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, 2012

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

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 of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center (VMC), a component unit of the University of Washington, and VMC's discretely presented component unit, The Imaging Partners at Valley, as of and for the year ended June 30, 2012, which collectively compose VMC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VMC's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Imaging Partners at Valley, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Imaging Partners at Valley, is based on the report of the other auditors.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial positions of the business-type activities of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center, and VMC's discretely presented component unit, The Imaging Partners at Valley, as of June 30, 2012, and the respective changes in financial positions and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in on pages 54 – 56 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

October 22, 2012

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

Management's Discussion and Analysis (Unaudited)

June 30, 2012

Introduction

Public Hospital District No. 1 of King County, Washington (the District), dba doing business as Valley Medical Center (VMC), is a full-service, public hospital serving over 400,000 District residents. Licensed for 303 beds, VMC has approximately 2,800 employees, including 127 employed physicians, and is the largest nonprofit healthcare provider between Seattle and Tacoma. In addition to the hospital, VMC operates a network of more than two dozen primary care, urgent care, and specialty clinics throughout Southeast King County.

Located in Renton, Washington, VMC offers medical, surgical, and 24-hour emergency care as a Level III Trauma Center. VMC has recognized medical specialties in joint replacement and orthopedics, neuroscience, stroke and spine, sleep medicine, and childbirth and neonatal care, and provides specialized heart and vascular and cancer treatment. VMC is committed to improving the overall health of its community.

On July 1, 2011, VMC became the eighth member of UW Medicine through an approved Strategic Alliance Agreement executed between the District and UW Medicine. The District continues to own the hospital, clinic network, and all other assets and liabilities. VMC is managed as a component unit of the University of Washington, subject to the oversight of the Board of Trustees (the Valley Board). The Valley Board oversees the healthcare operations of the District, while a publicly elected Board of Commissioners (the District Board) oversees the District's property taxes and certain nonhealthcare-related functions.

In December 2011, the District Board voted to change VMC's fiscal year-end from December 31 to June 30 to conform to UW Medicine's fiscal year. The calendar year financial statements ending either on or as of December 31, 2011 were the final financial statements issued as of that year-end. Yearly financial statements have subsequently been based on a June 30 year-end.

As defined by generally accepted accounting principles, the reporting entity consists of VMC and its component unit, Imaging Partners at Valley (IPV) which is a legally separate organization for which VMC is financially accountable. Financial accountability is defined as appointment of the voting majority of the component units' board, and either (a) the ability to impose will by VMC, or (b) the possibility the component unit will provide a financial benefit to or impose a financial burden on VMC, or (c) the component unit is financially dependent on VMC.

Component units are reported as part of the reporting unit under the blended or discrete method of presentation. Discretely presented component units are legally separate from VMC and provide services to entities and individuals outside of VMC. The activities of a discretely presented component unit are presented in a single column in the financial statements.

IPV is considered a discretely presented component unit. IPV is a limited liability company formed in 1999 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, even though the District does not have a voting majority on IPV's governing board.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2012

The following Management's 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, for the year ended June 30, 2012. 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. All sections are the responsibility of management.

VMC is committed to transparency in financial reporting and effective stewardship of its assets, and believes this discussion provides such information.

The following sections are included within this discussion:

- Results of Operations for the year ending June 30, 2012
- Looking Ahead – Opportunities and Challenges
- Volumes and Statistics
- Overview of Required Financial Statements

Results of Operations for the Year Ending June 30, 2012

VMC reported an operating loss of $8.7 million and a total decrease in net assets of $5.2 million for the year ended June 30, 2012. Increases in operating expenses, in significant part from the implementation of the electronic health record system, were the primary causes for the unfavorable operating financial performance.

Looking Ahead – Opportunities and Challenges

Strategic Alliance with University of Washington Medicine

The Strategic Alliance Agreement between the District's healthcare system and the UW Medicine has established the foundation for clinical growth, increased patient care access for District residents, program development, and potential cost reductions through program integration. In addition, the integration of the two systems will help enhance the patient care and service within such areas as cardiology, oncology, neurosciences, ophthalmology, urology, and robotics at a time when the region and nation are preparing for substantial healthcare reform. Discussions between the two systems have already commenced as it relates to strategic planning and programmatic development in several of these areas. See also note 18 in the financial statements.

Through the "Patients are First" initiative, VMC participates as a part of UW Medicine on a shared commitment to improving the health of the public through a collaborative system that values patients, quality care, and services.

Electronic Health Record Implementation

In December 2010, the District's Board of Commissioners approved a capital project (spanning several years) to implement a healthcare systemwide electronic health record system with the goal on enhancing patient safety and care and providing for seamless integration and transference of patient records throughout the healthcare system, regardless of where the patient is. The clinic network "went live" in July and August 2012, and the hospital "went live" in October 2012.

Economic Factors Affecting the Future

The state of national healthcare reform remains highly uncertain, with challenges to healthcare reform possible pending the results of the President election occurring in November 2012. The potential impact cannot currently be forecasted. In addition, the lingering effects of the recession that began in 2008 continue, with persistently high unemployment and underemployment. That has resulted in continuing downward pressure on hospital revenues and payor mix, as charity care and bad debt continue to increase as patients find themselves either uninsured or underinsured. The federal and state budgets also remain uncertain, with significant impending budgetary shortfalls. The impact to healthcare funding, particularly the state Medicaid program, is currently unknown, but is not likely to be favorable to healthcare providers.

While the economy will ultimately strengthen, and is showing some signs of a mild recovery, the economic outlook for healthcare is unknown. In the face of such ambiguity, the emphasis will need to be on delivering quality and safe patient care while leveraging system wide efficiencies and strategic collaborations.

