cost settlement. The decrease in 2023 was due to adjustments to reserves for 2017 to 2019 and 2021 to 2022 from various settlements.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt, long-term lease and subscription liabilities. Total noncurrent liabilities were $357.3 million at June 30, 2024, compared to $367.9 million at June 30, 2023.

Long-term debt decreased from $278.9 million at June 30, 2023 to $266.1 million at June 30, 2024 and decreased from $292.9 million at June 30, 2022 to $278.9 million at June 30, 2023. The decreases in both years were a result of payments made in accordance with debt repayment schedules. Management is not aware of any violations with its debt covenants for the years ended June 30, 2024 and 2023. S&P Global Ratings issued a long-term rating of BBB+ to VMC on July 14, 2022 and rating of BBB to VMC's 2016 bond issue on December 27, 2023. Moody's affirmed Aa3 issuer rating and A2 limited tax general obligation rating to VMC on May 31, 2023.

Factors Affecting the Future

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by VMC, including written or oral statements made by its representatives, may contain forward-looking statements. All statements, other than statements of historical facts, which address activities, events or developments that VMC expects or anticipates will or may occur in the future contain forward-looking information. In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. VMC does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Economic Uncertainty Facing the Healthcare Industry

The federal COVID-19 Public Health Emergency declaration under the Public Health Service Act expired on May 11, 2023. VMC continues to experience declining COVID-19 volumes, but broad economic factors resulting from the pandemic continue to impact VMC's patient volumes, case mix acuity, service mix, and revenue mix. Ongoing economic conditions, such as labor market wage and benefit pressure, supply chain and other inflationary pressures have also increased, and will continue to increase the VMC's expenses and pressure hospital liquidity. Because of these factors and other uncertainties, management cannot estimate the severity of the aforementioned general economic and marketplace conditions, including the COVID-19 pandemic, on the VMC's business.

The healthcare industry, in general, is experiencing higher demand for labor, and volatility and uncertainty in the labor market, which has impacted the VMC's ability to attract and retain labor and manage operating cost increases associated with the higher labor costs. It is difficult to predict the full impact of the labor market on the VMC's future expenses and operations.

Reimbursement for patient services from federal, state and private insurance payers continues to be a concern as healthcare costs continue to rise. There is continued downward pressure on average realized payment rates from commercial payer plans and a reduction in the number or percentage of VMC's patients under such plans. VMC participates in the 340B Drug Pricing Program, which is a federal program that requires drug manufacturers provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices. In the past several years, a number of drug manufacturers have reduced the benefits to covered entities through the elimination of access to certain 340B priced drugs in contract pharmacy settings. This had led to legal action at the federal level in an attempt to reinstate previous savings. The first federal appeals court ruling is unfavorable to covered entities but is not yet resolved due to two pending federal appellate court rulings. This has resulted in uncertainty related to the financial impact of the 340B program in the future. Due to these uncertainties, management cannot predict the impact on the VMC's future revenues and operations.

However, VMC believes that its ultimate success in increasing profitability depends in part on its success in executing its strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and streamlining how VMC provides clinical care, as well as improving the reimbursement rates with commercial payers. With a continued focus on patient volumes shifting from inpatient to outpatient settings due to technological advancements and demand for care that is more convenient, affordable, and accessible as well as the industry-wide migration to value-based payment models as government and private payers shift risk to providers, VMC's success at managing costs and delivering care efficiently is paramount. In July 2022, VMC partnered with Premier Consulting on a multi-year expense savings and revenue enhancement initiative called "Operation Ascend."

Embright LLC

UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance in 2017 to expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. UW Medicine, MultiCare, and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following University board of regent approval in October 2018. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the partners to develop care delivery models that will improve patient care and experience at a more affordable cost. Together, the founding organizations represent 14 hospitals, more than 6,500 providers, and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary, and post acute care. Throughout the network, teams are also implementing evidence-based clinical protocols and care pathways, standardized processes and care management services for complex patients.

Contacting VMC's Financial Management

This financial report is intended to provide taxpayers, patients, and creditors with a general overview of VMC's finances and operations and to demonstrate VMC's accountability for those finances and the tax funding it receives. You may access VMC's annual and monthly financial information via VMC's website, valleymed.org. VMC also files quarterly financial and statistical reports, as well as other required disclosures with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access at emma.msrb.org.

If you have questions about this report or need additional financial information, please contact VMC's Finance Department via phone at 425.228.3450 or at Attn: Chief Financial Officer, PO Box 50010, Renton, Washington 98058.

PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER
(A Component Unit of the University of Washington)

Statements of Net Position

June 30, 2024 and 2023

Assets		**2024**	**2023**
Current assets:			
Cash and cash equivalents	$	67,884,595	56,789,445
Short-term investments		72,863,486	27,212,101
Accounts receivable, less allowance for uncollectible accounts of $27,937,905 in 2024 and $20,886,659 in 2023		112,527,756	100,563,119
Property tax receivable		12,924,316	12,663,144
Supplies inventory		9,188,361	9,389,346
Prepaid expenses and other assets		48,583,346	23,537,585
Total current assets		323,971,860	230,154,740
Long-term investments		51,310,017	74,116,355
Capital assets:			
Land		12,884,281	13,145,009
Construction in progress		11,382,132	12,341,902
Depreciable capital assets, net of accumulated depreciation		333,491,716	341,275,654
Total capital assets		357,758,129	366,762,565
Right-to-use and subscription assets, net of accumulated amortization		100,433,512	97,241,280
Goodwill, intangible assets, and other		21,557,368	21,677,370
Long-term lease receivable		23,730,572	24,262,135
Total assets		878,761,458	814,214,445
Deferred outflows of resources		10,689,177	11,804,285
Total assets and deferred outflows	$	889,450,635	826,018,730

See accompanying notes to basic financial statements.

(Continued)

PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY, WASHINGTON, DBA VALLEY MEDICAL CENTER

(A Component Unit of the University of Washington)

Statements of Net Position

June 30, 2024 and 2023

Liabilities and Net Position	**2024**	**2023**
Current liabilities:		
Accounts payable	$ 29,028,345	28,053,317
Accrued salaries, wages, and benefits	86,463,937	79,719,922
Other accrued liabilities, including estimated third-party payer settlements	40,290,872	22,384,795
Interest, patient refunds, and other	13,315,526	13,784,864
Current portion of long-term debt	10,675,000	11,665,000
Current portion of lease and subscription liabilities	20,539,390	18,335,795
Total current liabilities	200,313,070	173,943,693
Long-term debt, net of current portion	266,087,381	278,913,182
Long-term lease and subscription liabilities	91,260,194	89,036,183
Total liabilities	557,660,645	541,893,058
Deferred inflows:		
Deferred inflow of resources related to leases	23,111,769	24,142,821
Other deferred inflows of resources	23,349,353	24,848,915
Total deferred inflows	46,461,122	48,991,736
Net position:		
Invested in capital assets, net of related debt	79,261,867	77,063,326
Restricted:		
Expendable for specific operating activities	2,454,075	1,896,527
Unrestricted	203,612,926	156,174,083
Total net position	285,328,868	235,133,936
Total liabilities, deferred inflows, and net position	$ 889,450,635	826,018,730

See accompanying notes to basic financial statements.

PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY, WASHINGTON, DBA VALLEY MEDICAL CENTER

(A Component Unit of the University of Washington)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2024 and 2023

	2024	2023
Operating revenues:		
Net patient service revenue (net of VMC's provision for uncollectible accounts of $23,288,955 in 2024 and $19,534,032 in 2023)	$ 855,508,959	802,522,325
Other operating revenue	52,162,150	86,479,119
Total operating revenues	907,671,109	889,001,444
Operating expenses:		
Salaries and wages	504,460,966	481,811,484
Employee benefits	129,260,638	121,592,529
Purchased services	92,311,514	93,293,428
Supplies and other expenses	175,037,152	169,305,935
Depreciation and amortization	49,348,623	49,383,966
Total operating expenses	950,418,893	915,387,342
Operating loss	(42,747,784)	(26,385,898)
Nonoperating income (expense):		
Property tax revenue	26,143,734	25,595,303
Interest income	2,059,474	1,536,353
Interest and amortization expense	(15,658,313)	(16,325,013)
Investment income (loss), net	5,175,765	(334,029)
Funding from affiliates	12,314,744	12,333,426
Funding to affiliates	(11,885,000)	(12,659,079)
Other federal and state funding	78,155,241	29,199,787
Other, net	(2,178,515)	(580,513)
Distributions to members	(1,184,414)	(1,286,156)
Net nonoperating income	92,942,716	37,480,079
Increase in net position	50,194,932	11,094,181
Net position, beginning of year	235,133,936	224,039,755
Net position, end of year	$ 285,328,868	235,133,936

See accompanying notes to basic financial statements.

PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY, WASHINGTON, DBA VALLEY MEDICAL CENTER

(A Component Unit of the University of Washington)

Statements of Cash Flows

Years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 846,173,924	758,736,954
Payments to suppliers and contractors	(286,737,820)	(273,829,518)
Payments to and on behalf of employees	(626,977,588)	(615,433,731)
Other cash receipts	53,331,289	86,898,496
Net cash used in operating activities	(14,210,195)	(43,627,799)
Cash flows from noncapital financing activities:		
Cash received from tax levy	26,135,019	25,536,461
Cash received from other federal and state funding	70,339,753	26,521,246
Other	(167,865)	(1,040,837)
Net cash provided by noncapital financing activities	96,306,907	51,016,870
Cash flows from capital and related financing activities:		
Principal payments on long-term debt and finance lease obligations	(16,711,452)	(16,173,564)
Interest paid	(13,350,095)	(13,866,938)
Purchases of capital assets	(22,577,971)	(18,732,224)
Cash paid on note payable	—	(240,000)
Other	(2,752,237)	(1,168,830)
Net cash used in capital and related financing activities	(55,391,755)	(50,181,556)
Cash flows from investing activities:		
Sale of investments	24,770,724	47,910,722
Purchases of investments	(42,440,005)	(26,523,398)
Investment and interest income	2,059,474	1,536,353
Net cash (used in) provided by investing activities	(15,609,807)	22,923,677
Net increase (decrease) in cash and cash equivalents	11,095,150	(19,868,808)
Cash and cash equivalents, beginning of year	56,789,445	76,658,253
Cash and cash equivalents, end of year	$ 67,884,595	56,789,445

(Continued)

PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER
(A Component Unit of the University of Washington)

Statements of Cash Flows

Years ended June 30, 2024 and 2023

		2024	2023
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(42,747,784)	(26,385,898)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization		32,958,009	33,130,017
Provision for uncollectible accounts		23,288,955	19,534,032
Changes in assets and liabilities:			
Accounts receivable		(35,253,592)	(31,586,771)
Supplies inventory		200,985	1,008,543
Prepaid expenses and other assets		(17,227,144)	1,283,605
Accounts payable		113,140	765,993
Accrued salaries, wages, and benefits		6,744,015	(12,029,718)
Other accrued liabilities and estimated third-party payer settlements		17,906,077	(8,641,441)
Other liabilities		(192,856)	94,983
Medicare advanced payments		—	(20,801,144)
Net cash used in operating activities	$	(14,210,195)	(43,627,799)
Supplemental disclosure of noncash investing, capital, and financing activities:			
Increase (decrease) in accrued capital included in accounts payable	$	746,459	(168,228)
Net unrealized gains (losses) on investments		3,359,832	(148,638)
Additions in right to use assets		18,225,061	4,234,172
Additions in subscription assets		4,201,528	17,155,467
Investment in joint venture		—	16,567,362

See accompanying notes to basic financial statements.

(1) Organization

Public Hospital District No. 1 of King County, Washington (the District) is a Washington municipal corporation established under Chapter 70.44 Revised Code of the State of Washington (RCW). The District includes the majority of the cities of Kent, Renton, and Covington, and portions of Bellevue, Newcastle, Maple Valley, Black Diamond, Auburn, SeaTac, Tukwila, and Federal Way. The District is considered a political subdivision of the State of Washington and is allowed, by law, to be its own treasurer.

The District, dba Valley Medical Center (VMC), and the University of Washington (the University) participate in a Strategic Alliance Agreement. Under this agreement, VMC is a discretely presented component unit of the University, subject to the oversight of a Board of Trustees.

The Board of Trustees oversees the healthcare operations of the District, while a publicly elected Board of Commissioners oversees the District's tax levies and certain nonhealthcare-related functions.

The Board of Commissioners comprises five individuals, each elected by district residents to serve a six-year term. The District itself is divided into three subdistricts, each represented by one commissioner. The remaining two commissioners serve as at-large members of the Board of Commissioners. Terms of the subdistrict commissioners are staggered.

The Board of Trustees is designed to include all of the then-current Public Hospital District Commissioners, as well as five trustees who reside within the District Service Area, at least three of whom also reside within the boundaries of the District. In addition, two current or former trustees of the UW Medicine board or a Board of another component unit within UW Medicine and the CEO of UW Medicine and Dean of the University of Washington School of Medicine or his designee also serve on the Board of Trustees. The Board of Trustees members, which included the five elected Board of Commissioners, during fiscal year 2024 were:

Lawrence Rude, Chair
Kathleen Sellick (Vice Chair)
Carol Barber (President of Board of Commissioners)
Anthony Berkley (Commissioner)
Tom Lambro (Commissioner)
Rita Miller (Commissioner)
Ricardo Polintan (Commissioner)

Malik Baz
Bernie Dochnahl
Cynthia Dold
Gary Kohlwes
Donna Russell
Julie Taylor

VMC is under the direction of the Chief Executive Officer, who is accountable to the Board of Trustees and UW Medicine's Executive Vice President for Medical Affairs and Dean of the University of Washington School of Medicine.

VMC is comprised of a 341 licensed bed hospital and a network of primary care, specialty care, and behavioral health clinics. The district health system's mission statement is "Caring for our community like family."

VMC is part of UW Medicine which includes UW Medical Center, Harborview Medical Center (Harborview), UW Medicine Primary Care (UWM PC), UW Physicians (UWP), the UW School of Medicine (the School), Airlift Northwest (Airlift), UW Medicine Shared Services, and Fred Hutchinson Cancer Center (FHCC).

Financial Reporting Entity

VMC is a discretely presented component unit of the University under the Strategic Alliance Agreement between the University of Washington and the District, whereby VMC is managed as a component unit of UW Medicine, subject to the oversight of the Board of Trustees.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

VMC's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates in VMC's financial statements include patient accounts receivable allowances, third-party payer settlements, and the fair value of investments.

