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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, 2020 and 2019

(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:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Public Hospital District No. 1 of King County, Washington dba Valley Medical Center (the Medical Center), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Public Hospital District No. 1 of King County, Washington dba Valley Medical Center, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying aggregating schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The aggregating schedules are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the aggregating schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The aggregating schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Seattle, Washington
October 9, 2020

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, 2020, 2019 and 2018. 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 includes 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.

As defined by generally accepted accounting principles (GAAP), VMC presents financial statements for its primary government as well as for its discretely presented component unit, Imaging Partners at Valley (IPV), which is a legally separate organization for which VMC is financially accountable. The analysis presented below excludes the financial position and results of operations of IPV, unless otherwise noted.

Results of Operations for Fiscal Year 2020

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in Washington in January 2020 and has spread globally creating an international pandemic, which has significantly impacted the economic conditions at a local and national level. On February 29, 2020, the Governor of the state of

(Continued)

Washington declared a state of emergency as a result of the pandemic and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency, ordering all states to establish emergency operations and authorizing the use of federal funds.

In accordance with direction and mandates from the Governor, starting on March 18, 2020, VMC canceled or postponed all elective procedures and closed some clinics and ambulatory departments. On May 18, 2020, the Governor changed the restrictions on elective procedures allowing VMC to resume elective procedures. The cancellation of elective procedures from mid-March to mid-May had a significant impact on volumes and revenues for the fiscal year. VMC received government funding to aid in the recovery of lost revenues, which are presented in the financial results for fiscal year 2020.

VMC recorded a $41.1 million net operating loss for fiscal year 2020; this is a change of $36.1 million from the net operating loss of $5.0 million in 2019. In 2020, VMC's net position increased by $6.9 million to $276.6 million from $269.7 million. The net operating loss in 2020 primarily resulted from additional infrastructure costs related to growth in the ambulatory areas and specialty clinics and decreased reimbursement from government payers for the first eight months of the fiscal year and from the impacts of COVID-19 pandemic in the last four months of the fiscal year. The chart below is a summary of the statements of revenue, expenses, and changes in net position for the past three years.

		2020	2019	2018
			(In thousands)	
Total operating revenues	$	712,813	684,884	643,835
Total operating expenses		753,959	689,894	632,006
Operating (loss) income		(41,146)	(5,010)	11,829
Property tax revenue		24,003	23,258	22,722
Interest income		4,270	4,001	4,277
Interest and amortization expense		(13,961)	(14,853)	(14,253)
Investment income (loss)		4,516	3,785	(1,809)
Federal stimulus program		30,041	—	—
Other, net		(874)	980	17,414
Nonoperating income		47,995	17,171	28,351
Change in net position		6,849	12,161	40,180
Net position, beginning of year		269,741	257,580	217,400
Net position, end of year	$	276,590	269,741	257,580

Performance for fiscal year 2020 is primarily being driven by:

- Inpatient days increased 1% from 2019 to 2020 and 4% from 2018 to 2019
- VMC experienced modest growth in outpatient volumes, particularly in the primary and specialty care clinics and in special procedure cases with the remodel of the Special Procedures Care Unit (SPCU) from July 2019 to February 2020.
- VMC experienced significant reduction in volumes from March to May 2020 after Governor Inslee declared a state of emergency in February 2020 in response to COVID-19 pandemic and ordered the cancellation of all elective procedures and surgeries from March 18, 2020 through May 17, 2020.
- VMC management implemented significant cost saving initiatives in the second half of the fiscal year 2019 and continued into 2020 through February 2020, focusing on labor productivity, detailed revenue cycle process improvement initiatives, continued standardization of high dollar medical supplies and equipment, and reductions in purchased services. Starting in March 2020, VMC's expenses increased significantly due to spending for resources, including, but not limited to, personal protective equipment (PPE) supplies, setting up testing sites for COVID-19, testing fees for COVID-19, and additional compensation for front line nurses.
- VMC experienced significant growth in the contract pharmacies program. Revenue increased 40% over 2019 by $13.0 million to $45.2 million.
- VMC continued to invest in information technology. The big project underway during fiscal year 2020 is the transformation of financial and supply chain system from McKesson to Infor Cloudsuite.

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

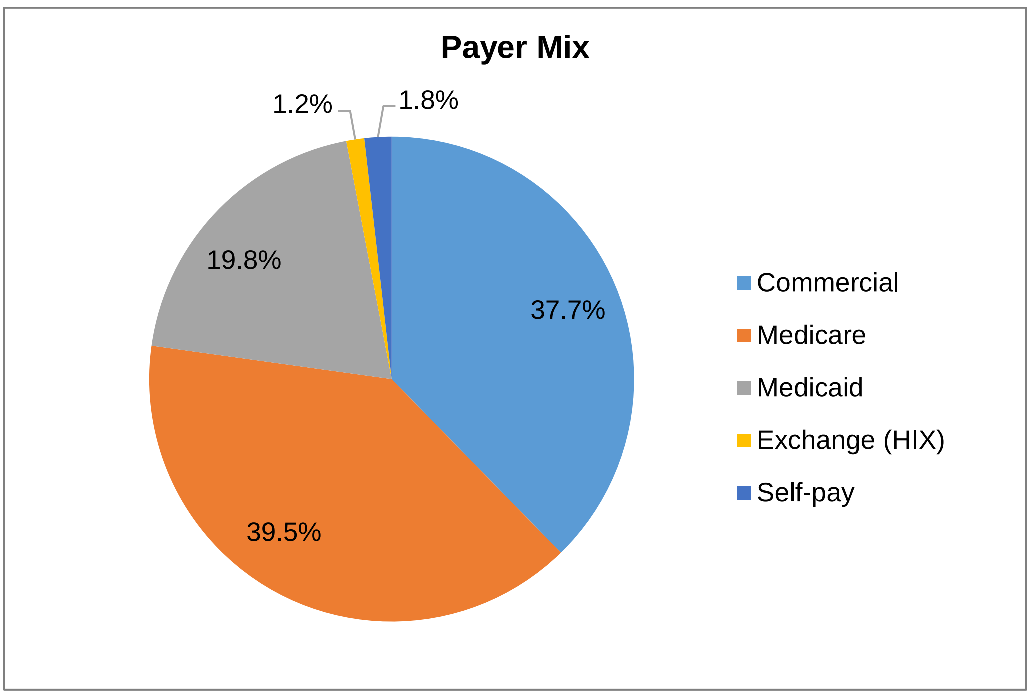
	2020	2019	2018
Available beds	331	311	311
Discharges	16,924	18,271	18,409
Patient days	76,758	75,824	73,102
Average length of stay	4.54	4.15	3.97
Occupancy	66 %	68 %	64 %
Case mix index (CMI)	1.66	1.59	1.54
Surgery cases	11,830	12,878	12,767
Emergency room visits	77,344	85,305	85,098
Primary care clinic visits	215,586	228,591	216,522
Specialty/urgent care clinic visits	412,411	441,541	408,280
Full time equivalents (FTEs)	3,451	3,296	3,134
Births	3,287	3,180	3,536

(Continued)

Total Operating Revenues

Total operating revenues consist primarily of net patient service revenue and other operating revenues. Net patient service revenues are recorded based on standard gross charges less contractual adjustments, financial assistance, and 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, as well as IPV, provide 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 2020. For the years ended June 30, 2020, 2019, and 2018, Medicaid revenue represented 20%, 20%, and 21%, respectively. There was a decrease in Medicaid and Commercial revenue in 2020 and 2019 that shifted to Medicare and self-pay. For the years ended June 30, 2020, 2019, and 2018, Medicare revenue represented 40%, 39%, and 37%, respectively. The shift in payer mix was from Medicaid and Commercial to Medicare, and the shift was primarily due to the aging population within the district, as well as likely migration into the district.

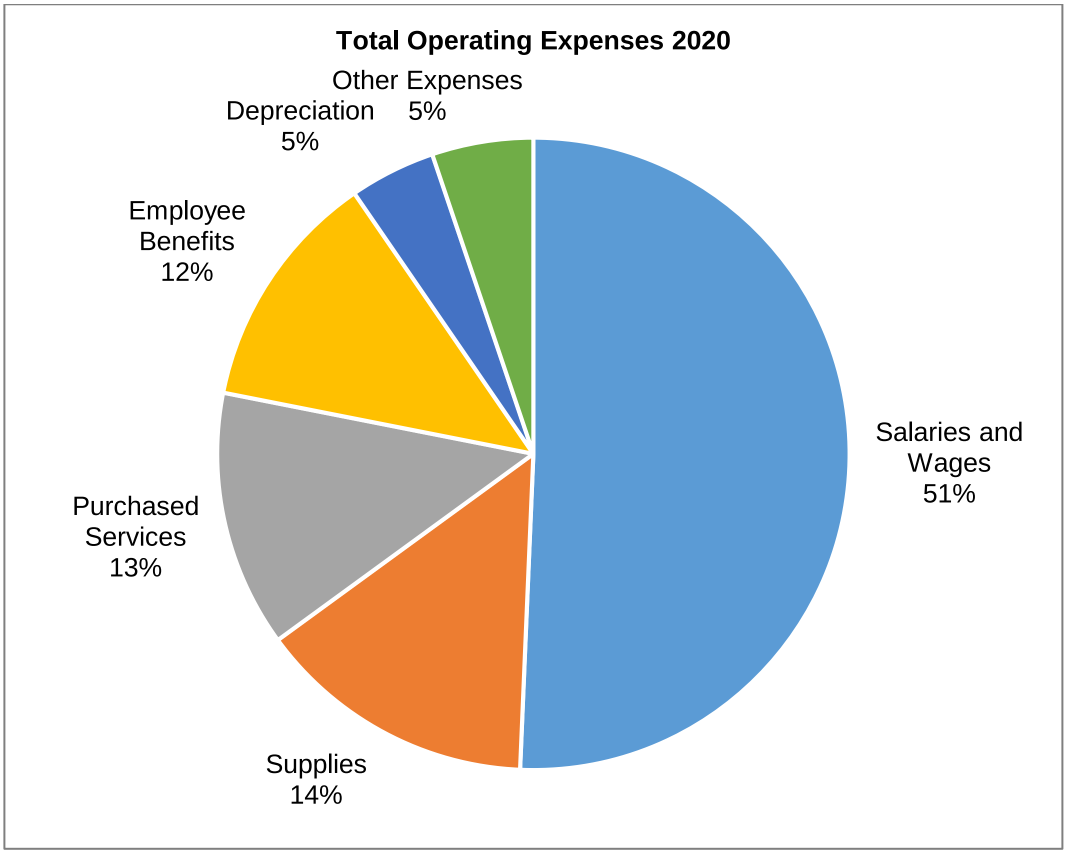
Reimbursement from government payers is generally below commercial rates, and reimbursement rules are complex and subject to both interpretation and settlements.

For the years ended June 30, 2020, 2019, and 2018, VMC's total operating revenues were $712.8 million, $684.9 million, and $643.8 million composed of $640.0 million, $622.8 million, and $598.6 million in net patient service revenue and $72.8 million, $62.1 million, and $45.2 million in other operating revenue, respectively.