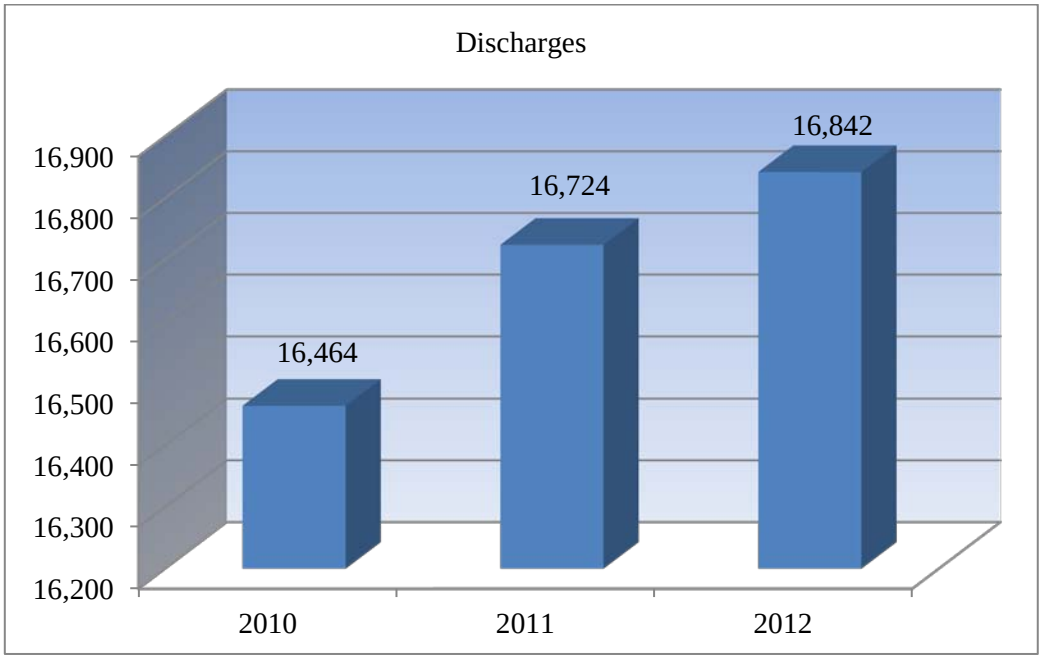
Volume and Statistics

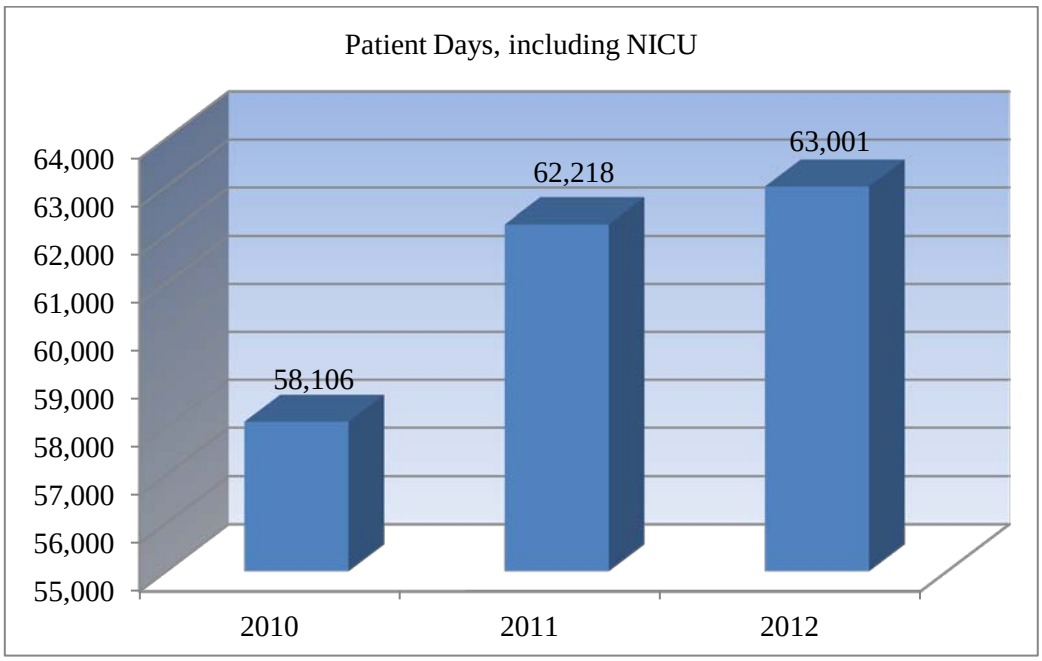
Following are key operating statistics for the years ended June 30, 2012 and 2011, respectively:

	2012	2011
Inpatient and operating room activity:		
Available beds	270	260
Discharges	16,842	16,724
Patient days, including NICU	63,001	62,218
Length of stay	3.43	3.41
Occupancy	64%	65%
Surgery patients	11,444	11,038
Births	3,964	3,904
Ambulatory and emergency services:		
Outpatient visits, including clinic network	552,015	509,050
Emergency department visits	75,586	75,282
Medical center staffing:		
Full-time-equivalent employees	2,445	2,253

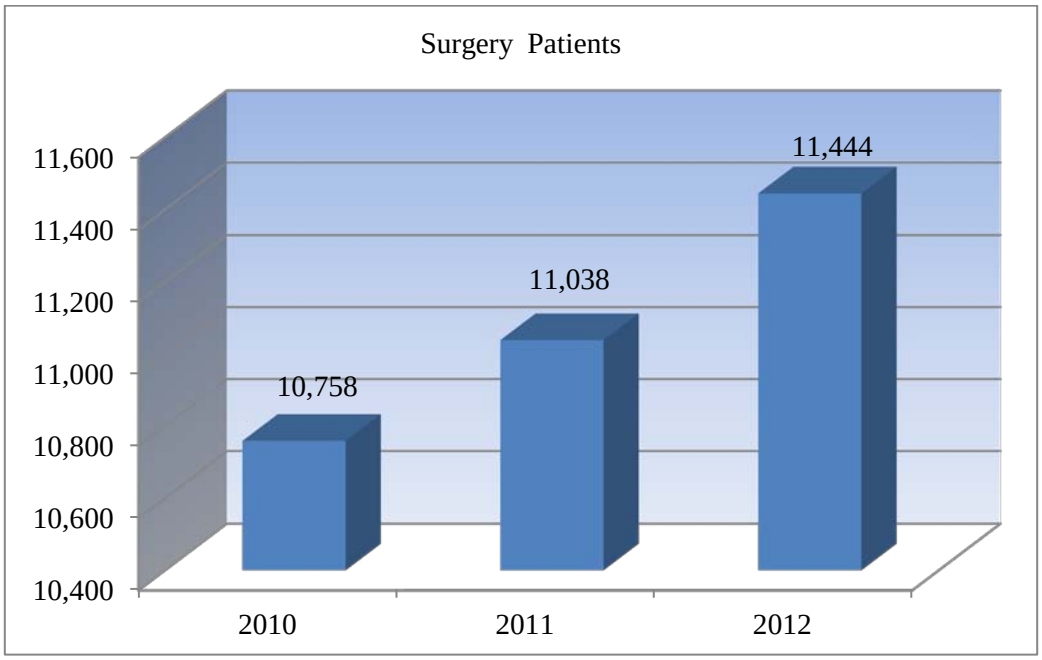
Overall, VMC's inpatient and outpatient volumes experienced increases in 2012, comparative to prior year.

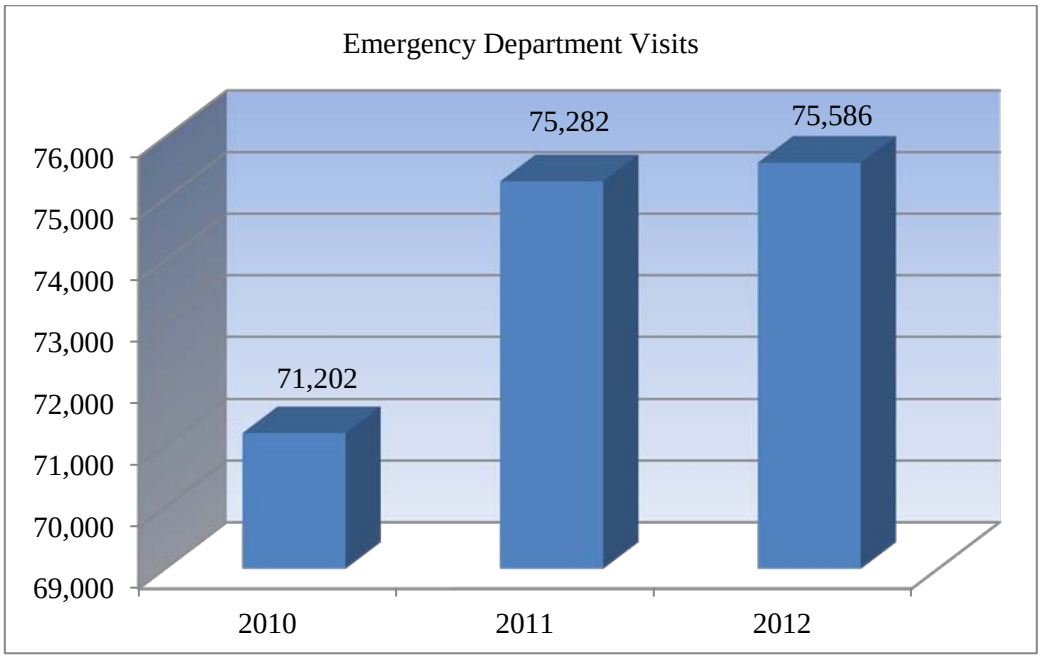
The following graphs illustrate trends in some of VMC's key operating statistics: discharges, patient days (including neonatal intensive unit), surgeries, emergency department visits, and outpatient visits (includes clinic network).