(c) General Accounts

VMC is required to maintain its financial records on an accounting basis that segregates assets, liabilities, revenues, and expenses in conformity with the State of Washington municipal corporation laws prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Department of Health in Accounting and Reporting Manual for Hospitals, as well as the Board of Commissioners' or Board of Trustees' resolutions. Certain accounts maintained separately on the books of VMC have been combined for financial statements presentation.

(i) Operating Account

The operating account is used to track current operating assets, liabilities, revenues, and expenses.

(ii) Plant and Construction Accounts

These account for land, buildings, and equipment. VMC transfers sufficient taxation revenues to the bond redemption fund to make principal payments and interest payments on the Series 2016, 2018, and 2020 bonds.

(iii) Bond Account

Principal and interest payments on the Series 2016, 2018, and 2020 bonds are made from this account.

(iv) Restricted Accounts

These accounts are maintained to account for restricted donations, gifts, and bequests received from outside sources for specific purposes.

(d) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of purchase, excluding amounts whose use is limited by board designation or by other arrangements under trust agreements.

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the deposits may not be returned to the depositor. The Federal Deposit Insurance Corporation (FDIC) provides insurance to depositors to guard against custodial credit risk. Under FDIC insurance coverage is provided for account balances up to $250,000 per depositor, per insured bank. As of June 30, 2024 and 2023, VMC had no bank balances subject to custodial credit risk as any deposits in excess of $250,000 were covered by collateral held in a multi financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(e) Investments

VMC holds investments, as allowed by State law, in the form of bankers' acceptances, repurchase agreements, obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, and certificates of deposit with financial institutions in accordance with state guidelines. Investments are for the funding of future capital improvements, self-insurance liabilities, and operations. Long-term investments represent unrestricted and undesignated investments with greater than one year to maturity as of June 30, 2024.

VMC accounts for its marketable investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires that most investments be reported at fair value. Fair value is determined based on quoted market prices. Investment income, including realized and unrealized gains or losses, and interest income is reported as nonoperating revenue or expense.

(f) Inventories

Inventories consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across VMC. Inventories are recorded at the lower of cost (first-in, first-out) or market. Obsolete and uninsurable items are written off.

(Continued)

(g) Capital Assets

Capital assets are stated at cost at acquisition or if acquired by gift, at fair value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is determined by the straight-line method, which allocates the cost of tangible property ratably over its estimated useful life. VMC's depreciation and useful life policies utilize several methodologies in assigning depreciable lives to assets. Construction projects under $5 million and equipment and information technology systems' useful lives are typically established by using American Hospital Association guidelines. Projects in excess of $5 million are assigned useful lives using a composite weighted life provided by external consultants or by facility life analyses performed by external consultants and reviewed by VMC management. The estimated useful lives used by VMC are as follows:

Land improvements	10 to 20 years
Buildings, renovations, and furnishings	5 to 72 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years
Minor equipment	3 to 10 years
Leasehold improvements	The shorter of the lease term or useful life of asset

(h) Goodwill, Intangible Assets, and Other

Goodwill, which represents the excess of the cost of an acquired physician practice over the net amounts assigned to acquired assets and assumed liabilities, is currently amortized over the estimated 10-year life of the asset. Goodwill is also reviewed annually for impairment. Intangible assets include items related to the purchase of physician practices. Physician noncompetition agreements are amortized over the terms of the agreements. Other assets include investments in joint ventures.

(i) Compensated Absences

VMC employees earn annual leave at rates based on the employee's level of employment, applicable labor agreements, and length of service and sick leave based on hours worked during a biweekly pay period. Annual leave balances, which are limited to two times the annual accrual rate, can be converted to monetary compensation upon employment termination. Sick leave balances, which are unlimited, may be converted to monetary compensation upon employment termination at a percentage of the employees' normal compensation rate based on continuous years of service depending upon the employee's level of employment and the applicable labor agreement. VMC recognizes annual and sick leave liabilities when earned.

(Continued)

Annual leave accrued at June 30, 2024 and 2023 was $29.4 million and $27.7 million, respectively. Sick leave accrued as of June 30, 2024 and 2023 was $7.2 million and $6.9 million, respectively. The accrued annual and sick leave liabilities are included in accrued salaries, wages, and benefits in the accompanying statements of net position.

(j) Third-Party Payer Settlements

VMC is reimbursed for Medicare inpatient, outpatient, and rehabilitation services, and for capital and medical education costs during the year either prospectively or at an interim rate. The difference between the interim payments and the reimbursement computed based on the Medicare filed cost report results in an estimated receivable from or payable to Centers for Medicare and Medicaid Services (CMS) at the end of each year.

The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to VMC until after the cost reports have been audited or otherwise reviewed and settled by CMS. The estimated amounts for unsettled Medicare cost reports are included in other accrued liabilities, including estimated third-party payer settlements in the accompanying statements of net position.

(k) Classification of Revenues and Expenses

VMC's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as net patient service revenue, result from exchange transactions associated with providing healthcare services – VMC's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values.

Operating expenses are all expenses, other than financing costs, incurred by VMC to provide healthcare services to patients.

Nonoperating revenues and expenses are recorded for certain nonexchange transactions. These activities include tax levy income, investment activity, funding to/from affiliates, federal and state funding, debt service related to bonds, and other peripheral or incidental transactions.

(l) Net Patient Service Revenue

VMC has agreements with third-party payers that provide payments to VMC at amounts different from its established charges. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the payment arrangements with major third-party payers is as follows:

(i) Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings (MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APCs). APC payments are prospectively established and may be greater than or less than the primary government's actual charges for its services. The Medicare program utilizes the prospective payment system known as case mix group (CMGs) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than VMC's actual charges for its services.

(ii) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are provided at prospectively determined rates per discharge. Outpatient services rendered are provided based upon the APC prospective payment system. See notes 3(a) and 3(c) for discussion surrounding the Medicaid certified public expenditures (CPE) and State Directed Payment Program (DPP).

(iii) Commercial

VMC also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to VMC under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(iv) UW Medicine Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other healthcare organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. VMC is a network member of the UW Medicine ACN and, as such, shares in any risk contract surplus or deficits based on agreed-upon contractual terms. Since its inception, the ACN has entered into various contracts, which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks.

(m) Federal Emergency Management Agency Public Assistance Funds

In an effort to recover unreimbursed expenses associated with COVID-19 response, VMC applied for reimbursement from Federal Emergency Management Agency (FEMA) public assistance program. VMC recognized $78.2 million and $29.2 million FEMA revenue, which is reflected in other federal and state funding in the accompanying statements of revenues, expenses and changes in the net position for the years ended June 30, 2024 and 2023 respectively.

(n) Financial Assistance

VMC provides care without charge or at amounts less than established charges to patients who meet certain criteria under its financial assistance policy. VMC maintains records to identify and monitor the level of financial assistance it provides. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because VMC does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as net patient service revenue. The charges associated with financial assistance provided by VMC were approximately $32.0 million and $21.9 million, respectively, for the years ended June 30, 2024 and 2023.

VMC estimates the cost of financial assistance using its cost to charge ratio of 24.4% and 25.7% for the fiscal years ended June 30, 2024 and 2023, respectively. Applying VMC’s cost to charge ratio of 24.4% to total financial assistance of $32.0 million results in a cost of financial assistance of approximately $7.8 million for the fiscal year ended June 30, 2024. Applying VMC’s cost to charge ratio of 25.7% to total financial assistance of $21.9 million results in a cost of financial assistance of approximately $5.6 million for the fiscal year ended June 30, 2023.

