KPMG

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, 2023 and 2022

(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)

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Independent Auditors' Report

The Board of Trustees
The Board of Commissioners
Public Hospital District No. 1 of King County, Washington
dba Valley Medical Center:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Hospital District No. 1 of King County, Washington dba Valley Medical Center (VMC) a component unit of the University of Washington, as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the VMC'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 VMC as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit 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 VMC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 VMC'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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the VMC'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 VMC'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 the 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 25, 2023 on our consideration of the VMC'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 VMC'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 VMC's internal control over financial reporting and compliance.

KPMG LLP

Seattle, Washington
September 25, 2023

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), for the years ended June 30, 2023 and 2022. 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 UW Medicine, which includes UW Medical Center, Harborview Medical Center (Harborview), UW Physicians Network dba UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

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 for Fiscal Year 2023 and 2022

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 and the recovery of lost revenues, which were presented in the financial results for fiscal years 2023 and 2022.

VMC recorded a $26.4 million net operating loss for fiscal year 2023; this is a change of $42.9 million from the net operating loss of $69.3 million in 2022. In 2023, VMC's net position increased by $11.1 million to $235.1 million from $224.0 million. The net operating loss in 2023 was primarily due to increased cost of labor and supplies due to COVID-19 and high census and lower patient service revenues from an increased proportion of governmental payers. The chart below is a summary of the statements of revenue, expenses, and changes in net position for the past three years.

		2023	2022	2021
			(In thousands)	
Total operating revenues	$	889,001	797,416	780,818
Total operating expenses		915,387	866,685	802,313
Operating loss		(26,386)	(69,269)	(21,495)
Property tax revenue		25,595	24,965	24,373
Interest income		1,536	1,779	2,837
Interest and amortization expense		(16,325)	(16,683)	(16,222)
Investment (loss) income, net		(334)	(8,193)	(2,231)
Other federal and state funding		29,200	11,583	19,855
Other, net		(2,192)	(3,188)	(2,618)
Nonoperating income		37,480	10,263	25,994
Change in net position		11,094	(59,006)	4,499
Net position, beginning of year		224,040	283,046	278,547
Net position, end of year	$	235,134	224,040	283,046

Performance for fiscal year 2023 and 2022 is primarily being driven by:

- Inpatient days increased 3% from 2022 to 2023 and 2% from 2021 to 2022.
- In fiscal year 2022, VMC experienced high census and surges in the inpatient areas and decisions were made to limit some elective surgeries and procedures as needed to ensure there were staff to care for patients appropriately. For fiscal year 2023, the labor shortage issue continued to impact VMC negatively.
- Incident Command continued its operations in fiscal year 2022 and a few months into fiscal year 2023. VMC disbanded the Incident Command effective October 20, 2022, to coincide with the end of the Washington state of emergency.
- In fiscal years 2023 and 2022, all clinic visits were back to 2019 levels. Other areas such as inpatients, surgery cases, and emergency room visits were still not back to 2019 levels. Due to the pandemic, VMC experienced longer length of stay and high acuity patients.

- In fiscal year 2022, contract labor expenses increased significantly from $7.9 million in 2021 to $34.9 million in 2022 due to high utilization of agency personnel and higher hourly rates demanded by market. In fiscal year 2023, contract labor expenses were still significant at $27.7 million. VMC stayed nimble and reduced expenses such as consulting and travel expenditures. Growth initiatives such as the cancer center and new clinics have been put on pause.
- 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 years 2022 and 2023.
- In fiscal year 2022, VMC experienced a decline in the contract pharmacies program. Revenue decreased 25% from 2021 by $13.0 million to $39.5 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 2023, the primary focus was MyPeople, converting from Kronos to Infor payroll. The plan go-live date is January 1, 2024.

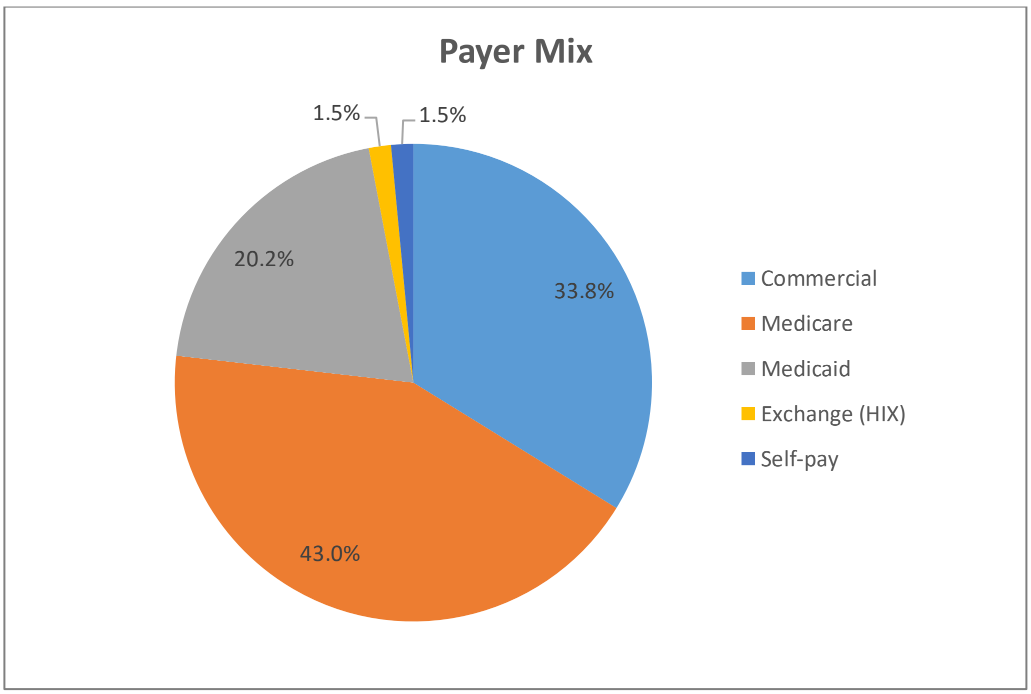
The chart below represents the key performance statistics for the last three years.

	2023	2022	2021
Available beds	325	331	330
Discharges	16,298	15,627	16,098
Patient days	84,942	82,352	81,114
Average length of stay	5.21	5.27	5.04
Occupancy	72 %	68 %	67 %
Case mix index (CMI)	1.85	1.82	1.75
Surgery cases	11,866	10,828	12,198
Emergency room visits	83,330	80,237	72,175
Primary care clinic visits	252,201	245,758	229,698
Specialty/urgent care clinic visits	491,133	456,191	431,167
Full time equivalents (FTEs)	3,639	3,646	3,524
Births	2,507	2,654	3,017

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 an allowance 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 operating revenues. The difference between gross charges and the estimated net realizable amounts from payers and patients is recorded as a contractual allowance or bad debt 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 network revenue. Other operating revenue comprises hospital-related revenues, such as the pharmacies and the cafeteria.



VMC’s payer mix is a key factor in the overall financial operating results. The chart above illustrates gross payer mix for 2023. For the years ended June 30, 2023, 2022, and 2021, Medicaid revenue represented 20.2%, 21.2%, and 20.4%, respectively. For the years ended June 30, 2023, 2022, and 2021, Medicare revenue represented 43.0%, 41.6%, and 40.0%, respectively. The shift in payer mix was from Commercial to Medicare & Medicaid in 2022 and from Medicaid to Medicare in 2023, and the shift was primarily due to the aging population within the district, as well as likely migration into the district. The COVID-19 pandemic is also a contributing factor for the payer mix shift.