In 2019 and 2020 through February, the increase in operating revenue is due to growth in inpatient volumes, growth in outpatient volumes across the clinic network (primary and specialty, and urgent care), and continued increases in outpatient surgical procedures. In 2020, operating revenue was reduced in March to May due to cancellation of elective procedures and surgeries and closures of clinics in response to COVID-19 pandemic. The increase in other operating revenue is attributed to increases in contract pharmaceutical volumes.

Total Operating Expenses

Total operating expenses were $754.0 million for the year ended June 30, 2020 compared to $689.9 million for the year ended June 30, 2019. The composition of fiscal year 2020 operating expenses is illustrated in the pie chart below.



Salaries and wages increased $34.0 million from $347.8 million in fiscal year 2019 to $381.8 million in fiscal year 2020. The increase was primarily related to contractually agreed upon wage increases; continued addition of providers in the clinic network's services in primary, urgent, and specialty care; growth in certain hospital inpatient and outpatient departments; and the addition of support staff in overhead departments with the growth and additional labor costs in response to COVID-19 pandemic.

Salaries and wages increased $31.9 million from $315.9 million in fiscal year 2018 to $347.8 million in fiscal year 2019. The increase was primarily related to contractually agreed-upon wage increases; continued addition of providers in the clinic network's services in primary, urgent, and specialty care; and growth in certain hospital inpatient and outpatient departments.

Employee benefits increased $9.3 million from $84.2 million in fiscal year 2019 to $93.5 million in fiscal year 2020 and increased $8.3 million from $75.9 million in fiscal year 2018 to $84.2 million in fiscal year 2019. Employee benefit costs are a function of employment. In fiscal year 2020, benefits increased by 11% while salaries and wages increased by 10%. In fiscal year 2019, benefits increased by 11%, while salaries and wages increased by 10%.

Purchased services expense, which consists of professional and consulting fees, increased $7.6 million from $91.0 million in fiscal year 2019 to $98.6 million in fiscal year 2020 and increased $8.1 million from $82.9 million in fiscal year 2018 to $91.0 million in fiscal year 2019. The increase between fiscal year 2019 and 2020 is attributed to additional consulting fees with process improvement projects, additional lab fees for COVID-19 testing, additional rental expenses and contracted services agreements executed prior to the pandemic for various growth projects. The increase between fiscal year 2018 and 2019 is attributed to additional consulting fees, additional rental expenses from new clinics, and contracted services agreements from volume growth.

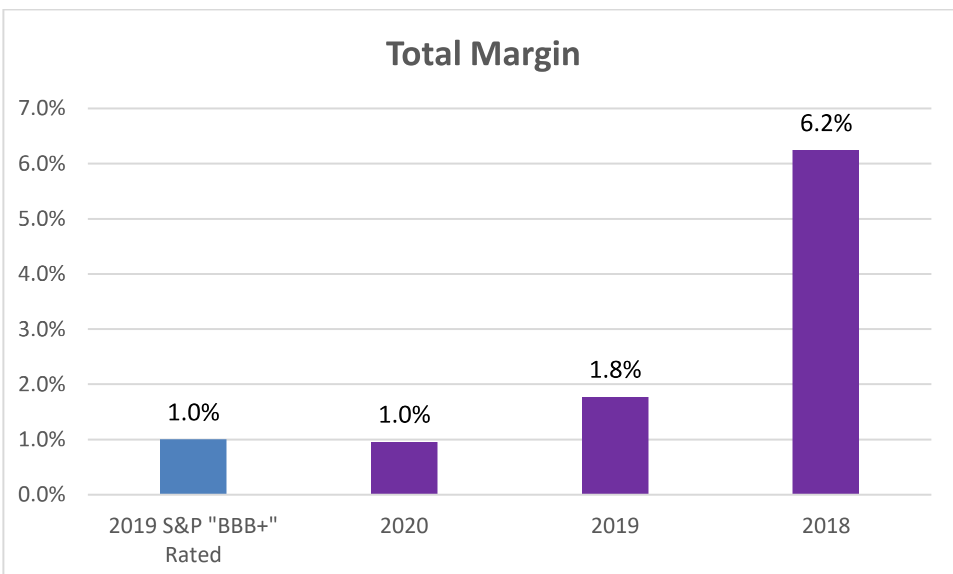
Supplies and other expense include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $17.0 million from $129.9 million in fiscal year 2019 to $146.9 million in fiscal year 2020. The increase is attributed to additional PPE supplies and equipment rentals in response to COVID-19 pandemic, additional pharmaceutical expenses with the significant growth in the contract pharmacy program, and replacement of certain medical instruments. Supplies and other expenses increased $5.6 million from $124.3 million in fiscal year 2018 to $129.9 million in fiscal year 2019. Considering the increased volume in both inpatient and outpatient areas, the slight increase is primarily as a result of price inflation with medical and pharmaceutical supplies.

Depreciation expense decreased $3.9 million from $37.0 million in fiscal year 2019 to $33.1 million in fiscal year 2020 and increased $4.0 million from $33.0 million in fiscal year 2018 to $37.0 million in fiscal year 2019. The decrease between 2019 and 2020 was due to several major IT systems have been fully depreciated. The increase between 2018 and 2019 was due to various projects being placed in service and depreciated.

Nonoperating revenue consists of revenue from property taxes, federal stimulus program, interest and investment income offset by interest and amortization expense, and other activities not directly related to patient care. Net nonoperating revenue increased $30.8 million between fiscal years 2019 and 2020, primarily due to $30.0 million of revenue recognized related to the federal stimulus program in response to COVID-19, also called provider relief funds. Net nonoperating revenue decreased $11.2 million between fiscal years 2018 and 2019, primarily due to a $16.5 million gain recognized from the sale of a joint venture lab in 2018 partially offset by an increase in revenue from taxation and an increase in investment income.

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 2020, 2019, and 2018 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, 2020, 2019, and 2018.

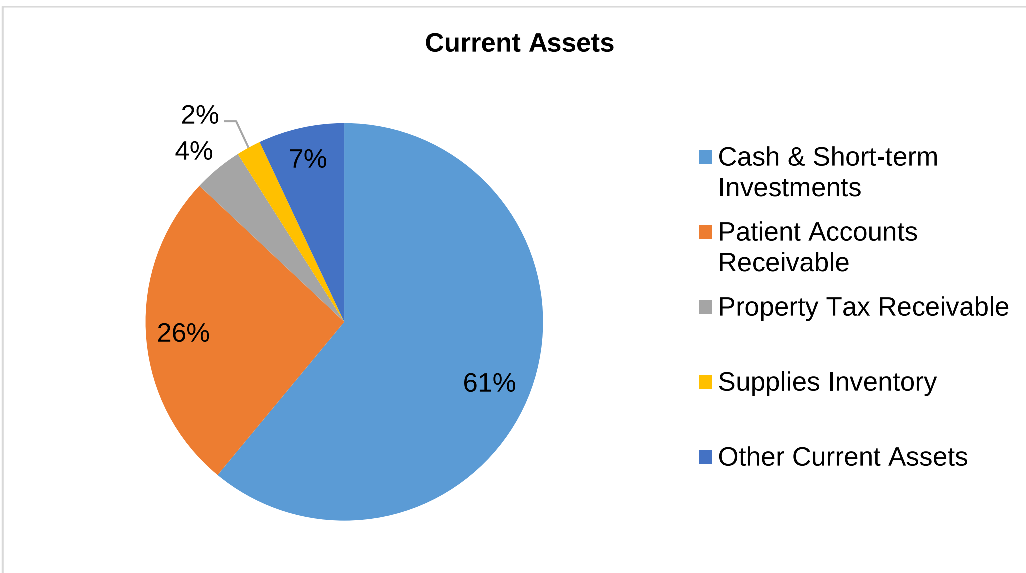
	2020	2019	2018
		(In thousands)	
Current assets	$ 306,661	213,241	226,526
Noncurrent assets:			
Capital assets, net	393,217	385,131	379,540
Other noncurrent assets	144,978	149,240	78,603
Long-term investments	257	545	1,378
Goodwill, intangible assets, and other	2,924	3,519	2,796
Total assets	848,037	751,676	688,843
Deferred outflow of resources	15,112	16,119	12,491
Total assets and deferred outflows	863,149	767,795	701,334
Current liabilities	229,307	135,831	119,460
Noncurrent liabilities	328,062	338,374	299,263
Total liabilities	557,369	474,205	418,723
Total deferred inflows of resources	29,190	23,849	25,031
Net position	$ 276,590	269,741	257,580

Total assets were $848.0 million at June 30, 2020 compared to $751.7 million at June 30, 2019, an increase of $96.3 million, and $688.8 million at June 30, 2018, an increase of $62.9 million between 2018 and 2019. Most of the change between 2019 and 2020 is attributed to $64.3 million of Medicare advance payments and $21.1 million safety net hospital stimulus payment in 2020. Most of the change between 2018 and 2019 is attributed to $45 million of unspent bond proceeds in 2019.

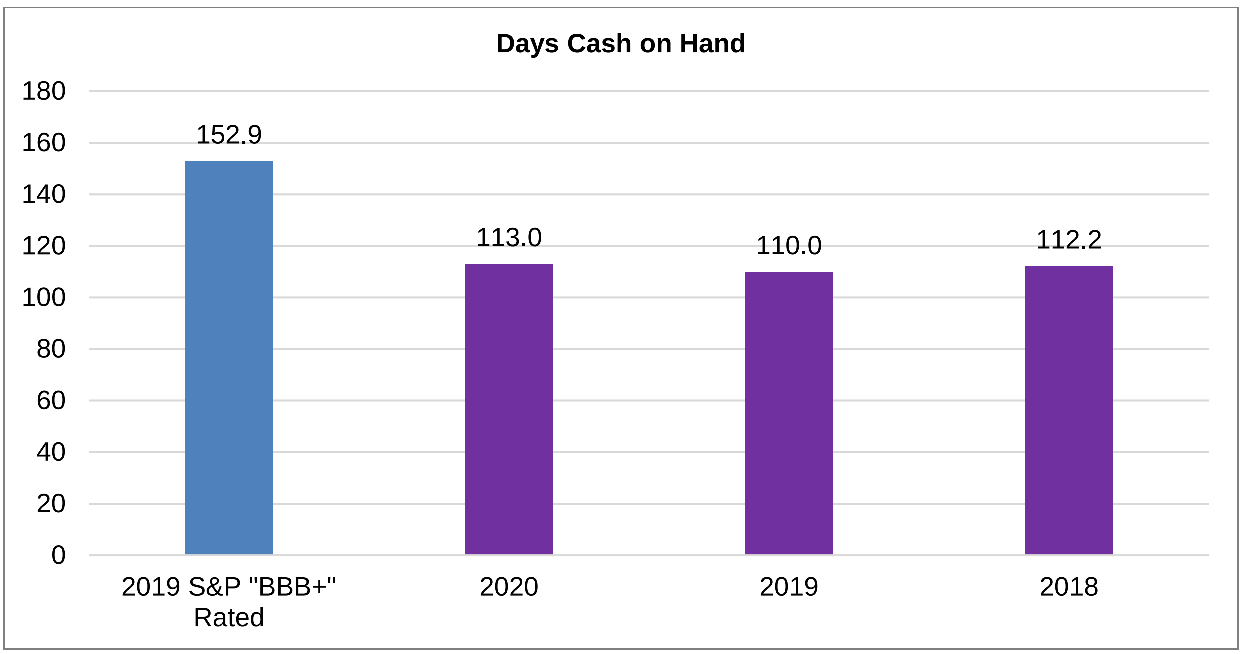
(Continued)

Current Assets

Current assets consist of cash and cash equivalents and other current 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 $306.7 million at fiscal year-end 2020, compared to $213.2 million at year-end 2019. Fiscal year 2020 composition of current assets is illustrated in the pie chart below.