(o) 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 unless unrelated business income is generated during the year. Since 1983, the District has been deemed a 501(c)(3) entity by the Internal Revenue Service (IRS).

(p) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the excess of the reacquisition price over the carrying amount of bonds refinanced in fiscal years 2017, 2019, and 2020. This balance is amortized to interest expense through 2040. The balance was $10.7 million and $11.8 million at June 30, 2024 and 2023, respectively.

Deferred inflows of resources related to leases consist of deferred revenue from the adoption of GASB 87 *Leases* effective in fiscal year 2022. VMC leases or subleases land and building suites to physician groups or other medical facilities. VMC recorded $23.1 million and $24.1 million for the years ended June 30, 2024 and 2023, respectively.

(Continued)

Other deferred inflows of resources consist of deferred property tax revenue, a deferred gain from the sale of Valley Professional Center North (VPCN), and deferred rental income from the ground lease of Valley East Pavilion. Deferred property tax revenue is recorded in January and amortized to property tax revenue over the calendar year. The balance of the deferred gain on the sale of VPCN is being amortized to other nonoperating income through 2028. The balance of the deferred rental income is being amortized to other nonoperating income through 2119. The following are the components of other deferred inflows of resources as of June 30, 2024 and 2023:

		VMC	
		2024	**2023**
Property tax revenue	$	13,266,658	13,014,201
Deferred gain on sale of VPCN		3,714,645	5,399,514
Deferred rental income Valley East Pavilion		6,368,050	6,435,200
Total deferred inflows of resources	$	23,349,353	24,848,915

(q) Net Position

Net position of VMC is classified in various components. Net investment in capital assets consists of capital assets net of accumulated depreciation, and right-to-use lease and subscription assets net of accumulated amortization reduced by outstanding borrowings used to finance the purchase or construction of those assets and lease and subscription liabilities. Restricted and expendable for specific operating activities are noncapital net assets that must be used for a particular purpose, as specified by donors external to VMC. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

(r) Recently Adopted and New Accounting Pronouncements

In April 2022, the GASB issued Statement No. 99, "*Omnibus 2022*." Certain provisions became effective immediately while others are effective for the fiscal years ending June 30, 2023 and June 30, 2024. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing both practice issues that have been identified during implementation and application of certain GASB statements as well as accounting and financial reporting for financial guarantees. The adoption of this standard did not have a material impact on the VMC's financial statements.

In June 2022, the GASB issued Statement No. 100, "*Accounting Changes and Error Corrections – an amendment of GASB statement No. 62,"* which is effective for the fiscal year ending June 30, 2024. This statement improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The adoption of this standard did not have a material impact on the VMC's financial statements.

Also in June 2022, the GASB issued Statement No. 101, "*Compensated Absences,*" which is effective for the fiscal year ending June 30, 2025. This statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability between governments that offer different types of leave. The adoption of this standard is not expected to have a material impact on the VMC's financial statements.

(3) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments and estimated risk share settlements under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2024 and 2023, net patient service revenue increased approximately $20.4 million and $14.2 million, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement. The $20.4 million in 2024 included $16.4 million of 340B remedy payment (section 340B of the Public Health Services Act).

The following are the components of net patient service revenue for VMC for the years ended June 30, 2024 and 2023:

	VMC	
	2024	**2023**
Gross patient service revenue	$ 2,966,643,207	2,749,667,518
Less adjustments to patient service revenue:		
Financial assistance	(31,991,756)	(21,930,698)
Contractual discounts	(2,055,853,537)	(1,905,680,463)
Provision for uncollectible accounts	(23,288,955)	(19,534,032)
Total adjustments to patient service revenue	(2,111,134,248)	(1,947,145,193)
Net patient service revenue	$ 855,508,959	802,522,325

VMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of gross patient service revenue and accounts receivable by primary payers as of and for the years ended June 30, 2024 and 2023 were as follows:

	2024	
	VMC	
	Patient service revenue	Accounts receivable
Medicare	43 %	35 %
Medicaid	20	17
Commercial and other	34	41
Self pay	2	5
Exchange (HIX)	1	2
Total	100 %	100 %

	2023	
	VMC	
	Patient service revenue	Accounts receivable
Medicare	43 %	37 %
Medicaid	20	17
Commercial and other	34	40
Self pay	2	4
Exchange (HIX)	1	2
Total	100 %	100 %

(a) Medicaid Certified Public Expenditure Reimbursement

Public hospitals located in the State of Washington that are not certified as critical access hospitals are reimbursed at the “full cost” of Medicaid covered services under the public hospital certified public expenditure (CPE) payment method.

“Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claim will be allowed federal match on the amount of the related certified public expenditures. Per the CMS-approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. VMC recognized $9.0 million and $9.5 million in net patient service revenue under this program for the years ended June 30, 2024 and 2023, respectively.

(Continued)

In addition, VMC receives the federal match portion of Disproportionate Share Payments (DSH), which are the lesser of qualifying uncompensated care cost or the hospital's specific limit. VMC recognized $9.9 million and $38.0 million in net patient service revenue from DSH funding for the years ended June 30, 2024 and 2023, respectively, in the statements of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once VMC's Medicare Cost Report is audited by CMS. CPE program payments are not considered final until the retrospective cost reconciliation is complete, after VMC receives its Medicare Notice of Program Reimbursements (NPR) for the corresponding cost reporting year. To date, beginning with the 2006 CPE year, State Fiscal Years 2006 to 2019 CPE program years have had a final settlement. Fiscal year 2019 final settlement was paid in June 2024. As of June 30, 2024, VMC had estimated payables of $39.0 million for fiscal years 2020 to 2024. As of June 30, 2023, VMC had estimated payables of $21.0 million for fiscal years 2019 to 2023, which are included as liabilities in other accrued liabilities, including estimated third-party payer settlements in the accompanying statements of net position.

With the introduction of directed payment program (see details at notes 3(c)), the benefits from CPE program are reduced significantly in fiscal year 2024 as the directed payment program payments reduce uncompensated care costs.

(b) Professional Services Supplemental Payment (PSSP) and Provider Access Payment (PAP) Programs

The professional services supplemental payment (PSSP) and provider access payment (PAP) program are programs managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospitals.

Under the programs, VMC receives supplemental Medicaid payments for the physician and other professional services for which they bill. These supplemental payments equal the difference between the standard Medicaid reimbursement and the upper payment limit allowable by federal law. VMC provides the nonfederal share of the supplemental payments that will be used to obtain the matching federal funds.

VMC recognized net revenue of $0.4 million and $0.3 million from the PSSP program for the years ended June 30, 2024 and 2023, respectively. VMC recognized net revenue of $9.3 million and $6.7 million from the PAP program for the years ended June 30, 2024 and 2023, respectively. These amounts are included in net patient service revenue in the statements of revenues, expense, and changes in net position.

(c) Directed Payment Program (DPP)

The directed payment program was effective January 1, 2024 and is managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospital districts.