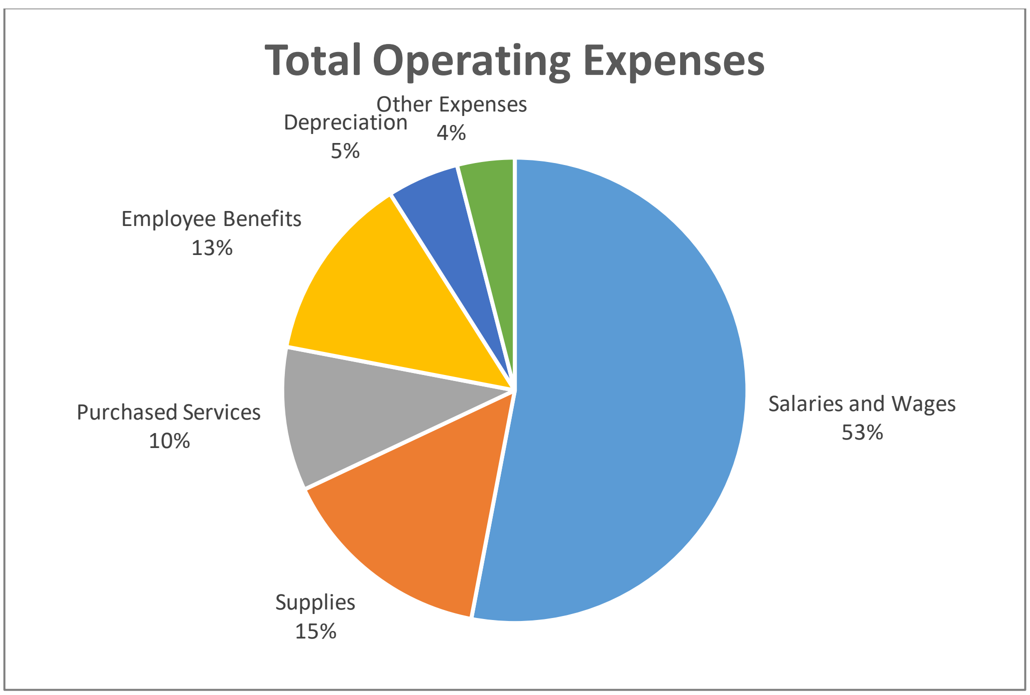
Reimbursement from government payers is generally below commercial rates, and reimbursement rules are complex and subject to both interpretation and settlements.

For the years ended June 30, 2023, 2022, and 2021, VMC's total operating revenues were $889.0 million, $797.4 million, and $780.8 million composed of $802.5 million, $730.6 million, and $707.4 million in net patient service revenue and $86.5 million, $66.8 million, and $73.4 million in other operating revenue, respectively.

In fiscal year 2022, the increase in operating revenue was due to high inpatient census and busy urgent care clinics. The decrease in other operating revenue was attributable to decreases in contract pharmaceutical volumes. In fiscal year 2023, the increase in operating revenue was due to higher volumes. The increase in other operating revenue was due to distributions from the new Proliance joint venture and increases in retail and contract pharmacies.

Total Operating Expenses

Total operating expenses were $915.4 million for the year ended June 30, 2023 compared to $866.7 million for the year ended June 30, 2022. The composition of fiscal year 2023 operating expenses is illustrated in the pie chart below.



Salaries and wages increased $18.1 million from $463.7 million in fiscal year 2022 to $481.8 million in fiscal year 2023 and increased $55.2 million from $408.5 million in fiscal year 2021 to $463.7 million in fiscal year 2022. The increases in both years were 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 $13.1 million from $108.5 million in fiscal year 2022 to $121.6 million in fiscal year 2023 and increased $3.6 million from $104.9 million in fiscal year 2021 to $108.5 million in fiscal year 2022. Employee benefit costs are a function of employment. In fiscal year 2023, benefits increased by 12% while salaries and wages increased by 4%. The increase in benefit costs was due to higher medical and prescription claims. In fiscal year 2022, benefits increased by 3% while salaries and wages increased by 14%. The most notable increase in salaries and wages was agency labor, which increased by $27.0 million from $7.9 million in 2021 to $34.9 million in 2022. Excluding agency labor, salaries and wages were increased by 7%.

Purchased services expense, which consists of professional and consulting fees, increased $1.0 million from $92.3 million in fiscal year 2022 to $93.3 million in fiscal year 2023 and decreased $0.2 million from $92.5 million in fiscal year 2021 to $92.3 million in fiscal year 2022. The increase between fiscal year 2022 and 2023 is attributed to higher professional fees in response to higher census and higher clinic visits. The decrease between fiscal year 2021 and 2022 is attributed to the lower lab fees for COVID-19 testing and cost containment efforts to non-mission critical expenses.

Supplies and other expenses include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $10.9 million from $158.4 million in fiscal year 2022 to $169.3 million in fiscal year 2023 and increased $6.0 million from $152.4 million in fiscal year 2021 to $158.4 million in fiscal year 2022. The increase in 2023 was primarily attributed to increased volumes. The increase in 2022 was attributed to increased volumes, additional PPE supplies and equipment rentals in response to the COVID-19 pandemic.

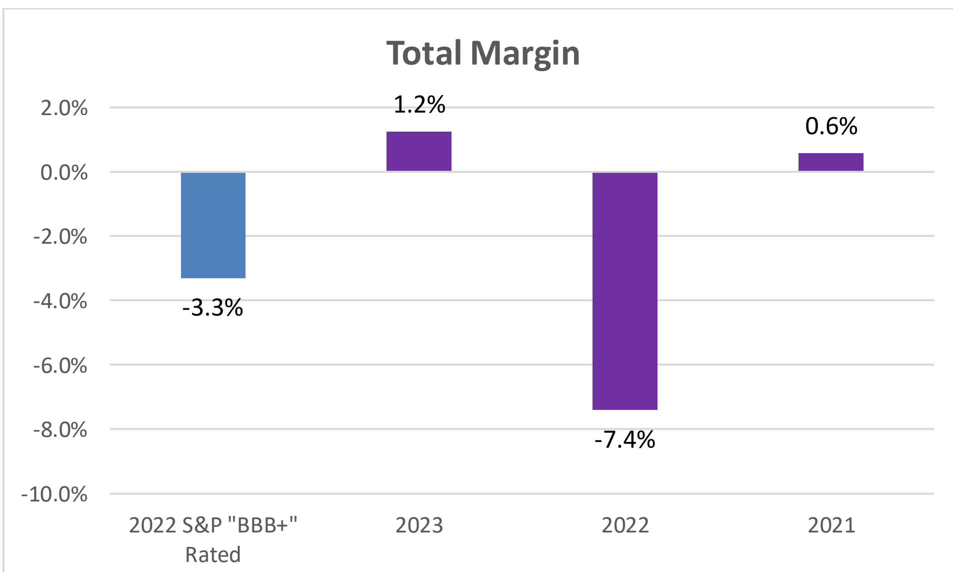
Depreciation and amortization expenses increased $5.6 million from $43.8 million in fiscal year 2022 to $49.4 million in fiscal year 2023 and decreased $0.2 million from $44.0 million in fiscal year 2021 to $43.8 million in fiscal year 2022. The increase between 2022 and 2023 was due to adoption of GASB 96 Subscription-Based Information Technology Arrangements (SBITAS) and $5.5 million of amortization expenses recorded in 2023. The decrease between 2021 and 2022 was due to less projects being placed into service due to the delays caused by the pandemic.

(Continued)

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 $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. Net nonoperating income decreased $15.7 million between fiscal years 2021 and 2022, primarily due to $8.3 million less revenue recognized for federal and state funding in 2022 and an increase in investment loss.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of change in net position and is a common measure of total hospital profitability. Total margin for the fiscal years 2023, 2022, and 2021 compared to the industry median for Standard & Poor's (S&P's) BBB+ rated healthcare systems is illustrated in the bar chart below.