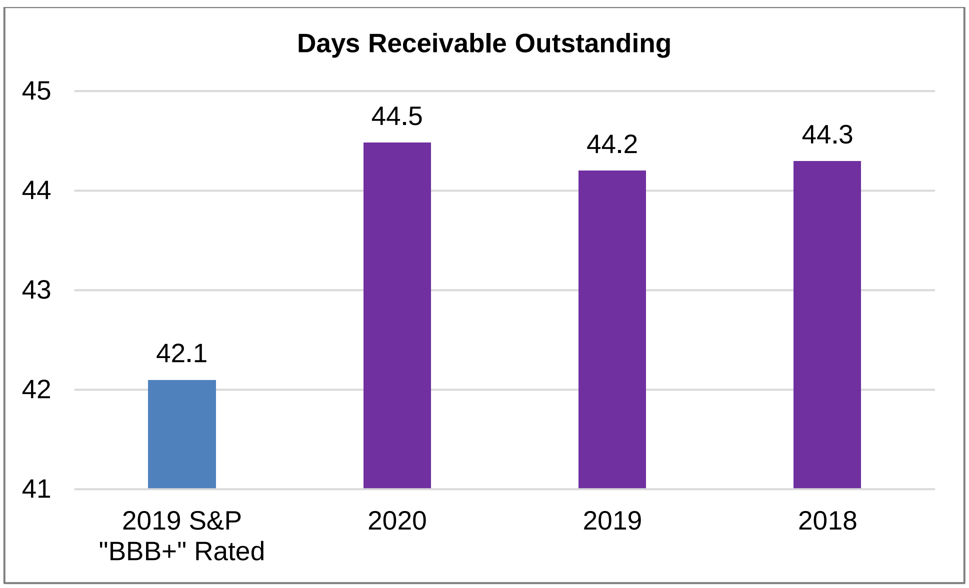
Cash and short-term investments held by VMC consist of cash, cash equivalents, and investments expected to mature in 12 months or less. Cash and short-term investments increased $86.3 million in 2020 from $101.4 million at June 30, 2019 to $187.7 million at June 30, 2020. The increase in 2020 was attributed to cash received from the Medicare advance program and the federal stimulus program in cash and cash equivalents. Cash and short-term investments increased $13.0 million in 2019 from $88.4 million at June 30, 2018 to $101.4 million at June 30, 2019. The increase in 2019 was attributed to keeping cash collected from operations in short-term investments. 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 advance payments, as of June 30 for fiscal years 2020, 2019 and 2018 are illustrated in the graph below.



VMC's total days cash on hand, including short and long-term investments and board-designated assets for general capital improvements and operations, increased 3.0 days from 110.0 days at June 30, 2019 to 113.0 days at June 30, 2020 and decreased 2.2 days from 112.2 days at June 30, 2018 to 110.0 days at June 30, 2019. The increase between 2019 and 2020 was primarily due to federal stimulus payments that offset by increases in expenses for response to COVID-19 pandemic. The decrease between 2018 and 2019 was primarily due to capital spending, weaker financial performance and expenses increased at a greater rate than cash collected.

Net patient accounts receivable was $77.8 million as of June 30, 2020, compared to $75.4 million at June 30, 2019. The increase of $2.4 million was driven by the impact of the COVID-19 pandemic where payers are slower in processing claims. Net patient accounts receivable at June 30, 2019 and 2018 were $75.4 million and $72.7 million, respectively. The increase of $2.7 million was driven by growth in revenue.

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 2020, 2019, and 2018 are illustrated in the graph below.



VMC's total net days receivable outstanding increased 0.3 days from 44.2 days at June 30, 2019 to 44.5 days at June 30, 2020 and decreased 0.1 days from 44.3 days at June 30, 2018 to 44.2 days at June 30, 2019. Net patient accounts receivable days only increased slightly between 2019 and 2020 and were essentially even between 2018 and 2019, representing continued strong revenue cycle management.

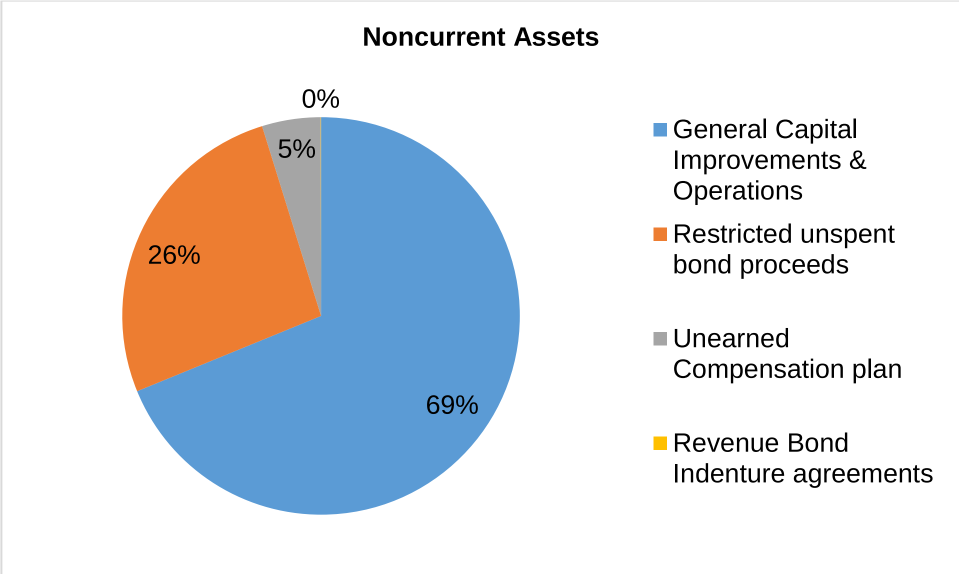
As of June 30, 2020, 44% of the gross patient accounts receivable balance is due from commercial payers, 51% is due from government payers Medicare and Medicaid, 4% from self-pay patients, and 1% is due from health exchange insured patients. As of June 30, 2019, 42% of gross patient accounts receivable balance is due from commercial payers, 53% is due from government payers Medicare and Medicaid, 4% from self-pay patients, and 1% from health exchange insured patients. As of June 30, 2018, 40% of gross patient accounts receivable balance is due from commercial payers, 54% is due from government payers Medicare and Medicaid, 5% from self-pay patients, and 1% from health exchange insured patients.

Property tax receivable increased $0.5 million from $11.5 million at June 30, 2019 to $12.0 million at June 30, 2020 and is primarily reflective of increased property values. In 2019, property tax receivable increased $0.2 million for the same reason.

Noncurrent Assets

Noncurrent assets consist of board-designated assets held by VMC for general capital improvements and other operations, restricted unspent bond proceeds, unearned compensation plan arrangements, and various revenue obligation bond agreements. VMC issued series 2018 bonds on December 18, 2018 that resulted in $50 million of new bond proceeds to fund capital projects. Restricted unspent bond proceeds were $38.3 million as of June 30, 2020. VMC issued series 2020 bonds on March 17, 2020 to refund series 2010A bonds that eliminated the debt service requirements for revenue bonds.

The chart below outlines the composition of noncurrent assets as of June 30, 2020.

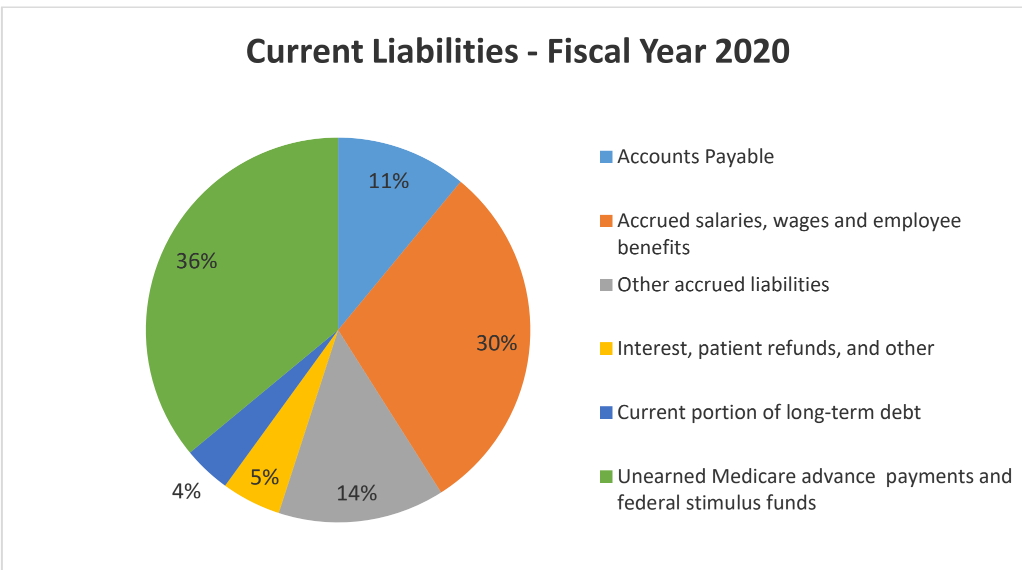


Total other noncurrent assets decreased $4.2 million from $149.2 million at June 30, 2019 to $145.0 million at June 30, 2020. The decrease in 2020 was primarily related to unspent bond proceeds decreased by $6.7 million. Total other noncurrent assets increased $70.6 million between fiscal years 2018 and 2019 from $78.6 million to $149.2 million. The increase in 2019 was primarily related to unspent bond proceeds of $44.9 million.

Capital assets increased $8.1 million during fiscal year 2020 from $385.1 million at June 30, 2019 to $393.2 million at June 30, 2020 and increased $5.6 million during fiscal year 2019 from $379.5 million at June 30, 2018 to $385.1 million at June 30, 2019. The increases in 2019 and 2020 were primarily due to improvements done in the second floor of the hospital. VMC has current commitments of $11.4 million at June 30, 2020 related to various construction projects, equipment purchases and information technology implementations.

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 $229.3 million at June 30, 2020, compared to $135.8 million at June 30, 2019. Fiscal year 2020 composition of current liabilities is illustrated in the pie chart below.