Under the program, VMC receives supplemental Medicaid payments for hospital services for which they bill. These supplemental payments equal the difference between the standard Medicaid Managed

Care Organization reimbursement rate and the upper payment limit allowable by federal law. VMC provides the nonfederal share of the supplemental payments that will be used to obtain the matching federal funds.

VMC recorded $3.4 million in intergovernmental transfers (IGT) to WSHCA for the year ended June 30, 2024 related to hospital claims with dates of services in the fiscal year.

As of June 30, 2024, VMC has an estimated receivable of $19.0 million for the DPP program, which is included in the prepaid expenses and other assets in the statements of net position.

VMC recognized net revenue of $28.2 million from the DPP program for the years ended June 30, 2024, which is included in net patient service revenue in the statements of revenues, expense, and changes in net position.

(4) Property Tax Revenue

The King County Treasurer acts as an agent to collect property taxes in the county for all taxing authorities. Taxes are levied annually on January 1 on property values as of the prior May 31. Assessed values are established by the county assessor at 100% of 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. Funds are distributed monthly to the District by the County Treasurer as collected.

The District is permitted by law to levy up to $0.75 per $1,000 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. Greater amounts of tax, above the limit, need to be for a specific capital project and authorized by the vote of the people.

For the calendar year 2024, the District’s tax levy rate was $0.31 per assessed $1,000 in property value pursuant to the District’s authorized tax levy in December 2023 resulting in a tax levy of $26.5 million.

For the calendar year 2023, the District’s tax levy rate was $0.30 per assessed $1,000 in property value pursuant to the District’s authorized tax levy in December 2022 resulting in a tax levy of $26.0 million.

Property taxes are recorded as receivables when levied. Because State law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made. Given property taxes are recorded on a calendar-year basis, the property tax receivable balances at June 30, 2024 and 2023 are $12.9 million and $12.7 million, respectively, and are shown as current assets in the statements of net position. See note 2(q) for deferred inflow for deferred property tax revenue.

Revenues from taxation are $26.1 million and $25.6 million for the fiscal years 2024 and 2023, respectively, and are recorded as nonoperating revenue in the statements of revenues, expenses and changes in net position.

(Continued)

The District has pledged its future tax revenues, as well as operating revenues, to repay its limited tax general obligation bonds issued in 2016, 2018 and 2020 to finance construction, other capital improvements, medical equipment and technology, and information technology systems.

(5) Deposits and Investments

Chapter 39.59 Revised Code of Washington (RCW) authorizes VMC to make investments in accordance with Washington State law. VMC also has a formalized investment policy that VMC may, through formal interlocal agreement, invest funds not immediately required for expenditure with the King County Investment Pool (the Pool) and/or the Washington State Treasurer's Local Government Investment Pool (the LGIP), which are classified as cash equivalents on the statements of net position, or may separately invest such funds in either actively managed individual portfolio or mutual fund accounts that meet all statutory investment requirements.

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, eligible bankers' acceptances, eligible commercial paper and corporate notes, and repurchase and reverse repurchase agreements. Investments of debt proceeds are governed by the provisions of the debt agreements, which also must meet statutory requirements.

The related required assessed risks for each type of investment are disclosed below.

At June 30, 2024 and 2023, deposits and investments of VMC consist of the following:

		2024	2023
Unrestricted cash	$	55,496,479	46,112,993
Unrestricted investments and cash equivalents:			
U.S. Treasury and agency securities and bonds		108,116,144	88,807,973
Corporate notes		15,930,582	12,491,447
Investment pools		10,061,619	8,811,789
		134,108,345	110,111,209
Restricted assets:			
Cash and cash equivalents		2,453,274	1,893,699
	$	192,058,098	158,117,901

(a) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. VMC's investment policy provides guidelines for its fund managers and lists specific allowable investments as prescribed by state law. The policy provides the ability of portfolio managers to employ varying investment styles so diversification can be maximized within statutory requirements.

Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). VMC follows state statute, which provides that commercial paper, negotiable certificates of deposit, and banker's acceptances must be rated at least A-1 by Standard and Poor's (S&P) and P-1 by Moody's Investors Service, Inc., and fixed income holdings are limited to securities that are issued by or fully guaranteed by the U.S. Treasury, U.S. government-sponsored enterprises, or U.S. government agencies, including U.S. government agency mortgage-backed securities. Money market funds are limited to those with an average credit quality of AAA by S&P.

According to GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

As of June 30, 2024 and 2023, VMC's investment in the Pool was not rated by a NRSRO. In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency and mortgage-backed securities, municipal securities (rated at least A by two NRSROs), commercial paper (rated at least the equivalent of A-1 by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the LGIP managed by the Washington State Treasurer's Office.

Assets and liabilities that are recorded at fair value are required to be grouped in three levels, based on the markets in which the assets and liabilities are traded and the observability of the inputs used to determine fair value. The three levels are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for an asset or liability

The composition of investments, reported at fair value by investment type and rating at June 30, 2024 and excluding unrestricted and restricted cash and cash equivalent balances of $57.9 million, and investment pools balances of $10.1 million, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ 97,038,598	—	AA+/A-1+	78.2 %
U.S. agency securities	—	9,759,850	AA+	7.9
U.S. agency mortgages	—	1,317,696	AA+	1.1
Corporate notes	—	15,930,582	A/A-/A+/AA+	12.8
Total investments by fair value level	$ 97,038,598	27,008,128		100.0 %

The composition of investments, reported at fair value by investment type and rating at June 30, 2023 and excluding unrestricted and restricted cash and cash equivalent balances of $48.0 million, and investment pools balances of $8.8 million, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ 67,436,165	—	AA+	66.6 %
U.S. agency securities	—	9,359,795	AA+	9.2
U.S. agency mortgages	9,996,000	2,016,013	AA+/A-1+	11.9
Corporate notes	—	12,491,447	Various	12.3
Total investments by fair value level	$ 77,432,165	23,867,255		100.0 %

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

VMC's investment policy follows applicable Washington state statutes in defining authorized investments and any required credit ratings.

There are no investments whose fair value exceeds 5% of total investments that are with any one issuer other than the U.S. Treasury, U.S. agency, or U.S. government-sponsored entities. Corporate notes are investments with several companies where each company note does not exceed 5% of total investments.

(b) *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a failure of the custodian, VMC may not be able to recover the value of the investment or collateral securities that are in possession of an outside party.

With respect to investments, custodial credit risk generally applies only to direct investments of marketable securities. Custodial credit risk typically does not apply to VMC's indirect investments in securities through the use of mutual funds or governmental investment pools (such as the Pool and LGIP).

In the individually managed portfolios (which include bond proceeds and tax revenues), VMC's securities are registered in VMC's name by the custodial bank as an agent for VMC.

(c) *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. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates.

One of the ways VMC manages its exposure to interest rate risk is by purchasing a combination of shorter and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide cash flow and liquidity needed for operations.

As a way of limiting its exposure to fair value losses arising from rising interest rates, VMC's investment policy limits its investment portfolio to maturities as follows:

Issuer/instrument	Maximum length of maturity
U.S. Treasury bonds, certificates, and bills	10 years
Other obligations of the U.S. government or its agencies	10 years
Statutorily allowed certificates of deposit	24 months
Commercial paper	270 days
Municipal bonds	10 years
Corporate notes	5.5 years
Supranational bonds	5 years
General obligation bonds of any state/local government	10 years

Securities purchased in the Pool must have a final maturity, or weighted average life, of no longer than five years. Although the Pool's market value is calculated on a monthly basis, unrealized gains or losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Information about the sensitivity of the fair values of VMC's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table, which shows the distribution of VMC's investments by maturity. Investments in pooled assets such as investment pools are shown using the weighted average duration of the underlying assets.