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, 2023, 2022, and 2021.

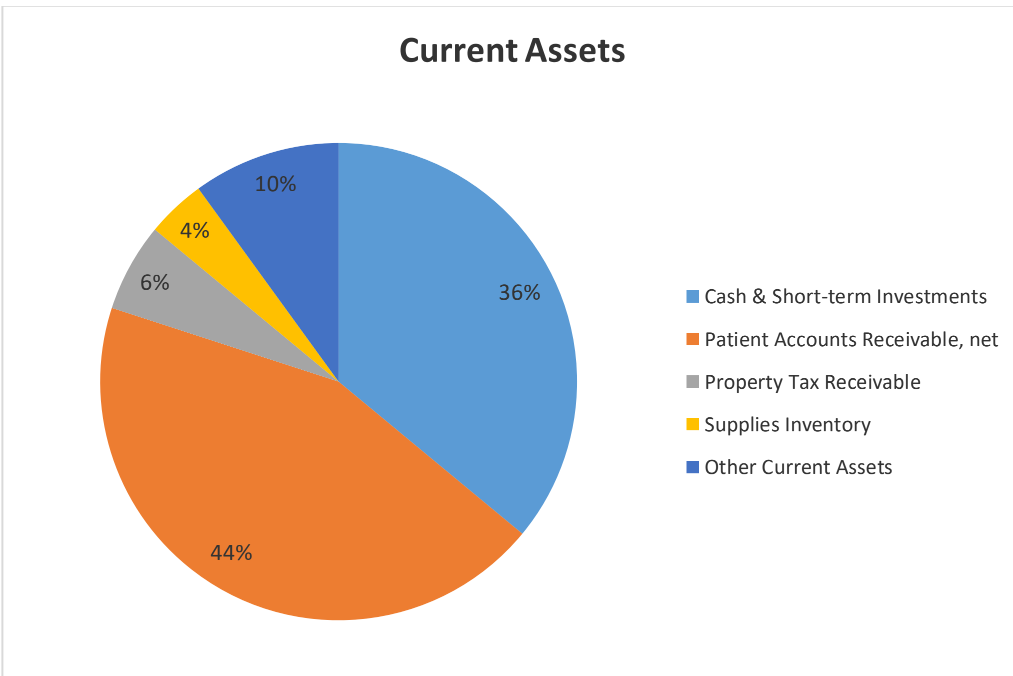
		2023	2022	2021
			(In thousands)	
Current assets	$	230,155	227,094	301,964
Noncurrent assets:				
Other noncurrent assets		74,063	105,776	128,103
Capital assets, net		464,004	498,175	519,455
Investments, goodwill, intangible assets, and other		45,993	36,587	27,062
Total assets		814,215	867,632	976,584
Deferred outflows of resources		11,804	12,926	14,033
Total assets and deferred outflows	$	826,019	880,558	990,617
Current liabilities	$	173,944	214,112	218,435
Noncurrent liabilities		367,949	388,074	436,533
Total liabilities		541,893	602,186	654,968
Total deferred inflows of resources		48,992	54,332	52,603
Net position		235,134	224,040	283,046
Total liabilities, deferred inflows, and net position	$	826,019	880,558	990,617

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, and $976.6 million at June 30, 2021, an increase of $109.0 million between 2021 and 2022. The decrease between 2022 and 2023 was attributed to repayment of Medicare advanced payments, and use of cash and investments to fund operating expenses. The decrease between 2021 and 2022 was attributed to spend down of bond proceeds, repayment of Medicare advanced payments, and use of cash and investments to fund operating expenses.

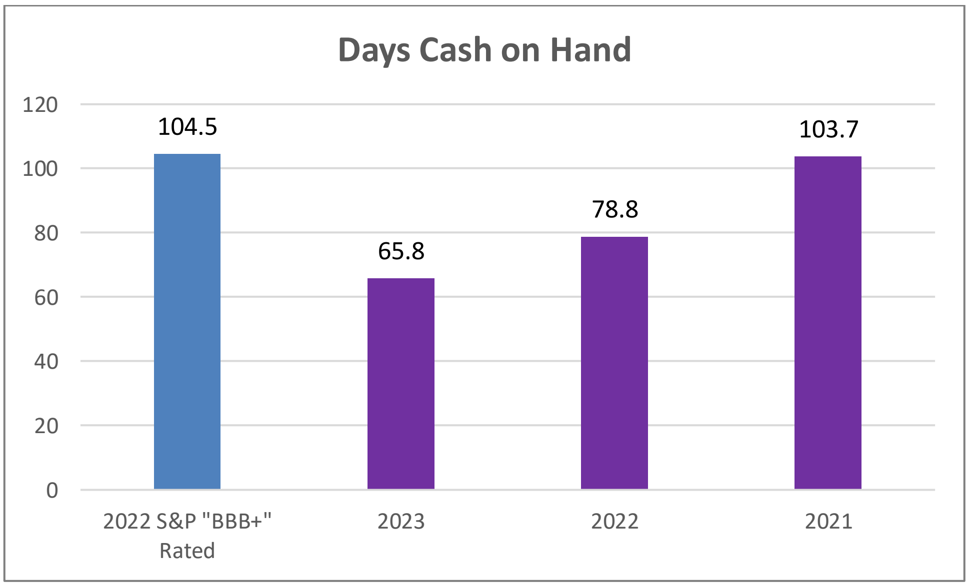
(Continued)

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 $230.2 million at fiscal year-end 2023, compared to $227.1 million at year-end 2022. Fiscal year 2023 composition of current assets is illustrated in the pie chart below.



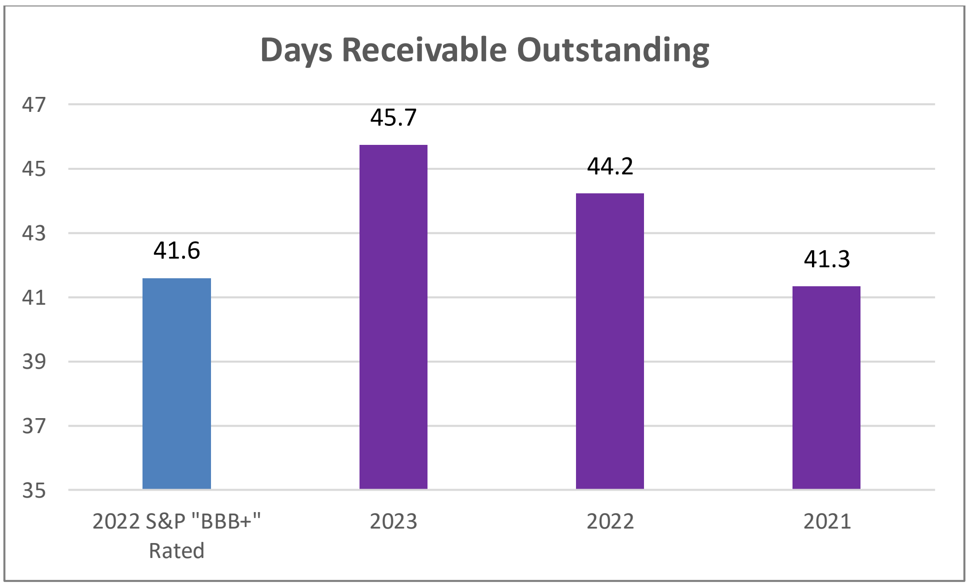
Cash and short-term investments held by VMC consist of cash, cash equivalents, and investments expected to mature in 12 months or less. Cash and short-term investments decreased $9.8 million in 2023 from $93.8 million at June 30, 2022 to $84.0 million at June 30, 2023 and decreased $84.2 million in 2022 from $178.0 million at June 30, 2021 to $93.8 million at June 30, 2022. The decreases in both years were 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 and noncurrent assets unrestricted for general capital improvements and operations but excluding Medicare advanced payments, as of June 30 for fiscal years 2023, 2022 and 2021 are illustrated in the graph below.