Accounts payable increased $3.3 million between June 30, 2019 and June 30, 2020 from $20.6 million to $23.9 million and increased $0.8 million between June 30, 2018 and June 30, 2019 from $19.8 million to $20.6 million. Changes in accounts payable are primarily driven by timing of payments to vendors, as well as overall volume growth. Included in accounts payable as of June 30, 2020 and 2019 were amounts accrued for capital related expenditures of $5.1 million and $3.7 million, respectively.

Accrued salaries, wages, and employee benefits increased $9.4 million from $59.5 million at June 30, 2019 to $68.9 million at June 30, 2020 and increased $6.9 million from $52.6 million at June 30, 2018 to $59.5 million at June 30, 2019. Changes in accrued salaries, wages, and employee benefits are also related to timing of payments to employees, as well as the overall growth in FTEs due to volume growth and expansion.

Other accrued liabilities, including estimated third-party payer settlements, decreased $0.7 million from $31.9 million at June 30, 2019 to $31.2 million at June 30, 2020 and increased $6.4 million from $25.5 million at June 30, 2018 to $31.9 million at June 30, 2019. The decrease in 2020 was due to payments of fiscal year 2013 final settlement and fiscal year 2018 interim settlement. The increase in 2019 was primarily due to estimated and actual final Certified Public Expenditure cost settlements for fiscal years 2011–2019.

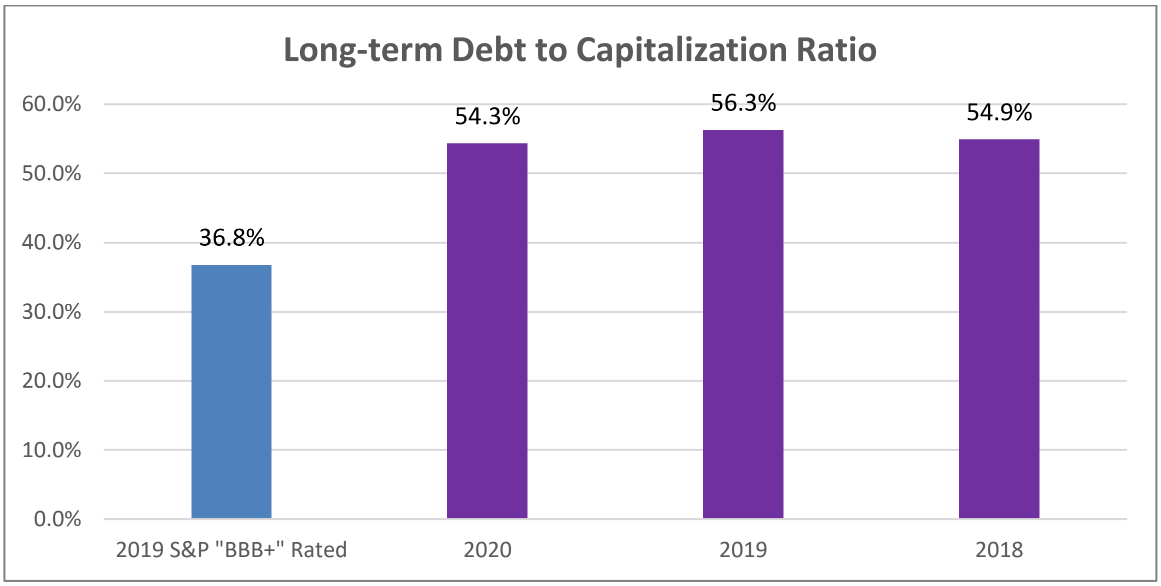
Unearned Medicare advance payments and federal stimulus funds of $82.2 million was a new liability recorded in fiscal year 2020. VMC applied for six-month advance payments from Medicare and received $64.3 million on April 7, 2020 to stabilize it's cash position due to lost revenues from the cancellation 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 also received $21.1 million of federal stimulus payment as a safety net hospital in June 2020 that was part of the Provider Relief Fund. VMC recorded $17.9M of this payment as a liability until the federal government provides additional guidance on its terms and conditions. See more detail discussions on this topic in 2(n) of notes to financial statements.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt and other noncurrent liabilities. Total noncurrent liabilities were $328.1 million at June 30, 2020, compared to $338.4 million at June 30, 2019.

Long-term debt decreased from $332.4 million at June 30, 2019 to $317.6 million at June 30, 2020 and increased from $293.5 million at June 30, 2018 to $332.4 million at June 30, 2018. The decrease in 2020 was a result of payments made in accordance with debt repayment schedules and the refinancing of series 2010A bonds. The increase in 2019 was due to a bond issuance made to refinance older bonds and to secure incremental amounts to fund capital projects. Management is not aware of any violations with its debt covenants for the years ended June 30, 2020 and 2019. S&P Globals Ratings issued long-term rating of A-/Stable to VMC on October 7, 2019.

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 2020, 2019, and 2018 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 issues 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.

Net Position

Invested in capital assets net of related debt increased by $15.6 million from $102.2 million at June 30, 2019 to $117.8 million at June 30, 2020 and increased by $15.2 million from $87.0 million at June 30, 2018 to $102.2 million at June 30, 2018. The increases in both 2020 and 2019 were due to capital additions and repayment of related debt.

Unrestricted decreased by $6.1 million from $164.0 million at June 30, 2019 to $157.9 million at June 30, 2020 and increased by $1.6 million from $162.4 million at June 30, 2018 to $164.0 million at June 30, 2019. The decrease in 2020 was due to the increases in net position in the statement of revenues, expenses, and changes in net position was less than the combined impact from the increase in net investment in capital and decrease in restricted for debt services. The increase in 2019 was due to the increase in net position in the statement of revenues, expenses, and changes in net position, increase in net investment in capital and decrease in restricted for debt services.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources decreased by $1.0 million from $16.1 million at June 30, 2019 to $15.1 million at June 30, 2020. Deferred outflows of resources increased by $3.6 million from $12.5 million at June 30, 2018 to $16.1 million at June 30, 2019. The decrease in 2020 was due to amortization of the deferred amount from the debt refinancing. The increase in 2019 was due to the addition of deferred amount from debt refinancing from the issuance of 2018 bonds.

Deferred inflows of resources increased $5.4 million from $23.8 million at June 30, 2019 to $29.2 million at June 30, 2020. The increase between June 30, 2019 and June 30, 2020 was due to addition of $6.6 million deferred rental income from the ground lease on the new medical office building Valley Medical Pavilion. Deferred inflows of resources decreased $1.2 million from $25.0 million at June 30, 2018 to $23.8 million at June 30, 2019. The decrease between June 30, 2018 and June 30, 2019 was due to amortization of a deferred gain on sale of VPCN.

Factors Affecting the Future

Economic Uncertainty Facing the Healthcare Industry

The COVID-19 pandemic continues to evolve and the future impact on VMC's operations and financial position remains unknown and difficult to predict. While the future impact of COVID-19 is unknown, the pandemic may impact VMC's patient population, cause volatility in future volumes and impact the delivery of patient care. Depending on the future duration and severity of the pandemic, as well as timing of initiatives to address COVID-19, such as the potential fall surge and cancellation of procedures and future stimulus measures adopted by local, state and federal governments, the ultimate impact is uncertain. VMC continues to focus on reducing expenses and recovering lost revenues through all available sources.

The healthcare industry, in general, and the acute care hospital business, in particular, are experiencing significant regulatory uncertainty based, in large part, on legislative efforts to significantly modify or repeal and potentially replace the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act or ACA). It is difficult to predict the full impact of these actions on VMC's future revenues and operations. Changes to the ACA are likely to significantly impact VMC.

However, we believe that our ultimate success in increasing profitability depends in part on our success in executing our strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and streamlining how we provide 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.

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 postacute 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 our 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 our 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, 2020 and 2019

	Valley Medical Center		Component unit – Imaging Partners at Valley	
Assets	**2020**	**2019**	**2020**	**2019**
Current assets:				
Cash and cash equivalents	$ 113,674,321	34,157,051	1,205,500	1,215,727
Short-term investments	74,034,808	67,197,753	—	—
Accounts receivable, less allowance for uncollectible accounts of $16,617,369 in 2020 and $15,947,030 in 2019	77,781,343	75,422,286	—	—
Property tax receivable	12,036,353	11,501,467	—	—
Due from:				
Primary government	—	—	529,927	1,060,469
Component unit	308,739	763,798	—	—
Supplies inventory	7,133,613	7,214,995	—	—
Prepaid expenses and other assets	21,691,529	16,983,339	79,580	48,464
Total current assets	306,660,706	213,240,689	1,815,007	2,324,660
Long-term investments	257,008	544,722	—	—
Other noncurrent assets:				
Unrestricted for general capital improvements and operations	99,769,877	95,754,383	—	—
Restricted unspent bond proceeds	38,254,147	44,939,869	—	—
Restricted under unearned compensation plan arrangements	6,913,778	5,996,269	—	—
Restricted under revenue bond indenture agreements	40,492	2,549,216	—	—
Total other noncurrent assets	144,978,294	149,239,737	—	—
Capital assets:				
Land	14,025,533	13,413,733	—	—
Construction in progress	37,759,466	32,804,243	—	—
Depreciable capital assets, net of accumulated depreciation	341,432,400	338,913,104	554,548	769,821
Total capital assets	393,217,399	385,131,080	554,548	769,821
Goodwill, intangible assets, and other	2,924,101	3,519,818	—	—
Total assets	848,037,508	751,676,046	2,369,555	3,094,481
Deferred outflow of resources	15,111,746	16,118,824	—	—
Total assets and deferred outflows	$ 863,149,254	767,794,870	2,369,555	3,094,481

(Continued)

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

Statements of Net Position

June 30, 2020 and 2019

		Valley Medical Center		Component unit – Imaging Partners at Valley	
Liabilities and Net Position		**2020**	**2019**	**2020**	**2019**
Current liabilities:					
Accounts payable	$	23,888,046	20,602,256	104,101	239,578
Accrued salaries, wages, and benefits		68,858,584	59,451,262	—	—
Due to:					
Primary government		—	—	308,739	763,798
Component unit		529,927	1,060,469	—	—
Other accrued liabilities, including estimated third-party payer settlements		31,221,411	31,918,358	—	—
Interest, patient refunds, and other		12,053,522	12,247,994	—	—
Current portion of long-term debt and capital lease obligations		10,569,719	10,550,188	—	—
Unearned Medicare advance payments and federal stimulus funds		82,185,897	—	—	—
Total current liabilities		229,307,106	135,830,527	412,840	1,003,376
Unearned compensation plan		6,913,778	5,996,269	—	—
Long-term debt and capital lease obligations, net of current portion		317,596,925	332,377,770	—	—
Other long-term liabilities		3,550,806	—	—	—
Total liabilities		557,368,615	474,204,566	412,840	1,003,376
Deferred inflows of resources		29,190,450	23,848,966	—	—
Net position:					
Invested in capital assets, net of related debt		117,795,663	102,167,528	554,548	769,821
Restricted:					
For debt service		40,492	2,549,216	—	—
Expendable for specific operating activities		815,050	975,947	—	—
Unrestricted		157,938,984	164,048,647	1,402,167	1,321,284
Total net position		276,590,189	269,741,338	1,956,715	2,091,105
Total liabilities, deferred inflows, and net position	$	863,149,254	767,794,870	2,369,555	3,094,481