2024		Remaining maturity (in months)			
Investment type	**Carrying value**	**12 months or less**	**13 to 24 months**	**25 to 48 months**	**More than 48 months**
U.S. Treasury securities	$ 97,038,598	67,466,909	24,020,962	3,236,166	2,314,561
U.S. agency securities	9,759,850	2,392,086	7,367,764	—	—
U.S. agency mortgages	1,317,696	7,092	78,410	679,096	553,098
King County investment Pool	10,061,619	—	10,061,619	—	—
Corporate notes	15,930,582	3,093,230	991,416	9,101,283	2,744,653
	$ 134,108,345	72,959,317	42,520,171	13,016,545	5,612,312

2023		Remaining maturity (in months)			
Investment type	**Carrying value**	**12 months or less**	**13 to 24 months**	**25 to 48 months**	**More than 48 months**
U.S. Treasury securities	$ 67,436,165	16,142,889	24,923,947	26,369,329	—
U.S. agency securities	9,359,795	—	2,295,686	7,064,109	—
U.S. agency mortgages	12,012,013	10,027,225	41,539	808,246	1,135,003
King County investment Pool	8,811,789	—	8,811,789	—	—
Corporate notes	12,491,447	1,063,753	3,954,642	7,473,052	—
	$ 110,111,209	27,233,867	40,027,603	41,714,736	1,135,003

(6) Capital Assets

(a) VMC's Capital Assets

The activity in VMC's capital asset and related accumulated depreciation accounts for the years ended June 30, 2024 and 2023 is set forth below:

	Balance June 30, 2023	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2024
Nondepreciable capital assets:					
Land	$ 13,145,009	—	—	(260,728)	12,884,281
Construction in progress	12,341,902	23,479,919	(24,439,689)	—	11,382,132
Total capital assets not being depreciated	25,486,911	23,479,919	(24,439,689)	(260,728)	24,266,413
Capital assets being depreciated:					
Land improvements	24,524,914	—	483,320	—	25,008,234
Buildings, renovations, and furnishings	546,615,300	—	7,216,881	(721,034)	553,111,147
Fixed equipment	22,633,678	—	—	—	22,633,678
Movable equipment	244,362,017	106,853	16,719,651	(4,540,263)	256,648,258
Minor equipment	22,500,699	—	19,837	(75,148)	22,445,388
Total capital assets being depreciated	860,636,608	106,853	24,439,689	(5,336,445)	879,846,705
Total capital assets at historical cost	886,123,519	23,586,772	—	(5,597,173)	904,113,118

	Balance June 30, 2023	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2024
Less accumulated depreciation for:					
Land improvements	$ (13,674,500)	(400,042)	—	—	(14,074,542)
Buildings, renovations, and furnishings	(270,493,041)	(16,018,312)	—	278,386	(286,232,967)
Fixed equipment	(21,508,263)	(132,732)	—	—	(21,640,995)
Movable equipment	(193,861,923)	(14,236,797)	—	4,424,308	(203,674,412)
Minor equipment	(19,823,227)	(982,962)	—	74,116	(20,732,073)
Total accumulated depreciation	(519,360,954)	(31,770,845)	—	4,776,810	(546,354,989)
Total capital assets, net	$ 366,762,565	(8,184,073)	—	(820,363)	357,758,129

	Balance June 30, 2022	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2023
Nondepreciable capital assets:					
Land	$ 14,025,533	—	—	(880,524)	13,145,009
Construction in progress	31,173,588	1,618,514	(20,450,200)	—	12,341,902
Total capital assets not being depreciated	45,199,121	1,618,514	(20,450,200)	(880,524)	25,486,911
Capital assets being depreciated:					
Land improvements	23,985,711	—	539,203	—	24,524,914
Buildings, renovations, and furnishings	537,598,148	—	10,499,194	(1,482,042)	546,615,300
Fixed equipment	22,707,731	—	7,412	(81,465)	22,633,678
Movable equipment	236,174,241	86,296	9,157,002	(1,055,522)	244,362,017
Minor equipment	22,666,604	—	247,389	(413,294)	22,500,699
Total capital assets being depreciated	843,132,435	86,296	20,450,200	(3,032,323)	860,636,608
Total capital assets at historical cost	888,331,556	1,704,810	—	(3,912,847)	886,123,519
Less accumulated depreciation for:					
Land improvements	(13,300,270)	(374,230)	—	—	(13,674,500)
Buildings, renovations, and furnishings	(255,611,551)	(16,133,138)	—	1,251,648	(270,493,041)
Fixed equipment	(21,431,743)	(157,871)	—	81,351	(21,508,263)
Movable equipment	(180,676,475)	(14,240,970)	—	1,055,522	(193,861,923)
Minor equipment	(19,110,836)	(1,125,685)	—	413,294	(19,823,227)
Total accumulated depreciation	(490,130,875)	(32,031,894)	—	2,801,815	(519,360,954)
Total capital assets, net	$ 398,200,681	(30,327,084)	—	(1,111,032)	366,762,565

Depreciation and amortization recognized in operating expenses were $49.3 million and $49.4 million for the years ended June 30, 2024 and 2023, respectively. Included in these amounts were $17.6 million and $17.4 million related to right-to-use lease and subscription assets amortization for the years ended June 30, 2024 and 2023, respectively.

(7) Long-Term Debt and Lease Obligations

(a) VMC's Long-Term Debt

Long-term debt consists of the following as of June 30:

		2024	2023
Limited tax general obligation bonds:			
2020 series, 2.04%, due serially on June 15 starting in 2021, in amount of $1,725,000 in 2024, plus interest due semiannually	$	—	1,725,000
2018 series, 4% to 5%, due serially on December 1, in amounts from $1,615,000 in 2024 to $3,995,000 in 2044, plus interest due semiannually, including unamortized premium of $6,096,185		96,286,185	98,545,399
2016 series, 4% to 5%, due serially on December 1, in amounts from $8,325,000 in 2024 to $16,455,000 in 2038, plus interest due semiannually, including unamortized premium of $9,336,196		180,476,196	190,307,783
Total long-term debt		276,762,381	290,578,182
Less current portion		(10,675,000)	(11,665,000)
Total long-term debt, net of current portion	$	266,087,381	278,913,182

(i) Long-Term Debt Overview

Series 2020 Bond Issue

The 2020 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $6.7 million. The bond was purchased by JPMorgan Chase as a private placement. These proceeds were used to refund all series 2010A bonds. The District has pledged tax revenues to secure the bonds. The deferred amount on the refunding is being amortized over the life of the bond and is recorded in deferred outflow of resources in the statements of net position. The 2020 LTGO bond has been fully paid off during fiscal year 2024.

Series 2018 Bond Issue

The 2018 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $101.7 million. These proceeds were used to refund all series 2010B bonds and to finance renovations and improvements to the District's main campus, construction of new facilities at a satellite campus, and other capital improvements. The District has pledged tax revenues to secure the bonds. The deferred amount on the refunding is being amortized over the life of the bond and is recorded in deferred outflow of resources in the statements of net position.