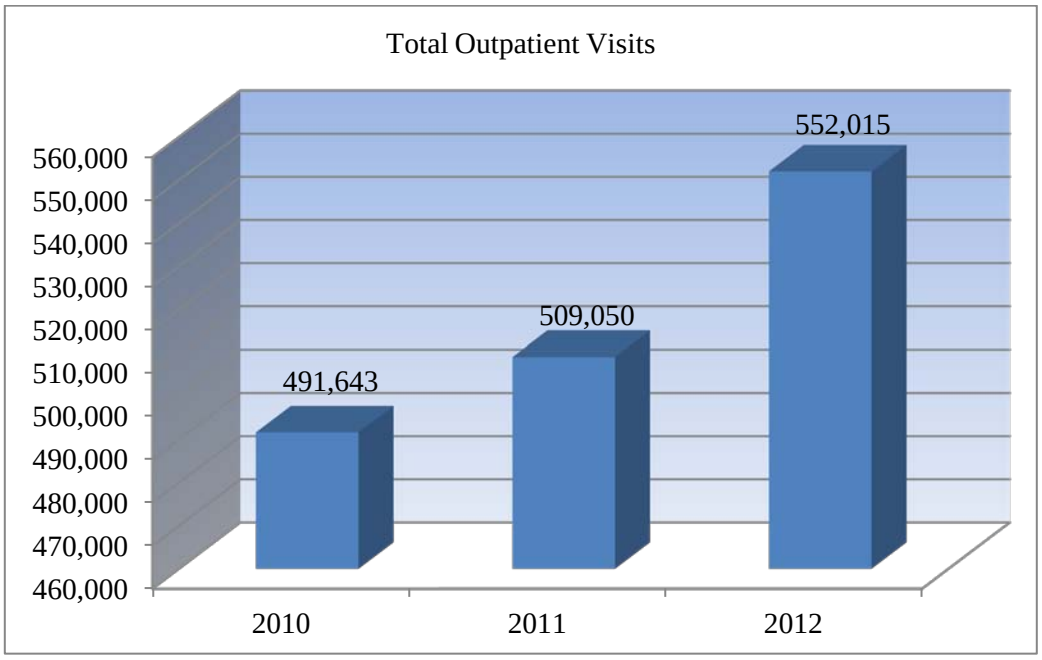


(Continued)


Surgery Patients
11,600
11,400
11,200
11,000
10,800
10,600
10,400
10,758
11,038
11,444
2010
2011
2012


Emergency Department Visits
76,000
75,000
74,000
73,000
72,000
71,000
70,000
69,000
71,202
75,282
75,586
2010
2011
2012

(Continued)



Overview of Required Financial Statements

VMC's financial statements consist of three statements: balance sheet; statement of revenues, expenses, and changes in net assets; and statement 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 balance sheet 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 balance sheet also includes information to help compute the rate of return on investments, evaluate the capital structure of VMC, and assess the liquidity and financial flexibility of VMC.

The statement of revenues, expenses, and changes in net assets reports all of the revenues and expenses during the time period indicated. The difference between assets and liabilities — net assets is one way to measure the financial health of VMC and if VMC has been able to recover all its costs through patient service and other revenue sources.

The statement of cash flows reports the cash provided by VMC's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. This statement provides meaningful information on where VMC's cash was generated and what it was used for.

Balance Sheet

The following is a presentation of certain condensed financial information derived from VMC's balance sheet (dollars in thousands):

		June 30	
		2012	2011
Assets:			
Current assets	$	160,830	169,503
Noncurrent assets, net		86,973	122,792
Capital assets, net		385,610	344,259
Other noncurrent assets		8,673	9,932
Total assets	$	642,086	646,486
Liabilities:			
Current liabilities	$	81,391	71,357
Noncurrent liabilities		334,444	343,671
Total liabilities		415,835	415,028
Net assets:			
Invested in capital assets, net of related debt		62,414	45,385
Restricted:			
For debt service		7,349	7,327
Expendable for specific operating activities		358	331
Unrestricted		156,130	178,415
Total net assets		226,251	231,458
Total liabilities and net assets	$	642,086	646,486

Financial Analysis

Balance Sheet – Assets

Total Assets were $642.1 million at June 30, 2012 compared to $646.5 million at June 30, 2011, a decrease of 0.7%. Significant events within total assets during fiscal year 2012 related to the implementation of the electronic health record system and the build-out of the 6th and 7th floors of the Emergency Services Tower. The overall cause of decreased asset levels relate to the current year operating loss.

Current Assets consist of cash and cash equivalents, and other assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers.

Total current assets were $160.8 million at fiscal year-end 2012, compared to $169.5 million at year-end 2011.

As of June 30, 2012, 48% of the net patient accounts receivable balance is due from commercial payors, 39% is due from governmental payors Medicare and Medicaid, and 13% from patients. Due to a variety of factors, including overall economic conditions, employers and insurers have continued to shift responsibility of payment to patients in the form of increased coinsurance and deductibles. Therefore, the patient responsibility component of accounts receivable has increased. Generally speaking, the collection of patient responsibility amounts requires more effort than collection of insurance amounts because patient responsibility balances are typically composed of a high number of smaller dollar accounts.

Net accounts receivable was $53.1 million as of June 30, 2012, compared to $49.1 million at June 30, 2011 and is reflective of the higher revenues between years also due to an increase in days receivable outstandings. Noncurrent assets required for current obligations (due within one year) were $33.0 million at June 30, 2012, compared to $25.7 million at June 30, 2011, and reflects the addition of the assets generated from the 2011 bond series. Short-term investments were $18.8 million at June 30, 2012, compared to $27.2 million at June 30, 2011. The 30% variance between years in this category is offset by the 58% increase in long-term investments.

Restricted unspent bond proceeds were just under $8.0 million at June 30, 2012, compared to $10.5 million at June 30, 2011, which represents the continued spend-down of the 2010 bond series on specific construction and information technology projects.

Other current assets include supplies inventory, prepaid expenses, property tax receivable, and other assets.

Noncurrent Assets include assets limited as to use, which comprise unrestricted and restricted investments held by VMC for general capital improvements and other operations, self-insurance reserves, and deferred compensation arrangements, and various revenue obligation bond agreements. At June 30, 2012, total noncurrent assets were $62.8 million, compared to $107.5 million at June 30, 2011.

Total investments, limited as to use, net of amounts required for current obligations, were $62.8 million, compared to $107.6 million at June 30, 2011, a decrease of 42% between years, The majority of the decrease is related to the $29.0 million decrease in restricted bond proceeds, which illustrates the continued spend-down of the 2010 bond series on specific construction and Information Technology (IT) projects (including the completion of the 6th and 7th floors, the ongoing construction of the Covington Ambulatory/Urgent Care building, and the EPIC electronic health record system). For the same reasons, unrestricted investments decreased by $12.6 million year over year.