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, 2020 and 2019

	VMC		Component unit – IPV	
	2020	**2019**	**2020**	**2019**
Operating revenues:				
Net patient service revenue (net of VMC's provision for uncollectible accounts of $15,761,141 in 2020 and $16,018,976 in 2019)	$ 639,969,576	622,817,721	1,272	6,255
Other operating revenue	72,843,638	62,066,057	7,868,050	9,511,018
Total operating revenues	712,813,214	684,883,778	7,869,322	9,517,273
Operating expenses:				
Salaries and wages	381,790,804	347,820,114	—	—
Employee benefits	93,547,257	84,176,684	—	—
Purchased services	98,616,841	91,007,543	848,620	774,931
Supplies and other expenses	146,856,313	129,912,760	221,225	305,021
Depreciation	33,147,695	36,976,516	218,055	225,232
Total operating expenses	753,958,910	689,893,617	1,287,900	1,305,184
Operating (loss) income	(41,145,696)	(5,009,839)	6,581,422	8,212,089
Nonoperating income (expense):				
Property tax revenue	24,002,665	23,258,119	—	—
Interest income	4,269,673	4,001,389	—	—
Interest and amortization expense	(13,961,219)	(14,852,667)	—	(406)
Investment income, net	4,516,142	3,785,392	—	—
Funding from affiliates	6,141,496	4,051,934	—	—
Funding to affiliates	(5,583,178)	(3,683,575)	—	—
Federal stimulus program	30,041,060	—	—	—
Other, net	(1,432,092)	610,516	—	—
Distributions to members	—	—	(6,715,812)	(8,335,929)
Net nonoperating income (expense)	47,994,547	17,171,108	(6,715,812)	(8,336,335)
Increase (decrease) in net position	6,848,851	12,161,269	(134,390)	(124,246)
Net position, beginning of year	269,741,338	257,580,069	2,091,105	2,215,351
Net position, end of year	$ 276,590,189	269,741,338	1,956,715	2,091,105

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, 2020 and 2019

	VMC		Component unit – IPV	
	2020	2019	2020	2019
Cash flows from operating activities:				
Receipts from and on behalf of patients	$ 699,335,935	626,431,349	1,272	6,255
Payments to suppliers and contractors	(244,074,469)	(218,285,687)	(1,122,675)	(1,020,474)
Payments to employees	(461,462,424)	(424,978,182)	—	—
Other cash receipts	71,102,752	62,211,717	8,398,592	9,726,476
Net cash provided by operating activities	64,901,794	45,379,197	7,277,189	8,712,257
Cash flows from noncapital financing activities:				
Cash received from tax levy	23,740,725	23,393,946	—	—
Cash received from federal stimulus program	47,929,442	—	—	—
Distribution to Valley Medical Center	—	—	(5,827,708)	(6,814,404)
Distribution to noncontrolling member of Imaging Partners at Valley, LLC	—	—	(1,456,926)	(1,703,601)
Other	397,421	628,744	—	—
Net cash provided by (used in) noncapital financing activities	72,067,588	24,022,690	(7,284,634)	(8,518,005)
Cash flows from capital and related financing activities:				
Principal payments on long-term debt and capital lease obligations	(10,352,224)	(10,129,509)	—	(78,075)
Interest paid	(14,509,297)	(14,235,121)	—	(406)
Purchases of capital assets	(40,708,635)	(43,862,522)	(2,782)	(89,425)
Cash paid on note payable	(240,000)	(240,000)	—	—
Proceeds from issuance of refunding bonds	6,680,000	101,745,000	—	—
Proceeds from premium on refunding bonds	—	9,834,924	—	—
Payment to refunding bond escrow agent	(8,978,769)	(65,757,800)	—	—
Cash paid for bond issuance	(76,121)	(888,011)	—	—
Other	4,235,018	(669,705)	—	—
Net cash used in capital and related financing activities	(63,950,028)	(24,202,744)	(2,782)	(167,906)
Cash flows from investing activities:				
Sale of investments and noncurrent assets	97,903,746	55,950,418	—	—
Purchases of investments and noncurrent assets	(95,675,503)	(117,990,936)	—	—
Investment and interest income	4,269,673	4,001,389	—	—
Net cash provided by (used in) investing activities	6,497,916	(58,039,129)	—	—
Net increase (decrease) in cash and cash equivalents	79,517,270	(12,839,986)	(10,227)	26,346
Cash and cash equivalents, beginning of year	34,157,051	46,997,037	1,215,727	1,189,381
Cash and cash equivalents, end of year	$ 113,674,321	34,157,051	1,205,500	1,215,727

(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, 2020 and 2019

	VMC		Component unit – IPV	
	2020	**2019**	**2020**	**2019**
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ (41,145,696)	(5,009,839)	6,581,422	8,212,089
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	33,147,695	36,976,516	218,055	225,232
Provision for uncollectible accounts	15,761,141	16,018,976	—	—
Changes in assets and liabilities:				
Accounts receivable	(18,120,198)	(18,790,056)	—	—
Due from:				
Primary government	—	—	530,542	215,458
Component unit	455,059	145,660	—	—
Supplies inventory	81,382	(588,179)	—	—
Prepaid expenses and other assets	(4,708,190)	(115,347)	(31,116)	25,457
Accounts payable	1,921,417	1,579,442	(21,714)	34,021
Accrued salaries, wages, and benefits	9,407,322	6,816,286	—	—
Due to:				
Component unit	(530,542)	(215,458)	—	—
Other accrued liabilities and estimated third-party payer settlements	(696,947)	6,384,708	—	—
Other liabilities	4,114,327	1,974,158	—	—
Unearned Medicare advance payments	64,297,515	—	—	—
Unearned compensation plan	917,509	202,330	—	—
Net cash provided by operating activities	$ 64,901,794	45,379,197	7,277,189	8,712,257
Supplemental disclosure of noncash investing, capital, and financing activities:				
Increase (decrease) in accrued capital included in accounts payable	$ 1,364,373	(793,293)	—	—
Net unrealized gains on investments	3,963,004	3,447,117	—	—

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 2020 were:

Donna Russell, Chair	Lisa Brandenburg
Jim Griggs (President of Board of Commissioners/Vice Chair)	Bernie Dochnahl
Erin Aboudara (Commissioner)	Shamso Issak
Carol Barber (Commissioner)	Gary Kohlwes
Janet Evans (Commissioners)	Vicki Orrico
Lawton Montgomery (Commissioners)	Julia Patterson
	Todd Starkey

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 321 licensed bed hospital and a network of primary care, specialty care, and behavioral health clinics. The district health system's mission statement states that we are "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

As defined by U.S. generally accepted accounting principles (U.S. GAAP), the financial reporting entity consists of VMC as the primary government, and its component unit, which is a legally separate organization for which the primary government is financially accountable. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Component units are reported as part of the reporting entity under the blended or discrete method of presentation. The discrete method presents the financial statements of the component unit outside of the basis of the financial statement totals of the primary government. The following is a description of the discrete component unit of VMC.

The Imaging Partners at Valley (IPV) is a limited liability company formed under the laws of Washington State. IPV has two members: the District and Mustang Technology Group, LLC. IPV provides inpatient and outpatient magnetic resonance, positron emission tomography, and computed tomography imaging services to patients. IPV is considered a component unit of the District because IPV's operating budget is subject to the overall approval of the District and IPV provides financial benefits to the District.

The primary government and the discretely presented component unit report their financial information in a form that complies with the "Healthcare Organizations Audit and Accounting Guide" of the American Institute of Certified Public Accountants. The accounting systems of the primary government and the discretely presented component unit have been adapted to also provide the financial information necessary to meet the governmental reporting requirements of the District.

Additionally, 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 the 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 and IPV'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. Significant estimates in VMC's financial statements include patient accounts receivable allowances and third-party payer settlements.

(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 and the proceeds of the 2018 limited tax general obligation bonds. The District transfers sufficient taxation revenues to the bond redemption fund to make principal payments and interest payments on the Series 2011, 2016, 2018, and 2020 bonds.

(iii) Bond Account

Principal and interest payments on the Series 2011, 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.

 (Continued)

(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, 2020 and 2019, 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 operational cash. In addition, certain funds are restricted by bond indentures to be used solely for debt service. Long-term investments represent unrestricted and undesignated investments with greater than one year to maturity as of June 30, 2020.

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

Qualifying interest is capitalized on construction projects as a cost of the related project beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. Interest capitalized during 2020 and 2019 was $656,398 and $1,062,346, respectively.

(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 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.

VMC has a membership interest, considered an other asset, in First Choice Health Network, a group purchasing cooperative. It is recorded under the equity method.

(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, 2020 and 2019 was $22.2 million and $17.4 million, respectively. Sick leave accrued as of June 30, 2020 and 2019 was $6.0 million and $5.4 million, respectively. The accrued annual and sick leave liabilities are included in accrued salaries, wages, and benefits in the accompanying primary government statements of net position.

(k) Third-Party Payer Settlements, Net

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 primary government 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 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 or IPV 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 stimulus program revenue, and 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 for 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. At June 30, 2020 and 2019, VMC recorded liabilities of $1,123,600 and $1,115,645, respectively, for its portion of the estimated liability related to these risk-sharing arrangements. These amounts are reflected in other accrued liabilities, including estimated third-party payer settlements in the accompanying statements of net position.

(Continued)

(n) Unearned Medicare Advance 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 $64,297,515 on April 7, 2020 which is reflected in unearned Medicare advance payments and federal stimulus funds in the accompanying statements of net position. 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 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 recovers the funds through paid claims, VMC will recognize the earned revenue through net patient service revenue.

The federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) Provider Relief Fund (PRF) in March 2020. The PRF is distributing $175 billion to hospitals and healthcare providers to assist with the COVID-19 response. The PRF payments are to assist with 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 type of distributions for a total amount of $47,929,442. VMC received payments on April 10, April 24, May 7, and June 12, 2020. For the year ended June 30, 2020, VMC recognized Provider Relief Funds of $30,041,060 which is reflected in federal stimulus program revenue in the accompanying statements of revenues, expenses and changes in net position. As of June 30, 2020 VMC recorded $17,888,382 in unearned Medicare advance payments and federal stimulus funds in the accompanying statements of net position.

On September 19, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines. The guidelines include the reporting timing and deadlines and methodology for calculating lost revenues attributable to COVID-19. Since this information could not have been known at June 30, 2020, any change in the estimate of revenue to be recognized will be recorded in future periods. VMC is evaluating the effects of these reporting requirements.

(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 $21,427,222 and $20,906,704, respectively, for the years ended June 30, 2020 and 2019.