Series 2016 Bond Issue

The 2016 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $193.9 million. These proceeds were used to refund the majority of the 2008 bonds. The District has pledged tax revenues to secure the bonds. The deferred amount on the refunding is being amortized over the life of the bond and is recorded in deferred outflow of resources in the statements of net position.

(ii) Debt Compliance

Under the terms of its financing agreements, the District has agreed to meet certain covenants. Bond covenants related to the Limited Tax General Obligation (LTGO) bonds require budgeting for making annual levies of taxes, within constitutional and statutory tax limitations provided by law on all property within the District subject to taxation, together with any other money legally available, to be sufficient to pay the principal and interest of the LTGO bonds.

Additional covenants require continued disclosure through the Municipal Securities Rulemaking Board, compliance with limits of encumbrances, indebtedness, disposition of assets, and transfer services.

(iii) Long-Term Debt Maturities

The following schedule shows debt service requirements for the next five years and thereafter, as of June 30, 2024, for both principal and interest. Total unamortized premiums and discounts are $15.4 million as of June 30, 2024.

	Principal	Interest	Total
2025	$ 10,675,000	12,799,625	23,474,625
2026	11,445,000	12,246,625	23,691,625
2027	12,255,000	11,654,125	23,909,125
2028	13,110,000	11,020,000	24,130,000
2029	14,010,000	10,342,000	24,352,000
2030–2034	85,305,000	39,834,875	125,139,875
2035–2039	94,705,000	15,356,125	110,061,125
2040–2044	19,825,000	2,399,875	22,224,875
Total payments	$ 261,330,000	115,653,250	376,983,250

(iv) Change in Total Long-Term Liabilities

Changes in total long-term liabilities, exclusive of lease liabilities, during the fiscal years ended June 30, 2024 and 2023 are summarized below:

	Balance June 30, 2023	Increases	Decreases	Balance June 30, 2024	Due within one year
Limited tax general obligation bonds:					
2020 Series	$ 1,725,000	—	(1,725,000)	—	—
2018 Series	98,545,399	—	(2,259,214)	96,286,185	1,940,000
2016 Series	190,307,783	—	(9,831,587)	180,476,196	8,735,000
Total long-term debt	290,578,182	—	(13,815,801)	276,762,381	10,675,000
Total long-term liabilities	$ 290,578,182	—	(13,815,801)	276,762,381	10,675,000

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023	Due within one year
Limited tax general obligation bonds:					
2020 Series	$ 3,410,000	—	(1,685,000)	1,725,000	1,725,000
2018 Series	100,526,801	—	(1,981,402)	98,545,399	1,615,000
2016 Series	199,874,610	—	(9,566,827)	190,307,783	8,325,000
Note payable	240,000	—	(240,000)	—	—
Total long-term debt	304,051,411	—	(13,473,229)	290,578,182	11,665,000
Total long-term liabilities	$ 304,051,411	—	(13,473,229)	290,578,182	11,665,000

(b) Leases and Subscription-Based Information Technology Arrangements

(i) Lessee

VMC enters into noncancellable leases primarily for buildings and equipment. VMC also enters into contracts for subscription-based information technology arrangements (SBITAs). For leases and SBITAs with a maximum possible term of 12 months or less at commencement, VMC recognizes an expense based on the terms of the contract. For all other leases and SBITAs, VMC recognizes a lease or subscription liability, which is recorded within current portion of lease and subscription liabilities and long-term lease and subscription liabilities in the statements of net position and an intangible right-to-use and subscription assets, net of accumulated amortization at the present value of payments expected to be made throughout the contract term. VMC uses its incremental borrowing rate based on information available at the commencement date of the lease or SBITA in determining the present value of payments.

Subsequently, the lease and subscription liabilities are reduced by the principal portion of payments made. Interest expense is recognized ratably over the contract term. The right-to-use and subscription assets are initially measured as the initial amount of the liability, less payments made at or before the commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the commencement date. Subsequently, the right-to-use and subscription assets are amortized on a straight-line basis over the shorter of the contract term or the useful life of the underlying asset which is recorded within depreciation and amortization in the statements of revenues, expenses and changes in net position.

Some leases include one or more renewal options which generally extend the lease at the then market rate of rental payments. All such options are at VMC's discretion and if it is reasonably certain that the renewal option(s) will be exercised by VMC, the renewal option payments and term are included in VMC's measurement of the lease liability and right-to-use lease asset.

Certain leases require VMC to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, or other payments based on performance or usage. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Variable lease payments are recognized within purchased services in the statements of revenues, expenses and changes in net position when the event, activity or circumstance in the lease agreement on which those payments are assessed occurs. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $5.8 million and $5.7 million during the fiscal years ended June 30, 2024 and 2023, respectively.

Right-to-use and Subscription Assets

The activity in VMC's right-to-use and subscription assets and related accumulated amortization accounts for the fiscal years ended June 30, 2024 and 2023 is set forth below:

	Balance June 30, 2023	Additions	Modifications/ renewals	Deductions	Balance June 30, 2024
Lease and subscription assets:					
Building	$ 123,642,164	—	16,067,748	(846,838)	138,863,074
Equipment	5,182,167	3,164,122	—	(159,970)	8,186,319
Subscription	17,155,467	5,012,244	1,638,773	(2,449,489)	21,356,995
Total lease assets	145,979,798	8,176,366	17,706,521	(3,456,297)	168,406,388
Less accumulated amortization for:					
Buildings	(40,655,263)	(14,229,191)	—	736,572	(54,147,882)
Equipment	(2,560,433)	(1,556,809)	—	10,235	(4,107,007)
Subscription	(5,522,822)	(6,304,380)	—	2,109,215	(9,717,987)
Total accumulated amortization	(48,738,518)	(22,090,380)	—	2,856,022	(67,972,876)
Total lease assets, net	$ 97,241,280	(13,914,014)	17,706,521	(600,275)	100,433,512

	Balance June 30, 2022	Additions	Modifications/ renewals	Deductions	Balance June 30, 2023
Lease and subscription assets:					
Building	$ 127,918,926	—	4,161,338	(8,438,100)	123,642,164
Equipment	5,957,422	72,834	—	(848,089)	5,182,167
Subscription	—	17,155,467	—	—	17,155,467
Total lease assets	133,876,348	17,228,301	4,161,338	(9,286,189)	145,979,798
Less accumulated amortization for:					
Buildings	(31,552,948)	(16,039,462)	—	6,937,147	(40,655,263)
Equipment	(2,349,368)	(1,048,536)	—	837,471	(2,560,433)
Subscription	—	(5,522,822)	—	—	(5,522,822)
Total accumulated amortization	(33,902,316)	(22,610,820)	—	7,774,618	(48,738,518)
Total lease assets, net	$ 99,974,032	(5,382,519)	4,161,338	(1,511,571)	97,241,280

Lease and Subscription Liabilities

Changes in lease and subscription liabilities during the fiscal years ended June 30, 2024 and 2023 are summarized below:

	Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Fiscal year ended:						
June 30, 2024	$ 107,371,978	7,899,224	17,132,468	(20,604,086)	111,799,584	20,539,390
June 30, 2023	122,093,091	4,031,800	4,161,338	(22,914,251)	107,371,978	18,335,795

Lease and Subscription Maturities

The following schedule shows future annual lease and subscription payments, and in five-year increments thereafter, as of June 30, 2024, for both principal and interest:

	Principal	Interest	Total
2025	$ 20,539,390	3,035,652	23,575,042
2026	17,489,672	2,442,344	19,932,016
2027	12,811,345	1,980,011	14,791,356
2028	12,269,245	1,617,932	13,887,177
2029	11,985,742	1,261,026	13,246,768
2030–2034	35,222,659	2,187,634	37,410,293
2035–2036	1,481,531	41,136	1,522,667
Total payments	$ 111,799,584	12,565,735	124,365,319

(ii) Lessor

VMC leases building space and land on its campus to external vendors for retail space and to physician groups for medical practices. For leases with terms greater than 12 months, VMC recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term using VMC's incremental borrowing rate.