Long-term investments were $24.2 million at June 30, 2012, an increase of 58%, compared to $15.3 million at June 30, 2011, and are defined as those with over one year to maturity when purchased.

Capital Assets were $385.6 million at fiscal year-end 2012, compared to $344.3 million at fiscal year-end 2011, representing a $41.4 million, or 12.0% increase, between years. The significant majority of the increase was attributed to construction in progress, which includes two large initiatives – the design, implementation, and build of the information system electronic health record, and the physical build-out of the 6th and 7th patient floors of the Emergency Services Tower. Other capital assets funded in 2012 included upgrading and enhancing various hospital-based infrastructure, the acquisition of hospital equipment, and remodeling and expansion of several clinics. Depreciable capital assets, net, decreased by 3.4% between years, from $311.7 million to

$301.2 million, and represents the removal of older assets related to the various construction projects and disposal of unused assets, as well as ongoing depreciation of assets in use.

Other Noncurrent Assets consist primarily of VMC's net deferred financing costs, as well as goodwill and intangible assets related to the acquisition of a physician practice and VMC's membership interest in First Choice Health Network. Other noncurrent assets were $8.7 million at year-end 2012 and $9.9 million at year-end 2011.

Total Liabilities were $415.8 million as of June 30, 2012 compared to $415.0 million as of June 30, 2011, a change of 0.2% between years.

Current Liabilities were $81.4 million at June 30, 2012, compared to a balance of $71.4 million at June 30, 2011, and include payables to employees, vendors, and other third parties, as well as the current portion of long-term debt. Accounts payable at June 30, 2012 was $19.2 million, compared to $10.7 million at June 30, 2011. Approximately $9.0 million of the $19.2 million in accounts payable was relates to capital and information technology projects. VMC also had $33.1 million in accrued salaries, wages, and benefits, which is comparable to the $32.9 million in the prior year. Approximately $11.9 million was related to interest payable on outstanding debt issues, accrued taxes and retainage, accrued professional liability expense, and deferred revenue related to the State's Certified Public Expenditures Program, compared to $9.4 million in the prior year. Deferred property tax revenue was $8.4 million at June 30, 2012 compared to $9.8 million at June 30, 2011, a 14.7% decrease between years. That decrease was due to a statutorily required reduction in the District's authorized 2012 calendar year tax levy.

The current portion of long-term debt was $8.0 million as of June 30, 2012 and represents upcoming debt payments on various bond issues within the next year. The current portion of long-term debt as of June 30, 2011 was $7.7 million.

Noncurrent Liabilities, in total, were $334.4 million at June 30, 2012, compared to $343.7 million at June 30, 2011. These liabilities represent long-term debt and capital lease obligations, net of current portion, which were $331.2 million at June 30, 2012, a 2.8% decrease from the $340.6 million balance as of June 30, 2011. In September 2011, the District refunded its outstanding 2001 limited tax general obligation bond with a 2011 refunding bond. The District also made approximately $7.6 million in principal payments on long-term debt during the year ended June 30, 2012.

Balance Sheet – Net Assets

VMC reports its net assets in three categories (VMC does not have any assets meeting the criteria of the fourth category, donor-restricted nonexpendable net assets):

Invested in capital assets net of related debt – Total investment in VMC property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets

Restricted for debt service and expendable net assets – Resources VMC is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the asset

Unrestricted net assets – All other funds available to VMC for the general obligations to meet current expenses for any purpose

As of June 30, 2012, total net assets were $226.3 million compared to $231.5 million at June 30, 2011.

Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of VMC, as well as nonoperating revenues and expenses. Activities are reported as either operating or nonoperating. The use of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

A summary of VMC's revenues, expenses, and changes in net assets for the years ended June 30, 2012 and 2011, respectively, is presented below (dollars in thousands):

Summary of Revenue and Expense and Changes in Net Assets
Years ending June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient service revenue (net of provision for bad debts)	$ 405,616	384,084
Other operating revenue	22,958	15,756
Total operating revenues	428,574	399,840
Operating expenses:		
Salaries and wages	194,316	172,803
Employee benefits	60,582	53,999
Supplies and other expenses	149,825	131,700
Depreciation	32,529	29,648
Total operating expenses	437,252	388,150
Operating income (loss)	(8,678)	11,690
Nonoperating income (expense):		
Revenue from taxation	17,818	19,388
Interest income	3,900	6,551
Interest and amortization expense	(17,782)	(17,653)
Investment income, net	905	(1,603)
Other, net	(1,370)	384
Net nonoperating income	3,471	7,067
Increase (decrease) in net assets	(5,207)	18,757
Net assets, beginning of year	231,458	212,701
Net assets, end of year	$ 226,251	231,458

(Continued)

Total Operating Revenues

Total Operating Revenues consists primarily of net patient revenue and other operating revenues. Net patient revenues are recorded based on standard billing rates less contractual adjustments, charity, 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 its component unit, provide care at no charge or reduced charges to patients who qualify under VMC's charity policy. VMC also estimates the amount of patient responsibility 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 payors and patients is recorded as an adjustment to charges. The resulting net patient service revenue is shown in the statement of revenues, expenses, and changes in net assets.

Net patient 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. The composition of services provided to patients (whether governmental or commercial insured or self-pay) is a key factor in VMC's overall financial operating results. Reimbursement from governmental payors is generally below commercial rates, and reimbursement rules are complex and subject to both interpretation and modification.

For the year ended June 30, 2012, VMC's total operating revenues were $428.6 million, composed of $405.6 million in net patient service revenues and $23.0 million in other operating revenue, compared to $399.8 million in net patient services revenue and other operating revenue of $15.8 million for the fiscal year ending June 30, 2011. The 5.6% increase is due to stable volumes, with increases in such areas as surgical cases and infusion services year over year. The increases within other operating revenue are primarily related to the opening of several new pharmacy locations, as well as a Medicaid electronic health record incentive payment.