VMC estimates the cost of financial assistance using its cost to charge ratio of 24.3% and 24.1% for the fiscal years ended June 30, 2020 and 2019, respectively. Applying VMC's cost to charge ratio of 24.3% to total financial assistance of $21,427,222 results in a cost of financial assistance of approximately $5,206,815 for the fiscal year ended June 30, 2020. Applying VMC's cost to charge ratio of 24.1% to total financial assistance of $20,906,704 results in a cost of financial assistance of approximately $5,038,516 for the fiscal year ended June 30, 2019.

(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).

IPV is a limited liability company and, therefore, is not a tax-paying entity for federal income tax purposes. Accordingly, no current or deferred income tax expense has been recorded in IPV's financial statements. Income of IPV is taxed to the members on their individual tax returns, if applicable. IPV had no uncertain tax positions at June 30, 2020 or 2019.

(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 $15,111,746 and $16,118,824 at June 30, 2020 and June 30, 2019, respectively.

Deferred inflows of resources consist of 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 Medical Pavilion (VMP). 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 deferred rental income is being amortized to other nonoperating income through 2119. The following are the components of deferred inflows of resources as of June 30, 2020 and 2019:

		VMC	
		2020	**2019**
Property tax revenue	$	12,151,802	11,878,857
Deferred gain on sale of VPCN		10,401,998	11,970,109
Deferred rental income VMP		6,636,650	—
Total deferred inflows of resources	$	29,190,450	23,848,966

(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 for debt service consists of assets restricted, by each revenue bonds' official terms for expenditures of principal and interest. 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. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which was effective upon issuance. This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. As a result, VMC will postpone implementation of Statements No. 87 and No. 89.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. This Statement changes the current classification of lease arrangements as either operating or capital leases and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This Statement applies to contracts that convey the right to use a nonfinancial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. VMC is currently analyzing the impact of this statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will not be included in the capitalized cost of capital assets reported by VMC. This Statement will be applied on a prospective basis and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. VMC has analyzed the impact of this statement and concluded that the impact is not material.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests,* which is effective for the fiscal year ending June 30, 2020. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. When a majority equity interest meets the definition of an investment as defined by GASB, the equity interest is to be reported as an investment for financial reporting purposes and measured using the equity method. Majority equity interests that do not meet the definition of an investment are to be reported as a component unit. This Statement also provides guidance for valuing the acquisition of assets and liabilities of 100% equity interests that remain legally separate, and brings this reporting in line with existing standards that apply to acquisitions that do not remain legally separate. VMC has analyzed the impact of this statement and concluded that the impact is not material.

(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 2020 and 2019, net patient service revenue includes approximately $1,075,000 increase to revenue and $5,079,000 decrease to revenue, 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, 2020 and 2019:

	VMC	
	2020	2019
Gross patient service revenue	$ 2,233,923,974	2,155,890,591
Less adjustments to patient service revenue:		
Financial assistance	(21,427,222)	(20,906,704)
Contractual discounts	(1,556,766,035)	(1,496,147,190)
Provision for uncollectible accounts	(15,761,141)	(16,018,976)
Total adjustments to patient service revenue	(1,593,954,398)	(1,533,072,870)
Net patient service revenue	$ 639,969,576	622,817,721

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 charges and accounts receivable by primary payers as of and for the years ended June 30, 2020 and 2019 were as follows:

	2020	
	VMC	
	Patient service charges	Accounts receivable
Medicare	39 %	34 %
Medicaid	20	17
Commercial and other	38	44
Self pay	2	4
Exchange (HIX)	1	1
Total	100 %	100 %

	2019	
	VMC	
	Patient service charges	Accounts receivable
Medicare	39 %	34 %
Medicaid	20	19
Commercial and other	38	42
Self pay	2	4
Exchange (HIX)	1	1
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 $6,930,338 and $5,914,351 in net patient service revenue under this program for the years ended June 30, 2020 and 2019, 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 $17,761,948 and $19,606,065 in DSH funding under this program in fiscal years 2020 and 2019, respectively. VMC recognized $13,302,743 and $6,017,897 in net patient service revenue from DSH funding for the years ended June 30, 2020 and 2019, 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 2013 CPE program years have had a final settlement. Fiscal year 2013 final settlement was paid in July 2019. As of June 30, 2020, VMC had estimated payables of $29,400,914 for fiscal years 2014 to 2020. As of June 30, 2019, VMC had estimated payables of $29,740,774 for fiscal years 2013 to 2019, 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 $350,177 and $220,757 from the PSSP program for the years ended June 30, 2020 and 2019, respectively. VMC recognized net revenue of $3,538,458 and $7,300,000 from the PAP program for the years ended June 30, 2020 and 2019, respectively. These amounts are included in net patient service revenue in the statements of revenues, expense, and changes in net position.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses local funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days. Under the HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments and CPE hospitals receive state grants. CMS approved the most recent program in 2015. The program has an expiration date of June 30, 2023.

VMC is exempt from the assessment as the hospital is operated by an agency of the state government and also participates in the CPE program.

VMC received grant funding of $2.1 million each year for the years ended June 30, 2020 and 2019, which is recorded in other operating revenue in the statements of revenues, expenses, 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 2020, the District's tax levy rate was $0.40 per assessed $1,000 in property value pursuant to the District's authorized tax levy in December 2019 resulting in a tax levy of $24,409,596.

For the calendar year 2019, the District's tax levy rate was $0.42 per assessed $1,000 in property value pursuant to the District's authorized tax levy in December 2018 resulting in a tax levy of $24,022,607.

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, 2020 and 2019 are $12,036,353 and $11,501,467, 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 $24,002,665 and $23,258,119 for the fiscal years 2020 and 2019, 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 and revenue bonds issued in 2010, 2011, 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, 2020 and 2019, deposits and investments of VMC consist of the following:

		2020	2019
Unrestricted cash	$	101,936,359	23,081,008
Unrestricted investments and cash equivalents:			
U.S. Treasury and agency securities and bonds		145,600,324	136,979,016
Commercial paper		—	1,972,044
Corporate notes		25,820,558	21,642,898
Supranational bonds		2,440,796	2,393,433
Investment pools		10,923,565	10,214,418
Municipal bonds		200,019	400,000
		184,985,262	173,601,809
Restricted assets:			
Cash and cash equivalents		10,093,992	6,951,191
U.S. Treasury and agency securities and bonds		7,558,036	15,999,390
Municipal bonds		—	470,000
Investment pools		21,457,004	25,039,596
Other assets		6,913,778	5,996,269
		46,022,810	54,456,446
	$	332,944,431	251,139,263

Other assets are related to an unearned compensation plan, which is self-directed by the participant of the plan that includes money market funds and other eligible investments as authorized by state law. While the investments are currently in VMC's name and available to VMC's creditors, the payment of unearned compensation to the participant will be for the resulting value of the self-directed investments. Therefore, the risk of loss has been transferred to the participant.

(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, 2020 and 2019, 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, 2020 and excluding unrestricted and restricted cash and cash equivalent balances of $112,030,351, and investment pools balances of $32,380,569, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ —	127,203,222	AA+/A-1+	67.5 %
U.S. agency securities	—	18,495,280	AA+	9.8
U.S. agency mortgages	—	7,459,858	AA+	4.0
Municipal bonds	—	200,019	A/AA+	0.1
Corporate notes	—	25,820,558	Various	13.7
Supranational bonds	—	2,440,796	AAA	1.3
Other assets	6,913,778	—	Not rated	3.6
Total investments by fair value level	$ 6,913,778	181,619,733		100.0 %

The composition of investments, reported at fair value by investment type and rating at June 30, 2019 and excluding unrestricted and restricted cash and cash equivalent balances of $30,032,199, is as follows:

Investment type		Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$	—	116,455,966	AA+/A-1+	62.7 %
U.S. agency securities		—	25,990,210	AA+	14.0
U.S. agency mortgages		—	10,532,230	AA+	5.7
Municipal bonds		—	870,000	Various	0.5
Commercial paper		1,972,044	—	A-1	1.1
Corporate notes		—	21,642,898	Various	11.6
Supranational bonds		—	2,393,433	AAA	1.3
Other assets		5,996,269	—	Not rated	3.1
Total investments by fair value level	$	7,968,313	177,884,737		100.0 %

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

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

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

(b) Custodial Credit Risk

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

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

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

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates.

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

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

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

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

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

2020		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	$ 127,203,222	70,918,669	6,437,921	36,097,144	13,749,488
U.S. agency securities	18,495,280	6,519,133	8,376,281	3,599,866	—
U.S. agency mortgages	7,459,858	131,615	—	407,929	6,920,314
King County investment Pool	32,380,569	—	32,380,569	—	—
Municipal bonds	200,019	—	—	—	200,019
Corporate notes	25,820,558	4,074,786	8,545,319	9,793,681	3,406,772
Supranational bonds	2,440,796	—	2,440,796	—	—
Other assets	6,913,778	—	—	—	6,913,778
	$ 220,914,080	81,644,203	58,180,886	49,898,620	31,190,371

2019		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	$ 116,455,966	64,369,266	16,695,459	21,508,976	13,882,265
U.S. agency securities	25,990,210	7,919,721	6,403,390	8,261,477	3,405,622
U.S. agency mortgages	10,532,230	566,379	345,832	97,344	9,522,675
King County investment Pool	35,254,014	—	35,254,014	—	—
Municipal bonds	870,000	200,000	—	—	670,000
Commercial paper	1,972,044	1,972,044	—	—	—
Corporate notes	21,642,898	—	4,036,030	14,409,358	3,197,510
Supranational bonds	2,393,433	—	—	2,393,433	—
Other assets	5,996,269	—	—	—	5,996,269
	$ 221,107,064	75,027,410	62,734,725	46,670,588	36,674,341

(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, 2020 and 2019 is set forth below:

	Balance June 30, 2019	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2020
Nondepreciable capital assets:					
Land	$ 13,413,733	611,800	—	—	14,025,533
Construction in progress	32,804,243	40,442,081	(35,486,858)	—	37,759,466
Total capital assets not being depreciated	46,217,976	41,053,881	(35,486,858)	—	51,784,999
Capital assets being depreciated:					
Land improvements	18,842,456	—	10,360	(75,095)	18,777,721
Buildings, renovations, and furnishings	495,191,359	739,980	13,799,646	(150,456)	509,580,529
Fixed equipment	22,669,896	—	37,835	—	22,707,731
Movable equipment	181,288,626	(122,171)	21,081,710	(4,054,906)	198,193,259
Minor equipment	21,398,777	—	557,307	(224,563)	21,731,521
Total capital assets being depreciated	739,391,114	617,809	35,486,858	(4,505,020)	770,990,761
Total capital assets at historical cost	785,609,090	41,671,690	—	(4,505,020)	822,775,760
Less accumulated depreciation for:					
Land improvements	(12,445,825)	(308,549)	—	33,820	(12,720,554)
Buildings, renovations, and furnishings	(208,631,314)	(15,700,824)	—	150,456	(224,181,682)
Fixed equipment	(20,818,826)	(240,371)	—	—	(21,059,197)
Movable equipment	(143,609,694)	(15,562,268)	—	3,960,508	(155,211,454)
Minor equipment	(14,972,351)	(1,634,628)	—	221,505	(16,385,474)
Total accumulated depreciation	(400,478,010)	(33,446,640)	—	4,366,289	(429,558,361)
Total capital assets, net	$ 385,131,080	8,225,050	—	(138,731)	393,217,399