VMC's total days cash on hand, including short and long-term investments and other noncurrent assets unrestricted for general capital improvements and operations but excluding Medicare advanced payments, decreased 13.0 days from 78.8 days at June 30, 2022 to 65.8 days at June 30, 2023 and decreased 24.9 days from 103.7 days at June 30, 2021 to 78.8 days at June 30, 2022. The decreases in both years were attributed to significant operating loss from very increased labor costs and deterioration of payer mix.

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. Net patient accounts receivable was $88.5 million as of June 30, 2022, compared to $80.1 million as of June 30, 2021. The increase of $8.4 million was driven by growth in revenue and payers taking longer to process claims.

Days receivable outstanding illustrates an organization's ability to convert patient service revenue to cash. Days receivable outstanding as of June 30 for fiscal years 2023, 2022, and 2021 are illustrated in the graph below.



VMC's total net days receivable outstanding increased 1.5 days from 44.2 days at June 30, 2022 to 45.7 days at June 30, 2023 and increased 2.9 days from 41.3 days at June 30, 2021 to 44.2 days at June 30, 2022. Net patient accounts receivable days increased between 2022 and 2023 was attributed to payers taking longer to pay claims. Net patient accounts receivable days increased between 2021 and 2022 due to longer stays and higher acuity of inpatients.

As of June 30, 2023, 40% of the gross patient accounts receivable balance is due from commercial payers, 54% is due from government payers, including Medicare and Medicaid, 4% is due from self-pay patients, and 2% is due from health exchange insured patients. As of June 30, 2022, 39% of the gross patient accounts receivable balance is due from commercial payers, 55% is due from government payers, including Medicare and Medicaid, 4% is due from self-pay patients, and 2% is due from health exchange insured patients. As of June 30, 2021, 41% of the gross patient accounts receivable balance is due from commercial payers, 53% is due from government payers, including Medicare and Medicaid, 5% is due from self-pay patients, and 1% is due from health exchange insured patients.

Property tax receivable was $12.7 million at June 30, 2023, $12.2 million at June 30, 2022 and $12.0 million at June 30, 2021.The increases of $0.5 million in 2023 and $0.2 million in 2022 were primarily reflective of increased property values.

Noncurrent Assets

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. Total other noncurrent assets decreased $22.2 million from $128.1 million at June 30, 2021 to $105.9 million at June 30, 2022. The decrease between 2021 and 2022 was primarily related to unspent bond proceeds decreasing by $25.9 million.

Capital assets decreased $31.4 million during fiscal year 2023 from $398.2 million at June 30, 2022 to $366.8 million at June 30, 2023 and decreased $0.8 million during fiscal year 2022 from $399.0 million at June 30, 2021 to $398.2 million at June 30, 2022. 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 $8.1 million at June 30, 2023 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 by lessees, as all applicable leases are treated as finance leases and an asset is 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 $100.0 million and $97.2 million of Right to use asset for the years ended June 30, 2022 and 2023, respectively.

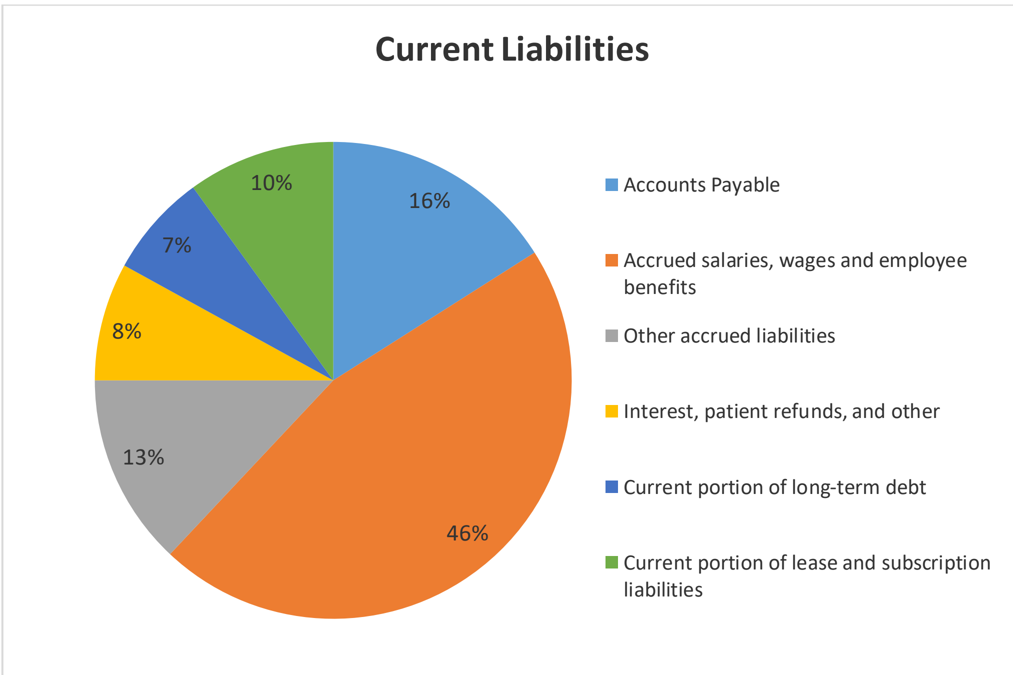
Goodwill, intangible assets, and other assets increased $13.2 million during fiscal year 2023 from $8.5 million at June 30, 2022 to $21.7 million at June 30, 2023 and increased $6.1 million during fiscal year 2022 from $2.4 million at June 30, 2021 to $8.5 million at June 30, 2022. The increases in both years were attributed to investments in Proliance Surgery Center at Valley LLC.

Long-term lease receivable is also a new asset on the Statements of Net Position from the adoption of the GASB 87 accounting standard on leases in fiscal year 2022. As a lessor for building leases, VMC recorded a $27.9 million and $24.3 million long-term lease receivable for the years ended June 30, 2022 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 $173.9 million at June 30, 2023, compared to $214.1 million at June 30, 2022. Fiscal year 2023 composition of current liabilities is illustrated in the pie chart below.



Accounts payable increased $0.6 million between June 30, 2022 and June 30, 2023 from $27.5 million to $28.1 million and decreased $6.3 million between June 30, 2021 and June 30, 2022 from $33.8 million to $27.5 million. Changes in accounts payable are primarily driven by timing of payments to vendors, as well as overall volume growth. The liability decreased in 2022 as Accounts Payable has been stabilized one year into the Compass implementation. Included in accounts payable as of June 30, 2023 and 2022 were amounts accrued for capital related expenditures of $2.1 million and $2.3 million, respectively.

Accrued salaries, wages, and employee benefits decreased $12.0 million from $91.7 million at June 30, 2022 to $79.7 million at June 30, 2023 and increased $4.3 million from $87.4 million at June 30, 2021 to $91.7 million at June 30, 2022. 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 deferred FICA tax payable in 2023. The increase between 2021 and 2022 was primarily due to increase in FTEs and wage rates.

Other accrued liabilities, including estimated third-party payer settlements, decreased $8.6 million from $31.0 million at June 30, 2022 to $22.4 million at June 30, 2023 and increased $14.8 million from $16.2 million at June 30, 2021 to $31.0 million at June 30, 2022. The decrease in 2023 was due to adjustments to reserves for 2017 to 2019 and 2021 to 2022 from various settlements. The increase in 2022 was due to reserves for fiscal year 2022 cost settlement and fiscal year 2020 interim settlement.