Total Operating Expenses

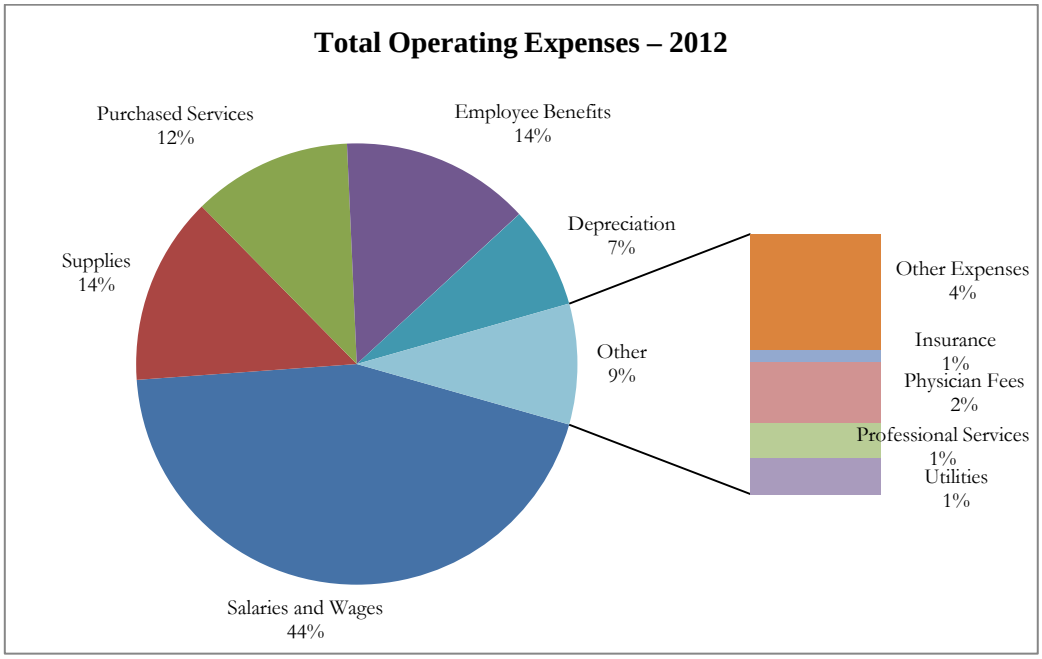
Total Operating Expenses were just under $437.3 million for the year ending June 30, 2012 compared to $388.2 million for the year ending June 30, 2011. For fiscal 2012, Salaries and wages accounted for 44% of operating expenses, while supplies, purchased services, and other expenses were 35% of operating expenses. Employee benefits were approximately 14% of total operating expenses, and depreciation expense was 7% of operating expenses.

Salaries and wages increased 12.4% from $172.8 million for the year ended June 30, 2011 to $194.3 million for the year ended June 30, 2012, due to approximately 192 new full-time equivalents hired during fiscal year 2012. The increases were in information technology due to the EPIC electronic health record implementation; the clinic network's expansion of services in urgent care, oncology, women's healthcare/obstetrics and gynecology; the opening of several outpatient pharmacies, and in general medical/surgical units due to volume increases. Employee benefits increased 12.2% from $54.0 million in 2011 to $60.6 million as of June 30, 2012, due to increases in employee healthcare and workers' compensation costs associated with increased full time equivalent positions.

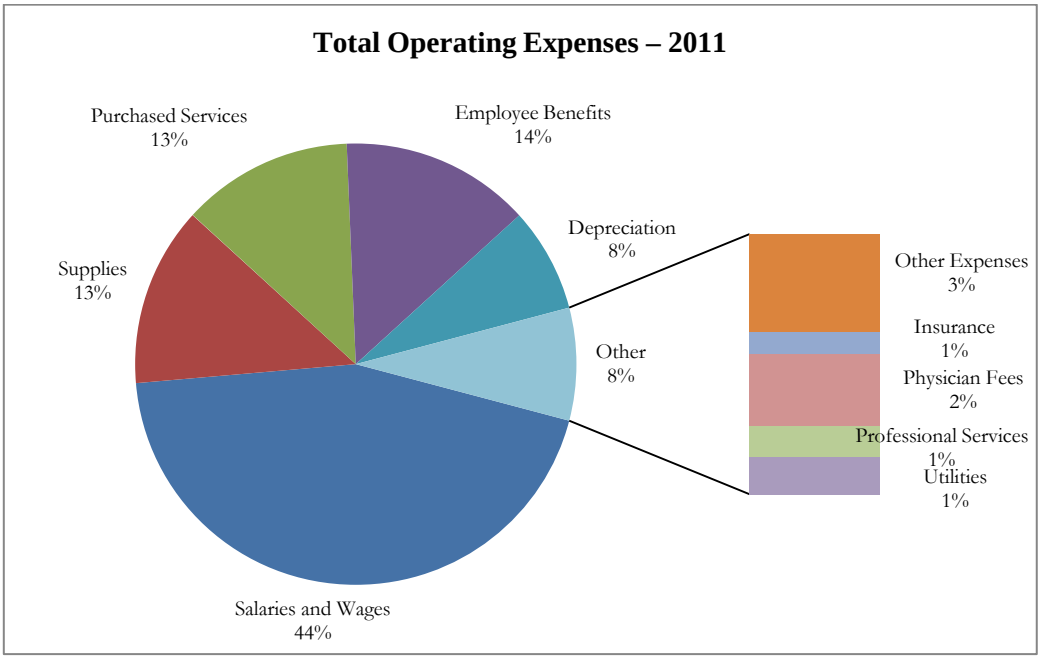
Supplies and other expenses include medical and surgical supplies, pharmaceutical supplies, professional fees, purchased services, consulting fees, insurance, taxes, and other expenses. In total, these expenses increased 13.8% from $131.7 million to $149.8 million, respectively, between years. The primary increases were in purchased services and consulting fees related to the EPIC electronic health record implementation, pharmaceutical expenses due to the addition of several new outpatient pharmacies, information technology maintenance agreements and minor equipment, and sales taxes.

Depreciation expense increased 9.7% from $29.6 million at June 30, 2011 to $32.5 million at June 30, 2012. The increase is due to accelerated depreciation on older information technology systems being replaced with the EPIC electronic health record system, as well as the capitalization of several completed construction projects.

The graphs below illustrate the various components of operating expenses expressed as percentages of total operating expense for fiscal years 2012 and 2011, respectively.



(Continued)



Net Assets

As required by Governmental Accounting Standards, VMC has reflected historical interest expense as a nonoperating expense and bad debt expense as a component of net patient service revenues. Historical industry practice for healthcare entities not subject to Governmental Accounting Standards is to reflect interest expense and bad debt expense as operating expenses.

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: Vice President of Finance, PO Box 50010, Renton, WA 98058.

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

Balance Sheet

June 30, 2012

Assets	VMC	Component Unit – IPV
Current assets:		
Cash and cash equivalents	$ 24,584,212	1,363,546
Short-term investments	18,835,857	—
Restricted unspent bond proceeds	7,951,660	—
Accounts receivable, less allowance for uncollectible accounts	53,133,042	1,297,888
Property tax receivable	8,481,694	—
Due from:		
Primary government	—	153,601
Component unit	1,287,899	—
Assets, available for current obligations	32,976,897	—
Supplies inventory	4,246,711	38,582
Prepaid expenses and other assets	9,332,265	67,870
Total current assets	160,830,237	2,921,487
Long-term investments	24,178,275	—
Noncurrent assets:		
Unrestricted for general capital improvements and operations	70,469,244	—
Restricted for self-insurance reserve funds	6,320,907	—
Restricted unspent bond proceeds	7,997,039	—
Restricted under deferred compensation arrangements	3,635,818	—
Restricted under revenue bond indenture agreements	7,348,790	—
	95,771,798	—
Less amounts available for current obligations	(32,976,897)	—
Total noncurrent assets	62,794,901	—
Capital assets:		
Land	13,299,497	—
Construction in progress	71,151,194	—
Depreciable capital assets, net of accumulated depreciation	301,159,689	1,381,771
Total capital assets	385,610,380	1,381,771
Deferred financing costs, net	3,777,937	—
Goodwill, intangible assets, and other	4,894,671	—
Total assets	$ 642,086,401	4,303,258

(Continued)