(Continued)

	Balance June 30, 2018	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2019
Nondepreciable capital assets:					
Land	$ 13,413,733	—	—	—	13,413,733
Construction in progress	44,591,910	44,005,467	(55,793,134)	—	32,804,243
Total capital assets not being depreciated	58,005,643	44,005,467	(55,793,134)	—	46,217,976
Capital assets being depreciated:					
Land improvements	18,858,718	—	—	(16,262)	18,842,456
Buildings, renovations, and furnishings	457,360,415	(947,310)	38,979,512	(201,258)	495,191,359
Fixed equipment	22,699,216	—	—	(29,320)	22,669,896
Movable equipment	166,509,448	5,727	16,240,033	(1,466,582)	181,288,626
Minor equipment	21,139,691	5,345	573,589	(319,848)	21,398,777
Total capital assets being depreciated	686,567,488	(936,238)	55,793,134	(2,033,270)	739,391,114
Total capital assets at historical cost	744,573,131	43,069,229	—	(2,033,270)	785,609,090
Less accumulated depreciation for:					
Land improvements	(12,143,135)	(317,930)	—	15,240	(12,445,825)
Buildings, renovations, and furnishings	(193,554,810)	(15,240,260)	—	163,756	(208,631,314)
Fixed equipment	(20,572,592)	(275,269)	—	29,035	(20,818,826)
Movable equipment	(125,340,428)	(19,575,009)	—	1,305,743	(143,609,694)
Minor equipment	(13,422,463)	(1,845,792)	—	295,904	(14,972,351)
Total accumulated depreciation	(365,033,428)	(37,254,260)	—	1,809,678	(400,478,010)
Total capital assets, net	$ 379,539,703	5,814,969	—	(223,592)	385,131,080

Included in movable equipment at June 30, 2020 and 2019 are $4,570,344 and $4,258,362 of equipment under capital lease, respectively. Accumulated amortization of the equipment under capital lease totaling $4,305,159 and $4,258,362 are included in accumulated depreciation at June 30, 2020 and 2019, respectively.

Depreciation expense was $33,446,640 and $37,254,260 for the years ended June 30, 2020 and 2019, respectively, and includes $298,945 and $277,744 of nonoperating depreciation expense. This nonoperating expense is associated with medical office buildings rented or leased to physician practices and others and, therefore, are not considered within the operations of VMC. Therefore, $33,147,695 and $36,976,516 in depreciation expense is reflected in operating expenses in the statements of revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019, respectively.

(b) IPV's Capital Assets

The activity in IPV's capital asset and related accumulated depreciation accounts for the years ended June 30, 2020 and 2019 is set forth below:

	Balance June 30, 2019	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2020
Buildings, renovations, and furnishings	$ 267,686	—	—	—	267,686
Movable equipment	5,925,952	2,782	—	(33,805)	5,894,929
Total capital assets being depreciated at historical cost	6,193,638	2,782	—	(33,805)	6,162,615
Less accumulated depreciation for:					
Buildings, renovations, and furnishings	(130,486)	(12,956)	—	—	(143,442)
Movable equipment	(5,293,331)	(205,099)	—	33,805	(5,464,625)
Total accumulated depreciation	(5,423,817)	(218,055)	—	33,805	(5,608,067)
Total capital assets, net	$ 769,821	(215,273)	—	—	554,548

	Balance June 30, 2018	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2019
Buildings, renovations, and furnishings	$ 267,686	—	—	—	267,686
Movable equipment	5,960,683	89,425	—	(124,156)	5,925,952
Total capital assets being depreciated at historical cost	6,228,369	89,425	—	(124,156)	6,193,638
Less accumulated depreciation for:					
Buildings, renovations, and furnishings	(112,878)	(17,608)	—	—	(130,486)
Movable equipment	(5,209,863)	(207,624)	—	124,156	(5,293,331)
Total accumulated depreciation	(5,322,741)	(225,232)	—	124,156	(5,423,817)
Total capital assets, net	$ 905,628	(135,807)	—	—	769,821

(7) Long-Term Debt and Capital Lease Obligations

(a) VMC's Long-Term Debt

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

		2020	2019
Limited tax general obligation bonds:			
2020 series, 2.04%, due serially on June 15 starting in 2021, in amounts from $1,615,000 in 2021 to $1,725,000 in 2024, plus interest due semiannually	$	6,680,000	—
2018 series, 4% to 5%, due serially on December 1, in amounts from $2,795,000 in 2021 to $3,995,000 in 2044, plus interest due semiannually, including unamortized premium of $8,736,686		107,786,685	111,192,680
2016 series, 4% to 5%, due serially on December 1, in amounts from $2,190,000 in 2021 to $16,455,000 in 2038, plus interest due semiannually, including unamortized premium of $15,887,330		207,037,330	211,470,559
2011 term bond, 2.19%, due in June and December, in yearly amounts from $3,671,198 in 2021 to $2,035,517 in 2022, plus interest due semiannually, net of unamortized loss on refinance of $34,032		5,672,683	8,532,004
Revenue bonds:			
2010 series A, 3.00% to 5.125%, legally defeased and refunded with proceeds from 2020 bonds issued in March 2020.		—	10,772,715
Capital lease obligations:			
Lab equipment capital lease stated at present value of future minimum lease payments		269,946	—
Notes payable:			
Pinnacle Therapy Group, LLC due serially in January, in amount of $240,000 each year from 2021 to 2023, plus 3.76% interest		720,000	960,000
Total long-term debt		328,166,644	342,927,958
Less current portion		(10,569,719)	(10,550,188)
Total long-term debt, net of current portion	$	317,596,925	332,377,770

(i) Long-Term Debt Overview

Series 2020 Bond Issue

The 2020 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $6,680,000. 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 difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was $713,631. The economic gain was $552,657. 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 2018 Bond Issue

The 2018 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $101,745,000. 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 difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was $8,153,588. The economic gain was $5,370,365. 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 $193,900,000. These proceeds were used to refund the majority of the 2008 bonds. The District has pledged tax revenues to secure the bonds. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was $19,917,231. The economic gain was $13,289,849. 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 2011 Bond Issue

The 2011 Limited Tax General Obligation Refunding Bond was issued for $35,636,412. The District has pledged tax revenues to secure the bonds. The bond was issued for the purpose of refunding series 2001 bonds.

Series 2010 Revenue Bond Issue

The Series 2010 Bonds were issued in two subseries. $25,145,000 in federally tax-exempt revenue bonds (Series 2010A) and $61,155,000 in federally taxable revenue Build America Bonds (BABs) (Series 2010B). Both series were fixed rate. Revenues of the District were pledged for the payment of the bonds.

(Continued)

The Series 2010B term BAB bonds were issued to construct, renovate, remodel, and equip projects at VMC and satellite facilities, including completion of the top floors of VMC's Emergency Services Tower and the construction of a freestanding emergency department within the District's boundaries. The Series 2010B term BAB bonds of $61,155,000 were issued with interest rates ranging from 7.9% to 8.0% and matured in 2030 and 2040. The series 2010B bonds have been legally defeased and refunded with debt proceeds from series 2018 bonds issued on December 18, 2018. The funds in escrow have been used to repay the bonds on their first call date of June 15, 2020.

Under the BAB bonds, the District received a direct cash subsidy payment from the United States Department of the Treasury equal to 35% of the interest payable on the Series 2010B Bonds as of each interest payment date. For the year ended June 30, 2019, the District received $800,252 in subsidy payments, which are recorded in other nonoperating revenues in the statements of revenues, expenses, and changes in net position.

Series 2010A bonds have been legally defeased and refunded with debt proceeds from series 2020 bonds issued on March 17, 2020. Debt proceeds from 2020 bonds plus debt service requirement (DSR) funds were placed in escrow in March 2020. The funds in escrow have been used to repay the bonds on their first call date of June 15, 2020.

(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 upon 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.

As of June 30, 2019, there were covenants associated with the 2010 revenue bonds, including maintaining an amount within the Reserve Account and an annual debt service coverage requirement. Because all the 2010 bond series have been legally defeased and refunded as of June 30, 2020, VMC is no longer subject to those debt covenant requirements.

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, 2020, for both principal and interest. Total unamortized premiums and discounts are $24,589,983 as of June 30, 2020. The table below excludes capital lease obligations of $269,946, of which $58,521 is due in 2021.

	Principal	Interest	Total
2021	$ 10,511,198	14,586,360	25,097,558
2022	8,615,517	14,258,388	22,873,905
2023	11,185,000	13,866,938	25,051,938
2024	11,665,000	13,350,190	25,015,190
2025	10,675,000	12,799,625	23,474,625
2026–2030	65,780,000	54,880,500	120,660,500
2031–2035	90,840,000	35,431,250	126,271,250
2036–2040	79,165,000	11,009,375	90,174,375
2041–2044	14,870,000	1,532,500	16,402,500
Total payments	$ 303,306,715	171,715,126	475,021,841

(iv) Change in Total Long-Term Liabilities

Changes in total liabilities during the fiscal years ended June 30, 2020 and 2019 are summarized below:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Due within one year
Limited tax general obligation bonds:					
2020 Series	$ —	6,680,000	—	6,680,000	1,615,000
2018 Series	111,192,680	—	(3,405,995)	107,786,685	2,795,000
2016 Series	211,470,559	—	(4,433,229)	207,037,330	2,190,000
2011 Series	8,532,004	—	(2,859,321)	5,672,683	3,671,198
Revenue bond:					
2010 Series A	10,772,715	—	(10,772,715)	—	—
Note payable	960,000	—	(240,000)	720,000	240,000
Capital lease obligations	—	311,982	(42,036)	269,946	58,521
Total long-term debt	342,927,958	6,991,982	(21,753,296)	328,166,644	10,569,719
Unearned compensation	5,996,269	917,509	—	6,913,778	—
Total liabilities	$ 348,924,227	7,909,491	(21,753,296)	335,080,422	10,569,719

(Continued)

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Due within one year
Limited tax general obligation bonds:					
2018 Series	$ —	111,579,924	(387,244)	111,192,680	2,695,000
2016 Series	213,132,540	—	(1,661,981)	211,470,559	2,750,000
2011 Series	13,406,109	—	(4,874,105)	8,532,004	2,905,188
2008 Series	3,310,753	—	(3,310,753)	—	—
Revenue bond:					
2010 Series A	12,593,455	—	(1,820,740)	10,772,715	1,960,000
Build America bonds:					
2010 Series B	61,155,000	—	(61,155,000)	—	—
Note payable	—	1,200,000	(240,000)	960,000	240,000
Total long-term debt	303,597,857	112,779,924	(73,449,823)	342,927,958	10,550,188
Unearned compensation	5,793,939	202,330	—	5,996,269	—
Total liabilities	$ 309,391,796	112,982,254	(73,449,823)	348,924,227	10,550,188

(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 $3,000,000 per claim, with a $12,000,000 annual aggregate, on an occurrence basis. VMC also maintains excess commercial insurance above the first layer of $3,000,000/$12,000,000 on a claims-made basis with a limit of liability of $25,000,000 per occurrence and $25,000,000 annual aggregate.