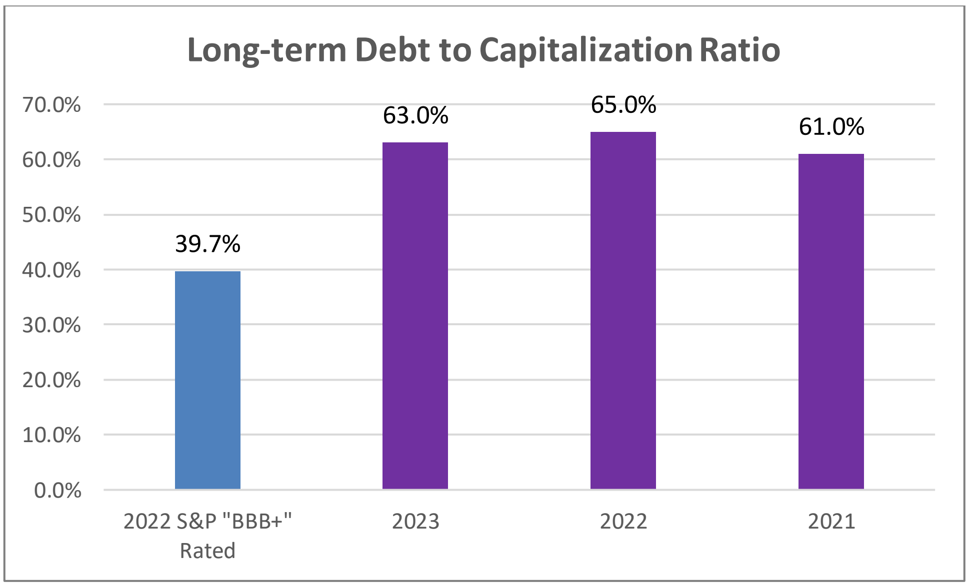
Medicare advanced payments decreased $24.5 million from $45.3 million at June 30, 2021 to $20.8 million at June 30, 2022 and was paid off by June 30, 2023. It was a new liability recorded in fiscal year 2020. The decreases in 2022 and 2023 were due to recoupment of Medicare advanced payments. VMC applied for six-month advanced payments from Medicare and received $64.3 million on April 7, 2020 to stabilize its cash position due to lost revenues from the cancellation of elective procedures in response to COVID-19 pandemic. On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which would give hospital providers one year from the date of original advance before Medicare can begin to recover the advances and twenty-nine months from the date of the original advance to fully repay the advanced payment without interest. VMC completed the repayment on September 7, 2022.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt, long-term lease and subscription liabilities. Total noncurrent liabilities were $367.9 million at June 30, 2023, compared to $388.1 million at June 30, 2022.

Long-term debt decreased from $292.9 million at June 30, 2022 to $278.9 million at June 30, 2023 and decreased from $306.4 million at June 30, 2021 to $292.9 million at June 30, 2022. The decreases in 2023 and 2022 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, 2023 and 2022. S&P Global Ratings issued a long-term rating of BBB+ to VMC on July 14, 2022. Moody's affirmed Aa3 issuer rating and A2 limited tax general obligation rating to VMC on May 31, 2023.

Long-term debt to capitalization is a ratio used to evaluate the capital structure of healthcare organizations. The graph below shows the long-term debt to capitalization ratio as of June 30 for 2023, 2022, and 2021 and comparison to the S&P BBB+ rated hospitals has been included in the bar chart below.



VMC's long-term debt to capitalization ratio is higher than the stand-alone hospital median due to debt issued to fund several significant construction and information technology initiatives, including the sixth and seventh floor Emergency Services Tower expansion, the Covington Ambulatory Clinic, the implementation of an electronic medical record system, and improvements to the second floor of the main hospital building.

Long-term lease and subscription liabilities are a new liability recorded in the Statements of Net Position due to the adoption of the GASB 87 lease accounting standard in fiscal year 2022 and adoption of GASB 96 SBITAS accounting standard in fiscal year 2023. VMC recorded $95.2 million and $89.0 million for the years ended June 30, 2022 and 2023, respectively.

Net Position

Invested in capital assets, net of related debt decreased by $20.2 million from $97.3 million at June 30, 2023 to $77.1 million at June 30, 2023 and decreased by $21.0 million from $118.3 million at June 30, 2021 to $97.3 million at June 30, 2022. The decrease in 2023 was attributed to fewer capital additions because of cash preservation. The decrease in 2022 was due to spend down of $25.9 million bond proceeds.

Unrestricted increased by $30.8 million from $125.4 million at June 30, 2022 to $156.2 million at June 30, 2023 and decreased by $38.2 million from $163.6 million at June 30, 2021 to $125.4 million at June 30, 2022. The increase in fiscal year 2023 was due to the increase in net position in the statement of revenues, expenses, and changes in net position and decrease in net investment in capital. The decrease in fiscal year 2022 was due to the decrease in net position in the statement of revenues, expenses, and changes in net position.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources decreased by $1.1 million from $12.9 million at June 30, 2022 to $11.8 million at June 30, 2023 and decreased by $1.1 million from $14.0 million at June 30, 2021 to $12.9 million at June 30, 2022. The decreases in 2023 and 2022 were due to amortization of the deferred amount from the debt refinancing.

Deferred inflows of resources related to leases were recorded from the adoption of the GASB 87 lease accounting standard in fiscal year 2022. VMC recorded $24.9 million, $28.1 million, $24.1 million for the years ended June 30, 2021, 2022 and 2023, respectively. The increase of $3.2 million in 2022 was due to an increase in rental payments for a long-term ground lease. The decrease of $4.0 million in 2023 was due to revenue recognition from lease payments received.

Other deferred inflows of resources decreased $1.5 million from $26.3 million at June 30, 2022 to $24.8 million at June 30, 2023. Deferred inflows of resources decreased $1.4 million from $27.7 million at June 30, 2021 to $26.3 million at June 30, 2022. The decrease in fiscal years 2022 and 2023 was due to amortization of a deferred gain on sale of Valley Professional Center North (VPCN) building and deferred rental income.

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 mitigating the recent negative reimbursement trends being experienced within the market. 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, 2023 and 2022

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	56,789,445	76,658,253
Short-term investments		27,212,101	17,135,117
Accounts receivable, less allowance for uncollectible accounts of $20,886,659 in 2023 and $18,150,643 in 2022		100,563,119	88,510,381
Property tax receivable		12,663,144	12,248,227
Supplies inventory		9,389,346	10,397,889
Prepaid expenses and other assets		23,537,585	22,144,176
Total current assets		230,154,740	227,094,043
Long-term investments		74,116,355	105,914,693
Capital assets:			
Land		13,145,009	14,025,533
Construction in progress		12,341,902	31,173,588
Depreciable capital assets, net of accumulated depreciation		341,275,654	353,001,560
Total capital assets		366,762,565	398,200,681
Right to use and subscription assets, net of accumulated amortization		97,241,280	99,974,032
Goodwill, intangible assets, and other		21,677,370	8,511,204
Long-term lease receivable		24,262,135	27,936,872
Total assets		814,214,445	867,631,525
Deferred outflows of resources		11,804,285	12,926,004
Total assets and deferred outflows	$	826,018,730	880,557,529