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

Balance Sheet

June 30, 2012

Liabilities and Net Assets	VMC	Component Unit – IPV
Current liabilities:		
Accounts payable	$ 19,152,813	202,270
Accrued salaries, wages, and benefits	33,072,565	215,912
Due to:		
Primary government	—	1,287,899
Component unit	153,601	—
Other accrued liabilities, including estimated third-party payor settlements	3,637,560	—
Interest, patient refunds, and other	8,975,841	99,912
Deferred property tax revenue	8,393,046	—
Current portion of long-term debt and capital lease obligations	8,005,578	199,112
Total current liabilities	81,391,004	2,005,105
Deferred compensation	3,255,699	—
Long-term debt and capital lease obligations, net of current portion	331,188,702	476,039
Total liabilities	415,835,405	2,481,144
Net assets		
Invested in capital assets net of related debt	62,413,772	706,620
Restricted:		
For debt service	7,348,790	—
Expendable for specific operating activities	358,525	—
Unrestricted	156,129,909	1,115,494
Total net assets	226,250,996	1,822,114
Total liabilities and net assets	$ 642,086,401	4,303,258

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2012

	VMC	Component Unit – IPV
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $33,915,355)	$ 405,616,069	13,496,961
Other operating revenue	22,958,470	11,937
Total operating revenues	428,574,539	13,508,898
Operating expenses:		
Salaries and wages	194,315,940	2,772,053
Employee benefits	60,582,211	946,224
Supplies and other expenses	149,825,045	4,313,105
Depreciation	32,528,941	425,558
Total operating expenses	437,252,137	8,456,940
Operating income (loss)	(8,677,598)	5,051,958
Nonoperating income (expense):		
Revenue from property taxes	17,818,068	—
Interest income	3,900,299	—
Interest and amortization expense	(17,781,734)	(48,175)
Investment income	904,426	—
Other, net	(1,370,651)	3,342
Members' distributions	—	(5,698,519)
Net nonoperating income (expense)	3,470,408	(5,743,352)
Decrease in net assets	(5,207,190)	(691,394)
Net assets, beginning of year	231,458,186	2,513,508
Net assets, end of year	$ 226,250,996	1,822,114

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2012

	Valley Medical Center	Component Unit – IPV
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 401,653,878	13,575,788
Payments to suppliers and contractors	(149,832,926)	(4,347,936)
Payments to employees	(254,536,668)	(3,358,053)
Other cash receipts	18,298,958	11,937
Net cash provided by operating activities	15,583,242	5,881,736
Cash flows from noncapital financing activities:		
Cash received from tax levy	17,831,506	—
Other	27,294	—
Net cash provided by noncapital financing activities	17,858,800	—
Cash flows from capital and related financing activities:		
Proceeds from issuance of refunding bonds	35,636,412	—
Payment to refunding bond escrow agent	(34,630,000)	—
Cash paid for bond issuance	(115,637)	—
Principal payments on long-term debt and capital lease obligations	(7,575,868)	(187,179)
Interest paid, net of amounts capitalized	(17,424,855)	(48,175)
Purchases of capital assets	(66,436,800)	(154,403)
Purchase of VM Oncology	(1,370,000)	—
Purchase of Valley Women's Healthcare Clinic	(865,000)	—
Other	(919,410)	—
Net cash used in capital and related financing activities	(93,701,158)	(389,757)
Cash flows from investing activities:		
Distributions from joint venture	4,227,979	—
Distribution to Valley Medical Center	—	(4,227,979)
Distribution to noncontrolling member of Imaging Partners at Valley, LLC	—	(1,155,669)
Sales of investments and assets whose use is limited	88,049,092	—
Purchases of investments and assets whose use is limited	(48,473,001)	—
Investment and interest income, net of amounts capitalized	3,900,299	3,342
Net cash provided by (used in) investing activities	47,704,369	(5,380,306)
Net (decrease) increase in cash and cash equivalents	(12,554,747)	111,673
Cash and cash equivalents, beginning of year	37,138,959	1,251,873
Cash and cash equivalents, end of year	$ 24,584,212	1,363,546

(Continued)

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

Statement of Cash Flows

Year ended June 30, 2012

	Valley Medical Center	Component Unit – IPV
Reconciliation of operating income to net cash from operating activities:		
Operating income (loss)	$ (8,677,598)	5,051,958
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	32,528,941	425,558
Provision for bad debts	33,915,355	182,306
Income recognized from joint venture	(4,635,286)	—
Amount expensed from purchase of VM Healthcare Clinic	184,000	—
Changes in assets and liabilities:		
Accounts receivable	(37,987,367)	(84,705)
Due from:		
Primary government	—	(18,774)
Component unit	(797,166)	—
Supplies inventory	314,528	(19,368)
Prepaid expenses and other assets	(2,865,320)	(26,499)
Accounts payable	672,138	(786,130)
Due to:		
Primary government	—	797,166
Component unit	18,774	—
Accrued salaries, wages, and benefits	141,874	360,224
Other accrued liabilities and estimated third-party payor settlements	109,820	—
Other liabilities	2,440,940	—
Deferred compensation	219,609	—
Net cash provided by operating activities	$ 15,583,242	5,881,736
Supplemental disclosures of noncash investing, capital, and financing activities:		
Increase in capital assets included in accounts payable	$ 7,922,116	—

See accompanying notes to financial statements.

(1) Organization and Mission Statement

(a) Organization

Public Hospital District No. 1 of King County, Washington (the District), a Washington municipal corporation established under Chapter 70.44 Revised Code of the State of Washington (RCW), operates Valley Medical Center (VMC). The District is considered a political subdivision of the state of Washington and is allowed, by law, to be its own treasurer. The District has also been granted 501(c)(3) status by the Internal Revenue Service.

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. It is the first and largest of the 56 public hospital districts in the state of Washington.

The District was established in 1948 by resolution of the Board of County Commissioners.

On July 1, 2011, Public Hospital District No. 1 of King County, dba Valley Medical Center (VMC), and UW Medicine entered into a Strategic Alliance Agreement, whereby the governance of VMC was modified. VMC is managed as a component unit of the University of Washington, subject to the oversight of a Board of Trustees. Because of the Strategic Alliance Agreement, VMC is considered a component unit of the University of Washington.

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 includes all 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 School of Medicine, University of Washington or his designee also serve on the Board of Trustees.

During fiscal year 2012, the current Board of Trustees, which included an the five elected Board of Commissioners, was as follows:

Lisa Jensen, Chair
Peter Evans, Vice Chair
Sue Bowman (Commissioner)
Bernie Dochnahl
Beverly Fletcher

(Continued)

Aaron Heide, M.D. (Commissioner)
Anthony Hemstad (Vice President of Board of Commissioner)
Don Jacobson
Paul Joos, M.D. (President of Board of Commissioners)
Gary Kohlwes, Ed. D.
Carolyn Parnell (Commissioner)
Julia Patterson
Johnese Spisso, R.N., M.P.A.

In March 2012, the District's Board of Commissioners passed Resolution 992, authorizing the President and Vice President of the Board of Commissioners to undertake negotiations with UW Medicine to revise the parties' Strategic Alliance Agreement in order to bring the agreement into conformity with applicable law and public policy. The passage of this resolution by itself does not necessarily mean any changes between the two parties are forthcoming.

The District owns the hospital, clinic network, and all other assets and liabilities.

VMC comprises a hospital, licensed for 303 beds; eight primary care clinics in the South King County area, including a residency program affiliated with the UW School of Medicine; five urgent care clinics; specialty clinics in neurosurgery, general surgery, vascular surgery, neurology, nephrology, ophthalmology, oncology, rheumatology, diabetes, internal medicine, and ear, nose, and throat; an occupational health clinic; and a behavioral health clinic.