(b) Changes in the Self-Insurance Liability – Tail Liability

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.

Changes in the self-insurance liability as it relates to the tail liability for professional liability insurance as of June 30, 2020 and 2019 are noted below:

Liability at June 30, 2018	$	1,440,000
Incurred claims and changes in estimates		352,000
Claims payments		—
Liability at June 30, 2019		1,792,000
Incurred claims and changes in estimates		—
Claims payments		—
Liability at June 30, 2020	$	1,792,000

The self-insurance liability is included in the interest, patient refunds and other liabilities in the statements of net position.

(c) Employee Medical

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 claims in excess of the $183,000 aggregate deductible and $300,000 specific deductible for both calendar years 2020 and 2019. The aggregate deductible is applied once to the first claim in the calendar year and specific deductible is applied to each claim filed in the calendar year. VMC has recorded an actuarially estimated liability for health claims that have been incurred but not reported of $2,841,179 and $2,798,824 at June 30, 2020 and 2019, respectively. These liabilities are included in accrued salaries, wages, and employee benefits liabilities in the accompanying VMC statements of net position. The health benefit claims liability at June 30, 2020 and 2019 is based on undiscounted calculations.

(Continued)

(d) Workers' Compensation

VMC is self-insured for workers' compensation claims up to $500,000 per claim in 2020 and 2019. 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 of claims 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 $5,131,050 and $5,118,198 at June 30, 2020 and 2019, respectively, which are included in accrued salaries, wages, and benefits liabilities in the accompanying VMC statements of net position. The workers' compensation current liability at June 30, 2020 and 2019 is based on undiscounted calculations.

(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. Employee contributions to the plans totaled $24,795,095 and $21,994,742 for the years ended June 30, 2020 and 2019, respectively. 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 $18,044,053 and $16,054,062 for the years ended June 30, 2020 and 2019, 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 perform the investing function 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.

(Continued)

(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 $9,615,000 and $8,972,000 was paid and recognized by VMC to divisions of the University for the years ended June 30, 2020 and 2019, 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. VMC received and recognized $1,900 and $324,000 in revenues from the divisions of the University for the years ended June 30, 2020 and 2019, respectively. The revenue is recorded as other operating revenues in the statements of revenues, expenses, and changes in net position.

(b) Intragovernmental Transactions

VMC and IPV engage in a number of transactions with each other. These transactions are primarily for lease of medical office space and operational services.

(i) Lease of Medical Office Space

IPV has several lease agreements with VMC. Office space for two different locations is leased from VMC for $383,332 and $373,750 for the years ended June 30, 2020 and 2019, respectively. The leases expire in December 2024 and April 2021, respectively. IPV has $1,644,859 in total outstanding minimum lease payments due to VMC.

(ii) Operational Services

During the years ended June 30, 2020 and 2019, IPV provided radiology services on behalf of VMC, which reimburses IPV for those services. VMC incurs expenses for services rendered by IPV, which is represented by $7,867,982 and $9,511,018 in VMC’s purchased services expense for 2020 and 2019, respectively. VMC receives members’ distributions from IPV, which is represented by $5,372,649 and $6,668,743 in VMC’s other operating revenue for 2020 and 2019, respectively.

(c) 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 $5,583,178 and $3,683,575 for the years ended June 30, 2020 and 2019, 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 $6,141,496 and $4,051,934 for the years ended June 30, 2020 and 2019, respectively, which is included in funding from affiliates in the statement of revenues, expenses, and changes in net position.

(11) Commitments and Contingencies

(a) Operating Leases

VMC leases certain medical office space and equipment under operating lease arrangements with IPV and third parties. Similarly, IPV leases certain medical office space and equipment under operating leases with VMC and third parties. Total rental expense in the year ended June 30, 2020 was $15,437,562 and $383,332 for VMC and IPV, respectively. Total rental expense in the year ended June 30, 2019 was $13,685,584 and $373,750 for VMC and IPV, respectively. Rental expense is included in purchased services expense and nonoperating expense in the statements of revenues, expenses, and changes in net position.

The following schedule shows future minimum lease payments by fiscal year for VMC and IPV as of June 30, 2020:

		VMC	IPV
2021	$	14,612,525	374,056
2022		15,246,922	356,500
2023		15,031,322	367,195
2024		14,871,564	378,211
2025		14,256,864	168,897
Thereafter		74,630,183	—
Total minimum lease payments	$	148,649,380	1,644,859

(b) Construction Commitments

VMC has current commitments at June 30, 2020 of $11,369,341 related to various construction projects, equipment purchases and information technology implementations. VMC intends to use capital funds for these commitments.

(c) Capital Commitments by IPV

IPV has current commitments at June 30, 2020 of $3,751,258 related to equipment purchases.

(d) 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.

(e) 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 effect to VMC's future financial position or results from operations.

(f) Collective Bargaining Agreements

VMC has a total of approximately 3,700 employees. Of this total, approximately 67% and 68% are covered under collective bargaining agreements as of June 30, 2020 and 2019, respectively. 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, 2023. OPEIU, UFCW, and IUOE Operating Engineers expire on October 31, 2020, September 30, 2020, and October 31, 2020, respectively.

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

(A Component Unit of the University of Washington)

Supplementary Information

Aggregating Statement of Net Position

June 30, 2020

Assets	**VMC**	**Component unit – IPV**	**Eliminations**	**Aggregated**
Current assets:				
Cash and cash equivalents	$ 113,674,321	1,205,500	—	114,879,821
Short-term investments	74,034,808	—	—	74,034,808
Accounts receivable, less allowance for uncollectible accounts	77,781,343	—	—	77,781,343
Property tax receivable	12,036,353	—	—	12,036,353
Due from:				
Primary government	—	529,927	(529,927)	—
Component unit	308,739	—	(308,739)	—
Supplies inventory	7,133,613	—	—	7,133,613
Prepaid expenses and other assets	21,691,529	79,580	—	21,771,109
Total current assets	306,660,706	1,815,007	(838,666)	307,637,047
Long-term investments	257,008	—	—	257,008
Other noncurrent assets:				
Unrestricted for general capital improvements and operations	99,769,877	—	—	99,769,877
Restricted unspent bond proceeds	38,254,147	—	—	38,254,147
Restricted under unearned compensation plan arrangements	6,913,778	—	—	6,913,778
Restricted under revenue bond indenture agreements	40,492	—	—	40,492
Total other noncurrent assets	144,978,294	—	—	144,978,294
Capital assets:				
Land	14,025,533	—	—	14,025,533
Construction in progress	37,759,466	—	—	37,759,466
Depreciable capital assets, net of accumulated depreciation	341,432,400	554,548	—	341,986,948
Total capital assets	393,217,399	554,548	—	393,771,947
Goodwill, intangible assets, and other	2,924,101	—	—	2,924,101
Total assets	848,037,508	2,369,555	(838,666)	849,568,397
Deferred outflow of resources	15,111,746	—	—	15,111,746
Total assets and deferred outflows	$ 863,149,254	2,369,555	(838,666)	864,680,143

(Continued)

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

Supplementary Information

Aggregating Statement of Net Position

June 30, 2020

Liabilities and Net Position		**VMC**	**Component unit – IPV**	**Eliminations**	**Aggregated**
Current liabilities:					
Accounts payable	$	23,888,046	104,101	—	23,992,147
Accrued salaries, wages, and benefits		68,858,584	—	—	68,858,584
Due to:					
Primary government		—	308,739	(308,739)	—
Component unit		529,927	—	(529,927)	—
Other accrued liabilities, including estimated third-party payer settlements		31,221,411	—	—	31,221,411
Interest, patient refunds, and other		12,053,522	—	—	12,053,522
Current portion of long-term debt and capital lease obligations		10,569,719	—	—	10,569,719
Unearned Medicare advance payments and federal stimulus funds		82,185,897	—	—	82,185,897
Total current liabilities		229,307,106	412,840	(838,666)	228,881,280
Unearned compensation plan		6,913,778	—	—	6,913,778
Long-term debt and capital lease obligations, net of current portion		317,596,925	—	—	317,596,925
Other long-term liabilities		3,550,806	—	—	3,550,806
Total liabilities		557,368,615	412,840	(838,666)	556,942,789
Deferred inflows of resources		29,190,450	—	—	29,190,450
Net position:					
Invested in capital assets, net of related debt		117,795,663	554,548	—	118,350,211
Restricted:					
For debt service		40,492	—	—	40,492
Expendable for specific operating activities		815,050	—	—	815,050
Unrestricted		157,938,984	1,402,167	—	159,341,151
Total net position		276,590,189	1,956,715	—	278,546,904
Total liabilities, deferred inflows, and net position	$	863,149,254	2,369,555	(838,666)	864,680,143

See accompanying independent auditors' report.

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

Supplementary Information

Aggregating Statements of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2020

	VMC	Component unit – IPV	Eliminations	Aggregated
Operating revenues:				
Net patient service revenue	$ 639,969,576	1,272	—	639,970,848
Other operating revenue	72,843,638	7,868,050	(13,648,244)	67,063,444
Total operating revenues	712,813,214	7,869,322	(13,648,244)	707,034,292
Operating expenses:				
Salaries and wages	381,790,804	—	—	381,790,804
Employee benefits	93,547,257	—	—	93,547,257
Purchased services	98,616,841	848,620	(8,275,595)	91,189,866
Supplies and other expenses	146,856,313	221,225	—	147,077,538
Depreciation	33,147,695	218,055	—	33,365,750
Total operating expenses	753,958,910	1,287,900	(8,275,595)	746,971,215
Operating (loss) income	(41,145,696)	6,581,422	(5,372,649)	(39,936,923)
Nonoperating income (expense):				
Property tax revenue	24,002,665	—	—	24,002,665
Interest income	4,269,673	—	—	4,269,673
Interest and amortization expense	(13,961,219)	—	—	(13,961,219)
Investment income	4,516,142	—	—	4,516,142
Funding from affiliates	6,141,496	—	—	6,141,496
Funding to affiliates	(5,583,178)	—	—	(5,583,178)
Federal stimulus program	30,041,060	—	—	30,041,060
Other, net	(1,432,092)	—	—	(1,432,092)
Members' distributions	—	(6,715,812)	5,372,649	(1,343,163)
Net nonoperation income (loss)	47,994,547	(6,715,812)	5,372,649	46,651,384
Increase (decrease) in net position	6,848,851	(134,390)	—	6,714,461
Net position, beginning of year	269,741,338	2,091,105	—	271,832,443
Net position, end of year	$ 276,590,189	1,956,715	—	278,546,904

See accompanying independent auditors' report.