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, 2023 and 2022

Liabilities and Net Position		**2023**	**2022**
Current liabilities:			
Accounts payable	$	28,053,317	27,455,619
Accrued salaries, wages, and benefits		79,719,922	91,749,640
Other accrued liabilities, including estimated third-party payer settlements		22,384,795	31,026,236
Interest, patient refunds, and other		13,784,864	18,175,133
Current portion of long-term debt		11,665,000	11,185,000
Current portion of lease and subscription liabilities		18,335,795	13,719,162
Medicare advanced payments		—	20,801,144
Total current liabilities		173,943,693	214,111,934
Long-term debt, net of current portion		278,913,182	292,866,411
Long-term lease and subscription liabilities		89,036,183	95,207,428
Total liabilities		541,893,058	602,185,773
Deferred inflows:			
Deferred inflow of resources related to leases		24,142,821	28,053,329
Other deferred inflows of resources		24,848,915	26,278,672
Total deferred inflows		48,991,736	54,332,001
Net position:			
Invested in capital assets, net of related debt		77,063,326	97,276,249
Restricted:			
Expendable for specific operating activities		1,896,527	1,337,483
Unrestricted		156,174,083	125,426,023
Total net position		235,133,936	224,039,755
Total liabilities, deferred inflows, and net position	$	826,018,730	880,557,529

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, 2023 and 2022

	2023	2022
Operating revenues:		
Net patient service revenue (net of VMC's provision for uncollectible accounts of $19,534,032 in 2023 and $16,792,042 in 2022)	$ 802,522,325	730,574,615
Other operating revenue	86,479,119	66,841,714
Total operating revenues	889,001,444	797,416,329
Operating expenses:		
Salaries and wages	481,811,484	463,655,718
Employee benefits	121,592,529	108,459,243
Purchased services	93,293,428	92,315,198
Supplies and other expenses	169,305,935	158,419,306
Depreciation and amortization	49,383,966	43,835,758
Total operating expenses	915,387,342	866,685,223
Operating loss	(26,385,898)	(69,268,894)
Nonoperating income (expense):		
Property tax revenue	25,595,303	24,964,836
Interest income	1,536,353	1,778,761
Interest and amortization expense	(16,325,013)	(16,683,108)
Investment (loss) income, net	(334,029)	(8,192,833)
Funding from affiliates	12,333,426	8,838,802
Funding to affiliates	(12,659,079)	(8,893,988)
Other federal and state funding	29,199,787	11,582,674
Other, net	(580,513)	(1,733,081)
Distributions to members	(1,286,156)	(1,399,815)
Net nonoperating income	37,480,079	10,262,248
Increase (decrease) in net position	11,094,181	(59,006,646)
Net position, beginning of year	224,039,755	283,046,401
Net position, end of year	$ 235,133,936	224,039,755

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, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Receipts from and on behalf of patients	$	758,736,954	699,779,661
Payments to suppliers and contractors		(273,829,518)	(251,746,224)
Payments to and on behalf of employees		(615,433,731)	(574,244,545)
Other cash receipts		86,898,496	68,400,880
Net cash used in operating activities		(43,627,799)	(57,810,228)
Cash flows from noncapital financing activities:			
Cash received from tax levy		25,536,461	24,994,412
Cash received from federal stimulus program		—	2,291,649
Cash received from other federal and state funding		26,521,246	9,291,025
Other		(1,040,837)	(1,023,323)
Net cash provided by noncapital financing activities		51,016,870	35,553,763
Cash flows from capital and related financing activities:			
Principal payments on long-term debt and finance lease obligations		(16,173,564)	(22,268,091)
Interest paid		(13,866,938)	(14,231,898)
Purchases of capital assets		(18,732,224)	(36,217,808)
Cash paid on note payable		(240,000)	(240,000)
Other		(1,168,830)	(5,434,379)
Net cash used in capital and related financing activities		(50,181,556)	(78,392,176)
Cash flows from investing activities:			
Sale of investments and other noncurrent assets		47,910,722	158,764,127
Purchases of investments and other noncurrent assets		(26,523,398)	(135,935,509)
Investment and interest income		1,536,353	1,778,761
Net cash provided by investing activities		22,923,677	24,607,379
Net decrease in cash and cash equivalents		(19,868,808)	(76,041,262)
Cash and cash equivalents, beginning of year		76,658,253	152,699,515
Cash and cash equivalents, end of year	$	56,789,445	76,658,253

(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, 2023 and 2022

		2023	**2022**
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(26,385,898)	(69,268,894)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization		33,130,017	43,835,758
Provision for uncollectible accounts		19,534,032	16,792,042
Gain on sale of capital assets		—	60,301
Changes in assets and liabilities:			
Accounts receivable		(31,586,771)	(25,199,746)
Supplies inventory		1,008,543	(959,965)
Prepaid expenses and other assets		1,283,605	256,247
Accounts payable		765,993	(427,142)
Accrued salaries, wages, and benefits		(12,029,718)	4,382,838
Other accrued liabilities and estimated third-party payer settlements		(8,641,441)	14,860,361
Other liabilities		94,983	(5,534,815)
Medicare advanced payments		(20,801,144)	(36,607,213)
Net cash used in operating activities	$	(43,627,799)	(57,810,228)
Supplemental disclosure of noncash investing, capital, and financing activities:			
Decrease in accrued capital included in accounts payable	$	(168,228)	(6,044,843)
Net unrealized losses on investments		(148,638)	(9,127,499)
Additions in right to use assets		4,234,172	7,712,718
Additions in subscription assets		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 2023 were:

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 Physicians Network dba UW Neighborhood Clinics (the Clinics), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

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) Accounting Standards

The accompanying basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB) pronouncements and interpretations. VMC uses proprietary fund accounting.

VMC prepares and presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), known as the "Reporting Model" statement. GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the reporting entity in the form of "management's discussion and analysis" (MD&A). This reporting model also requires the use of a direct method cash flow statement.

(b) 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.

(c) 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.

(d) 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.

(e) 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, 2023 and 2022, 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.

(f) 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, 2023.

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.

(g) 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.

(h) 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

(i) 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.

(j) 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.

Annual leave accrued at June 30, 2023 and 2022 was $27.7 million and $26.8 million, respectively. Sick leave accrued as of June 30, 2023 and 2022 was $6.9 million and $6.6 million, respectively. The accrued annual and sick leave liabilities are included in accrued salaries, wages, and benefits in the accompanying statements of net position.

(k) 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.

(l) Classification of Revenues and Expenses

VMC's statement of revenues, expenses, and changes in net position distinguishes 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.

(m) 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.

(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. VMC and the other network members share in the financial risk or savings.

(n) Medicare Advanced Payments and Federal Stimulus Funds

In response to the COVID-19 pandemic, VMC pursued additional sources of liquidity through various federal programs. VMC applied for and received approval for the estimated six months of Medicare payments under Centers for Medicare and Medicaid Services (CMS) Medicare Advanced Payment Program (MAPP). VMC received $64.3 million on April 7, 2020 which was reflected in Medicare advanced payments in the accompanying statements of net position as of June 30, 2020. On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which gave hospital providers one year from the date of the original advance before Medicare can begin to recover the advances and twenty-nine months from the date of the original advance to fully repay the advanced payment without interest. As Medicare recovered the funds through paid claims, VMC l recognized the earned revenue through net patient service revenue. Medicare started on April 9, 2021 to recover the advances by withholding twenty five percent of the claim payments and increased to fifty percent of the claim payments in April 2022. For the fiscal years ended June 30, 2023 and 2022, Medicare recovered and VMC recognized $10.6 million and $36.6 million in net patient service revenue, respectively. VMC paid the remaining balance of $10.2 million as a lump sum payment to CMS in September 2022 and as of June 30, 2023, there was no balance in Medicare advanced payments in current liabilities in the accompanying statements of net position. As of June 30, 2022, VMC recorded $20.8 million in Medicare advanced payments in current liabilities in the accompanying statements of net position.

The federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) Provider Relief Fund (PRF) in March 2020. The PRF distributed funds to hospitals and healthcare providers to assist with the COVID-19 response. The PRF payments are to assist with additional expenses associated with COVID-19 and lost revenues associated with lower volumes, canceled procedures and services due to COVID-19. PRF payments consisted of both general and targeted distributions, of which VMC received both types of distributions for a total amount of $52.2 million. For the year ended June 30, 2022, VMC recognized Provider Relief Funds $2.3 million, which is reflected in other federal and state funding in the accompanying statements of revenues, expenses and changes in net position. All federal stimulus funds have been recognized in fiscal year 2022 and there are no unearned federal stimulus funds in the accompanying statements of net position as of June 30, 2022.

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 $29.2 million and $9.3 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, 2023 and 2022 respectively.

(o) 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 $21.9 million and $17.2 million, respectively, for the years ended June 30, 2023 and 2022.

VMC estimates the cost of financial assistance using its cost to charge ratio of 25.7% and 25.4% for the fiscal years ended June 30, 2023 and 2022, respectively. 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. Applying VMC's cost to charge ratio of 25.4% to total financial assistance of $17.2 million results in a cost of financial assistance of approximately $4.4 million for the fiscal year ended June 30, 2022.

(p) 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).

(q) 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 $11.8 million and $12.9 million at June 30, 2023 and 2022, respectively.

Deferred inflows of resources related to leases consist of lease revenue from the adoption of GASB 87 *Leases* l effective in fiscal year 2022. VMC leases or subleases land and building suites to physician groups or other medical facilities. VMC recorded $24.1 million and $28.1 million for the years ended June 30, 2023 and 2022, respectively.

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, 2023 and 2022:

		VMC	
		2023	**2022**
Property tax revenue	$	13,014,201	12,658,126
Deferred gain on sale of VPCN		5,399,514	7,118,196
Deferred rental income Valley East Pavilion		6,435,200	6,502,350
Total deferred inflows of resources	$	24,848,915	26,278,672

(r) Net Position

Net position of VMC is classified in various components. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by outstanding borrowings used to finance the purchase or construction of those assets. 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.

(s) Recently Adopted and New Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, "*Subscription-Based Information Technology Arrangements*", which is effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. VMC implemented the standard in fiscal year 2023 and did not restate fiscal year 2022 due to immateriality to its financial statements. Upon adoption of the statement, at July 1, 2022, VMC recognized a beginning balance of subscription liabilities and subscription assets of $13.2 million each, in the statements of net position related to SBITAs.

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 will enhance comparability in accounting and financial reporting and improve 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 will improve 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 did not have a material impact on the VMC's financial statements.

(t) Reclassifications

Prior-Period financial statement amounts have been reclassified to conform to current-period presentation.

(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 2023 and 2022, net patient service revenue increased approximately $14.2 million and $0.9 million, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement.

The following are the components of net patient service revenue for VMC for the years ended June 30, 2023 and 2022:

	VMC	
	2023	**2022**
Gross patient service revenue	$ 2,749,667,518	2,551,463,751
Less adjustments to patient service revenue:		
Financial assistance	(21,930,698)	(17,191,413)
Contractual discounts	(1,905,680,463)	(1,786,905,681)
Provision for uncollectible accounts	(19,534,032)	(16,792,042)
Total adjustments to patient service revenue	(1,947,145,193)	(1,820,889,136)
Net patient service revenue	$ 802,522,325	730,574,615

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, 2023 and 2022 were as follows:

	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 %

	2022	
	VMC	
	Patient service revenue	Accounts receivable
Medicare	42 %	39 %
Medicaid	21	17
Commercial and other	34	38
Self pay	1	4
Exchange (HIX)	2	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 CMS-approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. VMC recognized $9.5 million and $9.1 million in net patient service revenue under this program for the years ended June 30, 2023 and 2022, respectively.

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 received $31.2 million and $24.3 million in DSH funding under this program in fiscal years 2023 and 2022, respectively. VMC recognized $38.0 million and $15.3 million in net patient service revenue from DSH funding for the years ended June 30, 2023 and 2022, 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 2018 CPE program years have had a final settlement. Fiscal year 2018 final settlement was paid in May 2023. As of June 30, 2023, VMC had estimated payables of $21.0 million for fiscal years 2019 to 2023. As of June 30, 2022, VMC had estimated payables of $29.5 million for fiscal years 2017 to 2022, which are included as liabilities in other accrued liabilities, including estimated third-party payer settlements in the accompanying statements of net position.

(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 $0.3 million and $0.6 million from the PSSP program for the years ended June 30, 2023 and 2022, respectively. VMC recognized net revenue of $6.7 million and $10.4 million from the PAP program for the years ended June 30, 2023 and 2022, respectively. These amounts are 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 2023, the District's tax levy rate was $0.30 per assessed $1000 in property value pursuant to the District's authorized tax levy in December 2022 resulting in a tax levy of $26.0 million.

For the calendar year 2022, the District's tax levy rate was $0.39 per assessed $1000 in property value pursuant to the District's authorized tax levy in December 2021 resulting in a tax levy of $25.3 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, 2023 and 2022 are $12.7 million and $12.2 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 $25.6 million and $25.0 million for the fiscal years 2023 and 2022, respectively, and are recorded as nonoperating revenue in the statements of revenues, expenses and changes in net position.

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 statement 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, 2023 and 2022, deposits and investments of VMC consist of the following:

	2023	2022
Unrestricted cash	$ 46,112,993	47,527,743
Unrestricted investments and cash equivalents:		
U.S. Treasury and agency securities and bonds	88,807,973	109,311,536
Corporate notes	12,491,447	13,633,912
Investment pools	8,811,789	27,783,727
Municipal bonds	—	100,071
	110,111,209	150,829,246
Restricted assets:		
Cash and cash equivalents	1,893,699	1,351,074
	$ 158,117,901	199,708,063

(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, 2023 and 2022, 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, 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 %

The composition of investments, reported at fair value by investment type and rating at June 30, 2022 and excluding unrestricted and restricted cash and cash equivalent balances of $48.9 million, and investment pools balances of $27.8 million, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ —	96,811,005	AA+/A-1+	78.7 %
U.S. agency securities	—	9,461,095	AA+	7.7
U.S. agency mortgages	—	3,039,436	AA+	2.5
Municipal bonds	—	100,071	A	0.1
Corporate notes	—	13,633,912	Various	11.0
Total investments by fair value level	$ —	123,045,519		100.0 %

(Continued)

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.

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

2022 Investment type	Carrying value	Remaining maturity (in months) 12 months or less	13 to 24 months	25 to 48 months	More than 48 months
U.S. Treasury securities	$ 96,811,005	17,146,037	27,620,136	48,800,196	3,244,636
U.S. agency securities	9,461,095	—	—	9,461,095	—
U.S. agency mortgages	3,039,436	7,307	96,201	371,965	2,563,963
King County investment Pool	27,783,727	—	27,783,727	—	—
Municipal bonds	100,071	—	—	—	100,071
Corporate notes	13,633,912	—	2,105,587	4,892,154	6,636,171
	$ 150,829,246	17,153,344	57,605,651	63,525,410	12,544,841

(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, 2023 and 2022 is set forth below:

	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

	Balance June 30, 2022	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2023
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