(b) Mission Statement and Vision

The mission statement states that Valley Medical Center, the District's Healthcare System, "is committed to providing access to safe, quality healthcare for the public. The District Healthcare System is integrated with UW Medicine and collaborates to ensure comprehensive, high quality, safe, compassionate, cost-effective healthcare is provided."

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

As defined by generally accepted accounting principles (GAAP), the financial reporting entity consists of Public Hospital District No. 1 of King County, dba Valley Medical Center (VMC), as VMC, and its component unit, which is a legally separate organization for which VMC is financially accountable. Financial accountability is defined as an appointment of the voting majority of the component unit's board, and either (a) the ability to impose will by VMC, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on VMC, or (c) the component unit is financially dependent on VMC.

Based on these criteria, The Imaging Partners at Valley is considered a discretely presented component unit of VMC.

The Imaging Partners at Valley (IPV) is a limited liability company formed in 1999 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 the IPV's operating budget is subject to the overall approval of the District, even though the District does not have a voting majority on the IPV's governing board.

VMC and the 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 VMC and the component unit have been adapted to also provide the information necessary to meet the governmental reporting requirements of the District.

During the year ended June 30, 2012, IPV provided radiology services on behalf of VMC, which reimburses IPV for those services. Net patient service revenue for these services was approximately $13.5 million. Complete financial statements for the IPV can be obtained by contacting the IPV's Administrator at vrads.com.

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

(b) Basis of Accounting

VMC and the component unit report as business-type activities, as defined by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

VMC recognizes revenue and expenses on the accrual basis of accounting in accordance with the standards established by the GASB and certain provisions in the *Audit & Accounting Guide – Health Care Entities* published by the American Institute of Certified Public Accountants.

The accrual basis of accounting uses 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.

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

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amended the reporting standards for reporting component units in a government's financial statements. Statement No. 61 is effective for periods beginning after June 15, 2012. VMC has not yet implemented this statement and management is in the process of evaluating the effect of this guidance on the financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement No. 62 is effective for periods beginning after December 15, 2011. VMC has not yet implemented this statement and management is in the process of evaluating the effect of this guidance on the financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changes how governments organize their statements of financial position. Statement No. 63 is effective for periods beginning December 31, 2012 and later. VMC has not yet implemented this statement and management is in the process of evaluating the effect of this guidance on the financial statements.

The following is a summary of the most significant accounting policies.

(c) Accrual Basis

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

(d) 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.

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments with an original maturity of three months or less, when purchased excluding amounts whose use is limited by board designation or by other arrangements under trust agreements.

(f) Patient Accounts Receivable and Allowance for Uncollectible Accounts

VMC and their component units' primary credit risk relates to patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. VMC manages these receivables by regularly reviewing its accounts and contracts and by providing appropriate allowance accounts for uncollectible amounts.

VMC and the component unit provide an allowance for potential uncollectible patient accounts receivable, whereby such receivables are reduced to their estimated net realizable value. VMC and the component unit estimate these allowances based on a variety of relevant factors including the aging of the accounts receivable and historical collection experience by payor. Other factors may also influence the collection trends, including changes in the economy, which in turn may impact employment rates and, consequently, the number of uninsured or underinsured patients, the copayments required by patients with insurance, and collection efforts.

(g) Supplies Inventory

Supplies inventory, consisting of pharmaceutical, medical-surgical, and other medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value. Obsolete and uninsurable items are written off.

(h) 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 or money market funds with financial institutions in accordance with state guidelines. Investments are for the funding of future capital improvements, self-insurance reserves, and operational cash. In addition, certain funds are restricted by bond indentures to be used solely for debt service.

All VMC marketable investments are reported at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is determined based upon quoted market prices. Investment income, including realized and unrealized investment income or losses, is reported as nonoperating income or expense.

(i) Capital Assets

Capital assets are stated at cost at acquisition or if acquired by gift, at fair market 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.

VMC's capitalization threshold is $2,500 per item and with a useful life of at least three years.

Depreciation is recorded on a straight-line basis over the estimated useful life of each class of depreciable asset. VMC's depreciation and useful life policies utilize several methodologies in

assigning depreciable lives to assets. If the construction cost is in excess of $5 million, a composite weighted life is computed utilizing component useful lives provided by external consultants or by facility life analyses performed by external consultants.

Construction projects under $5 million and equipment and information technology systems' useful lives are typically established by using the American Hospital Association guidelines. Depreciation is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset.

The estimated useful lives used by VMC are as follows:

Buildings, renovations, and furnishings	5 – 72 years
Fixed equipment	5 – 25 years
Movable equipment	3 – 20 years
Leasehold improvements	Shorter of lease term or useful life

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.

(j) 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.

The component unit 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 the component unit's financial statements. Income of the component unit is taxes to the members on their individual tax returns, if applicable. The component unit had no uncertain tax positions at June 30, 2012.

(k) Deferred Financing Costs, net

Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method that approximates the effective-interest method.

(l) Goodwill, Intangible Assets, and Other

Intangible assets include items related to the purchase of physician practices. Physician noncompetition agreements are amortized over the terms of the agreements. 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.

VMC also has a membership interest, considered an other asset, in First Choice Health Network, a group purchasing cooperative.

(m) Estimated Third-Party Payor Liabilities

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 Medicare 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 Medicare. The estimated amounts for unsettled Medicare cost reports are included in the "Other accrued liabilities" line of the accompanying VMC balance sheet and totals $750,000 at June 30, 2012. Additionally, estimated amounts associated with the Medicaid program is are included in the "Other accrued liabilities" liabilities line of the accompanying balance sheet of VMC and total approximately $2,900,000 at June 30, 2012.

(n) Insurance

VMC has purchased insurance for professional and general liability. VMC pays certain medical, dental, prescription, and vision claims for its employees, as well as workers' compensation, on a self-insured basis. VMC has purchased stop-loss insurance to cover claims that exceed stated limits and has recorded estimated reserves, based upon actuarial analyses, for the ultimate costs for both reported claims and claims incurred but not reported.

(o) General Accounts

VMC is required to maintain its financial records on an accounting basis that segregates assets, liabilities, revenues, and expenses in conformity with 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' resolutions. Certain accounts maintained separately on the books of VMC have been combined for financial statement presentation.

Operating Account

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

Plant and Construction Accounts

These account for land, buildings, and equipment; and the proceeds of the 2001, 2004, 2008, and 2011 limited tax general obligation bonds. The District transfers sufficient taxation revenues to the

bond redemption fund to make principal payments on the Series 2001, 2004, 2008, and 2011 bonds. Interest payments are also made from the bond redemption fund.

Bond Account

Principal and interest payments on the Series 2001, 2004, 2008, and 2011 bonds are made from this account.

Revenue Bond Account

This account was established pursuant to Bond Resolution 943 and is used to pay the Series 2010A and 2010B principal and interest payments.

2010 Refundable Credits Account

Created pursuant to Bond Resolution 943, this account receives all refundable credits (the subsidy), if any, from the U.S. Department of the Treasury in respect to the Series 2010B Build America Bonds. The District has irrevocably pledged the 2010 Refundable Credits to the payment of principal and interest on the Series 2010B Bonds only, and such funds will not be used for any other purpose until all of the Series 2010 Bonds have been paid in full.

Restricted Accounts

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

(p) Classification of Revenues and Expenses

VMC's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing 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 incurred to provide healthcare services.

Tax levy income and debt service related to bonds and other peripheral or coincidental transactions are reported as nonoperating transactions.