Subsequently, the lease receivable is reduced by the lease payments received and the discount on the lease receivable is amortized through recognition of interest income, which is recorded in other, net in the statements of revenues, expenses and changes in net position. The current portion of the lease receivable is recorded within other current assets and the long-term lease receivable is recorded within other assets in the statements of net position. The deferred inflow of resources is recognized over the lease term in subsequent periods as lease revenue, which is recorded in other revenue in the statements of revenues, expenses and changes in net position.

Certain leases require the lessee to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, payments based on performance or usage. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease receivable. Variable lease payments are recognized as other revenue in the statements of revenues, expenses and changes in net position when the event, activity or circumstance in the lease agreement on which those payments are assessed occurs.

(8) Risk Management

VMC is exposed to risk of loss related to professional and general liability; employee medical, dental, and pharmaceutical claims; and injuries to employees. VMC maintains a program of purchased insurance and excess insurance coverage for professional and general liability, as well as self-insurance liabilities. VMC 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 illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters, and no claims have exceeded such coverage. In the event a claim exceeds the amount of coverage purchased, the amount exceeding the coverage is the responsibility of the company, in this case, VMC.

The self-insurance liability represents the estimated ultimate cost of settling claims resulting from events that have occurred on or before the statement of net position date. The liability includes amounts that will be required for future payments of employee and dependent health benefit claims, as well as workers' compensation claims that have been reported and claims related to events that have occurred but have not been reported, and a tail liability for professional and general liability.

(a) Professional and General Liability

VMC purchases insurance from a third-party insurance carrier for professional and general liability. Insurance limits are $5.0 million per claim, with a $15.0 million annual aggregate, on an occurrence basis. VMC also maintains excess commercial insurance above the first layer of $5.0 million/$15.0 million on a claims-made basis with a limit of liability of $25.0 million per occurrence and a $25.0 million annual aggregate.

VMC has established a liability based on the requirement of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported and an estimated tail liability for any claims in excess of coverage with the excess insurance policies on a claims-made basis.

The self-insurance liability of approximately $1.0 million and $2.4 million as of June 30, 2024 and 2023, respectively, is included in the interest, patient refunds and other liabilities in the statements of net position.

(b) Employee Medical and Dental

VMC is self-insured for medical and dental benefits. The accrued liabilities for the self-insured component of the plan include the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. VMC also carries stop-loss coverage for medical claims subject to aggregate and specific deductibles. The aggregate deductible is applied once to the first medical claim in the calendar year and specific deductible is applied to each medical claim filed in the calendar year. VMC has recorded an actuarially estimated liability for health (medical and dental) claims that have been incurred but not reported of $4.4 million at June 30, 2024 and 2023. These liabilities are included in accrued salaries, wages, and employee benefits liabilities in the accompanying VMC statements of net position.

(c) Workers' Compensation

VMC is self-insured for workers' compensation claims up to $1.0 million per claim in 2024 and $0.5 million per claim in 2023. Excess insurance coverage is purchased for risk above the per claim self-insured retention level. The accrued liabilities of the plan include the self-insured components of unpaid portion that have been reported and estimates for claims that have been incurred but not reported. VMC has recorded an actuarially determined estimated liability for workers' compensation claims of $5.0 million at June 30, 2024 and 2023, which are included in accrued salaries, wages, and benefits liabilities in the accompanying VMC statements of net position.

(9) Retirement Plans

VMC offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

VMC contributes a 5% employer contribution into the 403(b) plan for all employee groups with a 2% employer match on a 2% employee contribution. Employer contributions into the 403(b) plan totaled $27.8 million and $27.5 million for the years ended June 30, 2024 and 2023, respectively.

It is the opinion of internal legal counsel that VMC has no uninsured liability for losses under the plans. Under both plans, the participants select investments from alternatives offered by the plans, and the funds are held in trust/custodial accounts with the custodians, who are under contract with VMC to manage the plans. Investment selection by a participant may be changed each pay period. VMC manages none of the investment selections. By making the selections, enrollees accept and assume all risks that pertain to the plan and its administration.

In accordance with the Internal Revenue Service code, and accounted for in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, VMC placed the deferred compensation plan assets of the plans into a trust for the exclusive benefit of plan participants and beneficiaries.

VMC has limited administrative involvement and does not select investment options for either plan, as each plan has an investment adviser. VMC does not hold the assets of either plan in a trustee capacity and does not perform fiduciary accountability for the plans.

(10) Related-Party Transactions

VMC has engaged in a number of transactions with related parties. These transactions are recorded by VMC as either revenue or expense transactions because economic benefits are either provided or received by VMC. VMC records cash transfers between VMC and related parties that are not the result of economic benefits as nonoperating expense in the statements of revenues, expenses, and changes in net position.

(a) University of Washington

A total of $10.3 million and $11.4 million was paid and recognized by VMC to divisions of the University for the years ended June 30, 2024 and 2023, respectively, for transactions primarily related to referenced laboratory work and management assistance within various departments. The expenses are recorded as purchased services expense in the statements of revenues, expenses, and changes in net position.

(b) State of Washington

The State of Washington Medicaid Transformation Demonstration (MTD) program, which commenced in fiscal year 2018, is a five-year contract between the state and CMS, authorizing up to $1.5 billion federal matching funds to promote innovative, sustainable, and systemic changes that improve the overall health of the state. WSHCA requested intergovernmental transfers from other state and local public entities to finance a portion of the nonfederal share. VMC recorded $11.2 million each for both years ended June 30, 2024 and 2023, in intergovernmental transfers to the state, which is included in funding to affiliates in the statements of revenues, expenses, and changes in net position.

The state of Washington submitted and received approval for incentive payments under the MTD program, of which VMC received $12.3 million each for both years ended June 30, 2024 and 2023, which is included in funding from affiliates in the statements of revenues, expenses, and changes in net position.

(11) Commitments and Contingencies

(a) Construction Commitments

VMC has current commitments at June 30, 2024 of $9.0 million related to various construction projects, equipment purchases and information technology implementations. VMC intends to use unrestricted funds for general capital improvements for these commitments.

(Continued)

(b) Regulatory Environment

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that VMC 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.

(c) Litigation

VMC 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 effects to VMC’s future financial position or results from operations.

(d) Collective Bargaining Agreements

VMC has a total of approximately 3,900 employees. Of this total, approximately 67% are covered under collective bargaining agreements as of June 30, 2024. Nurses are represented by Service Employees International Union (SEIU) 1199 and other healthcare and support workers are represented by Office and Professional Employees International Union (OPEIU), and International Union of Operating Engineers (IUOE). The collective bargaining agreements with SEIU 1199 expire on June 30, 2024 and are currently in bargaining. OPEIU and IUOE agreements expire on October 31, 2024.