	Balance June 30, 2021	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2022
Nondepreciable capital assets:					
Land	$ 14,025,533	—	—	—	14,025,533
Construction in progress	62,192,820	30,040,287	(61,059,519)	—	31,173,588
Total capital assets not being depreciated	76,218,353	30,040,287	(61,059,519)	—	45,199,121
Capital assets being depreciated:					
Land improvements	18,777,721	—	5,207,990	—	23,985,711
Buildings, renovations, and furnishings	511,617,395	—	26,047,796	(67,043)	537,598,148
Fixed equipment	22,707,731	—	—	—	22,707,731
Movable equipment	208,324,231	173,735	29,219,040	(1,542,765)	236,174,241
Minor equipment	22,208,829	—	584,693	(126,918)	22,666,604
Total capital assets being depreciated	783,635,907	173,735	61,059,519	(1,736,726)	843,132,435
Total capital assets at historical cost	859,854,260	30,214,022	—	(1,736,726)	888,331,556
Less accumulated depreciation for:					
Land improvements	(12,942,314)	(357,956)	—	—	(13,300,270)
Buildings, renovations, and furnishings	(239,725,070)	(15,901,793)	—	15,312	(255,611,551)
Fixed equipment	(21,257,569)	(174,174)	—	—	(21,431,743)
Movable equipment	(169,071,591)	(13,074,868)	—	1,469,984	(180,676,475)
Minor equipment	(17,862,139)	(1,348,414)	—	99,717	(19,110,836)
Total accumulated depreciation	(460,858,683)	(30,857,205)	—	1,585,013	(490,130,875)
Total capital assets, net	$ 398,995,577	(643,183)	—	(151,713)	398,200,681

Depreciation and amortization recognized in operating expenses were $49.4 million and $43.8 million for the years ended June 30, 2023 and 2022, respectively. Included in these amounts were $17.4 million related to right to use lease and subscription assets amortization for the year ended June 30, 2023, and $13.0 million related to right to use lease asset amortization for the year ended June 30, 2022.

(7) Long-Term Debt and Lease Obligations

(a) VMC's Long-Term Debt

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

		2023	2022
Limited tax general obligation bonds:			
2020 series, 2.04%, due serially on June 15 starting in 2021, in amounts from $1,685,000 in 2023 to $1,725,000 in 2024, plus interest due semiannually	$	1,725,000	3,410,000
2018 series, 4% to 5%, due serially on December 1, in amounts from $1,330,000 in 2023 to $3,995,000 in 2044, plus interest due semiannually, including unamortized premium of $6,740,399		98,545,399	100,526,801
2016 series, 4% to 5%, due serially on December 1, in amounts from $7,930,000 in 2023 to $16,455,000 in 2038, plus interest due semiannually, including unamortized premium of $10,842,783		190,307,783	199,874,610
Notes payable:			
Pinnacle Therapy Group, LLC due serially in January, in amount of $240,000 in 2023 which is the final payment		—	240,000
Total long-term debt		290,578,182	304,051,411
Less current portion		(11,665,000)	(11,185,000)
Total long-term debt, net of current portion	$	278,913,182	292,866,411

(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.

(Continued)

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, 2023, for both principal and interest. Total unamortized premiums and discounts are $17.6 million as of June 30, 2023.

	Principal	Interest	Total
2024	$ 11,665,000	13,350,190	25,015,190
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
2029–2033	80,040,000	43,968,500	124,008,500
2034–2038	109,255,000	20,455,125	129,710,125
2039–2043	20,555,000	3,409,375	23,964,375
2044	3,995,000	99,875	4,094,875
Total payments	$ 272,995,000	129,003,440	401,998,440

(iv) Change in Total Long-Term Liabilities

Changes in total long-term liabilities, exclusive of lease liabilities, during the fiscal years ended June 30, 2023 and 2022 are summarized below:

	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

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022	Due within one year
Limited tax general obligation bonds:					
2020 Series	$ 5,065,000	—	(1,655,000)	3,410,000	1,685,000
2018 Series	104,306,361	—	(3,779,560)	100,526,801	1,330,000
2016 Series	203,152,755	—	(3,278,145)	199,874,610	7,930,000
2011 Series	2,029,801	—	(2,029,801)	—	—
Note payable	480,000	—	(240,000)	240,000	240,000
Total long-term debt	315,033,917	—	(10,982,506)	304,051,411	11,185,000
Other long-term liabilities	18,655,770	—	(18,655,770)	—	—
Unearned compensation	21,363	—	(21,363)	—	—
Total long-term liabilities	$ 333,711,050	—	(29,659,639)	304,051,411	11,185,000

(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 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 $5.7 million and $4.9 million during the fiscal years ended June 30, 2023 and 2022, 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, 2023 and 2022 is set forth below:

	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

	Balance June 30, 2021	Additions	Modifications/ renewals	Deductions	Balance June 30, 2022
Lease assets:					
Building	$ 131,820,506	5,785,588	1,927,130	(11,614,298)	127,918,926
Equipment	5,957,422	—	—	—	5,957,422
Total lease assets	137,777,928	5,785,588	1,927,130	(11,614,298)	133,876,348
Less accumulated amortization for:					
Buildings	(16,413,161)	(16,727,353)	—	1,587,566	(31,552,948)
Equipment	(905,361)	(1,444,007)	—	—	(2,349,368)
Total accumulated amortization	(17,318,522)	(18,171,360)	—	1,587,566	(33,902,316)
Total lease assets, net	$ 120,459,406	(12,385,772)	1,927,130	(10,026,732)	99,974,032

Lease and Subscription Liabilities

Changes in lease and subscription liabilities during the fiscal years ended June 30, 2023 and 2022 are summarized below:

	Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Fiscal year ended:						
June 30, 2023	$ 122,093,091	4,031,800	4,161,338	(22,914,251)	107,371,978	18,335,795
June 30, 2022	125,441,288	5,785,587	1,927,129	(24,227,414)	108,926,590	13,719,162

Lease and Subscription Maturities

The following schedule shows future annual lease and subscription payments, and in five-year increments thereafter, as of June 30, 2023, for both principal and interest:

	Principal	Interest	Total
2024	$ 18,335,794	3,466,528	21,802,322
2025	17,635,043	2,407,545	20,042,588
2026	14,860,934	1,898,475	16,759,409
2027	10,509,944	1,529,661	12,039,605
2028	10,121,423	1,230,264	11,351,687
2029–2033	33,614,944	2,447,165	36,062,109
2034–2036	2,293,896	98,868	2,392,764
Total payments	$ 107,371,978	13,078,506	120,450,484

(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.

Revenue from leases for the fiscal years ended June 30, 2023 and 2022 is as follows:

		For year ended June 30	
		2023	**2022**
Lease revenue	$	1,328,095	1,460,674
Interest revenue		585,294	797,445
Total	$	1,913,389	2,258,119

(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 $2.4 million and $2.3 million as of June 30, 2023 and 2022, 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, 2023 and 2022. 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 $0.5 million per claim in 2023 and 2022. 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,

(Continued)

2023 and 2022, 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 $27.5 million and $24.6 million for the years ended June 30, 2023 and 2022, 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 $11.4 million and $10.9 million was paid and recognized by VMC to divisions of the University for the years ended June 30, 2023 and 2022, 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 and $8.0 million for the years ended June 30, 2023 and 2022, respectively, in intergovernmental transfers to the state, which is included in funding to affiliates in the statement 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 and $8.8 million for the years ended June 30, 2023 and 2022, respectively, which is included in funding from affiliates in the statement of revenues, expenses, and changes in net position.

(11) Commitments and Contingencies

(a) Construction Commitments

VMC has current commitments at June 30, 2023 of $8.1 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.

(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 3,800 employees. Of this total, approximately 66% are covered under collective bargaining agreements as of June 30, 2023. 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), United Food and Commercial Workers (UFCW), and International Union of Operating Engineers (IUOE) Operating Engineers. The collective bargaining agreements with SEIU 1199 expire on June 30, 2024. OPEIU, UFCW, and IUOE Operating Engineers expire on October 31, 2024, June 30, 2024, and October 31, 2024, respectively.