(q) Net Patient Service Revenue

VMC has agreements with third-party payors that provide for payments to VMC at amounts different from its established rates. 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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

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. The fiscal year 2012 net patient service revenues increased approximately $600,000 due primarily to settlements of prior year cost reports.

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 primary government's actual charges for its services. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are provided at prospectively determined rates per discharge, see note 4 for additional information. Outpatient services rendered are provided based upon the APC prospective payment system.

Commercial

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

(r) Charity Care

VMC and component unit provide care at no charge or reduced charges to indigent patients who meet certain criteria under VMC's approved charity care policies. Because VMC and component unit do not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during fiscal year 2012 measured by VMC's standard charges, was $24,828,561.

(s) Net Assets

Net assets of VMC are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets*

(expendable) are noncapital assets that must be used for a specific purpose, as specified by grantors or contributors external to VMC. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital, net of related debt* or *restricted.*

(3) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from governmental agencies, third-party payors, patients, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental agencies and third-party payors. 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 gross patient charges by payor for the year ended June 30, 2012 is as follows:

Medicare	34%
Medicaid	16
Self-pay	5
Other third-party payors	45
Total	100%

VMC has agreements with governmental agencies and third-party payors that provide for payments to VMC at amounts different from its established rates.

(4) Certified Public Expenditure Program

The State of Washington has established an inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals called "Certified Public Expenditures" (CPE). Under this program, VMC is paid for inpatient Medicaid services based on allowable costs as determined by Medicaid. The estimated costs for inpatient care are calculated using the ratio of cost to charges from a base year (usually two years before the service year). VMC also receives a monthly disproportionate share payment as determined by Medicaid. Under the program, VMC will be reimbursed the higher of the cost of service or "baseline" reimbursement that would have been received based on the inpatient prospective payment system (IPPS) effective prior to when the CPE program was implemented. For 2012, the payments received under the CPE program are higher than the baseline payment and cost of service. The program allows VMC to keep the excess until cost settlement. Interim cost settlement occurs one year after the state fiscal year-end.

Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of VMC's allowable operating expenses to total allowable revenue. The CPE program has been funded by the state Legislature only through the current state biennium (through June 30, 2013).

During the 2009 state legislative session, the state Legislature requested the Washington State Department of Social and Health Services (DSHS) (now part of the Health Care Authority) to create a professional services supplemental payment (PSSP) program for certain public hospitals within the state by no later

than June 30, 2010, which DSHS accomplished. VMC participates in the PSSP program. The payments made under the PSSP program are based upon the gap between the average commercial payment rate and the Medicaid rate. Authorization for the PSSP program is through June 30, 2013.

The state legislature, as part of the 2010 state legislative session, enacted a safety net assessment, which is used to augment funding from other sources and obtain additional federal funds to support increased payments to hospitals for Medicaid services. The legislation specifies assessment levels and payment increases. Assessments are based on non-Medicare patient days. As a CPE hospital, VMC is not subject to the safety net assessment; however, VMC receives the restored Medicaid rate.

Net revenue under the Medicaid program totaled approximately $48.2 million for fiscal year 2012.

VMC's estimates of final settlements to or from Medicare and Medicaid for all years through 2012 have been recorded in the accompanying balance sheet. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement. VMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006.

The following are the components of net patient service revenue for the year ended June 30, 2012 for VMC and the component unit:

	VMC	Component unit
Gross patient service charges	$ 1,192,078,267	29,939,796
Adjustments to patient service charges:		
Contractual discounts	(752,546,843)	(16,260,529)
Provision for bad debts	(33,915,355)	(182,306)
	(786,462,198)	(16,442,835)
Net patient service revenue	$ 405,616,069	13,496,961

(5) Deposits and Investments

(a) General

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), or may separately invest such funds in either actively managed individual portfolio or mutual fund accounts that meet all statutory investment requirements.

(Continued)

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 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, 2012, deposits and investments of VMC consist of the following:

Unrestricted cash and cash equivalents	$	6,368,089
Unrestricted investments:		
U.S. Treasury securities and bonds		112,995,432
U.S. government mutual funds		220,096
Investment pools		17,637,880
Tax-exempt issues		487,942
		131,341,350
Restricted assets:		
Cash and cash equivalents		389,608
U.S. Treasury securities and bonds		13,863,657
U.S. government mutual funds		13,464,848
Tax-exempt issues		504,028
Other assets		5,390,222
		33,612,363
	$	171,321,802

Interest income included in other nonoperating revenue totaled approximately $3.9 million for the year ended June 30, 2012.

Investments within the other assets category are related to the cash surrender value of life insurance and a deferred compensation plan, the latter of which is self-directed by the participant of the plan which 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 deferred 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.

(b) Investments

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 – an amendment of GASB Statement No. 3*, 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, 2012, 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.

As of June 30, 2012, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities, and the residual investments in four commercial paper assets that were part of completed enforcement events where the Impaired Pool accepted the cash out option. VMC's share of the Impaired Pool principal is $103,135 and VMC's fair value of these investments is $45,379.

The composition of investments, reported at fair value by investment type and rating at June 30, 2012 and excluding cash balances of $6,395,547, is as follows:

Investment type		Fair value	Ratings	Percentage of totals
Money market mutual fund	$	1,849,090	AAA	1.1%
U.S. Treasury		60,030,117	Not rated	36.4
U.S. agency securities		40,231,832	AAA	24.4
U.S. agency mortgages		26,597,141	AAA	16.1
Tax-exempt issues		991,970	AAA	0.6
Mutual funds invested in U.S. government securities		12,198,003	AAA	7.4
King County investment pool		17,614,086	Not rated	10.7
State (LGIP) investment pool		23,794	Not rated	—
Other assets		5,390,222	Not rated	3.3
Total	$	164,926,255		100.0%

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

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

There are no investments exceeding 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. As of June 30, 2012, for those investments that require composition disclosure, VMC holds investments in U.S. government-sponsored entities totaling 14% of its total investments in Federal National Mortgage Association securities, 9% of its total investments in Federal Home Loan Mortgage Corporation securities, and 5% of its total investments in Government National Mortgage Association securities.

Custodial credit risk is the risk that, in the event of a failure of the counterparty, VMC will not be able to recover the value of the investment or collateral securities that are in possession of VMC.

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.

(Continued)

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 is 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
Mutual funds consisting of only U.S. government bonds or U.S. guaranteed bonds	Average maturity < 4 years
Statutorily allowed certificates of deposit	24 months
Commercial paper	180 days
General obligation bonds of any state/local government	10 years

VMC's investments in a U.S. government mutual fund had a weighted average duration of 2.3 years at June 30, 2012.

As of June 30, 2012, the Pool's average duration was 1.16 years. As a means of limiting its exposure to rising interest rates, 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.

The LGIP is an unrated 2a-7 pool, as defined by GASB Statement No. 31. Accordingly, VMC's balances in the LGIP are not subject to material interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. At June 30, 2012, the weighted average maturity was 40 days.

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:

		Remaining maturity (in months)			
Investment type	**Fair value**	**12 months or less**	**13 to 24 months**	**25 to 48 months**	**More than 48 months**
Money market mutual fund	$ 1,849,090	1,849,090	—	—	—
U.S. Treasury	60,030,117	9,971,413	29,472,082	13,181,741	7,404,881
U.S. agency securities	40,231,832	14,236,197	7,410,746	14,263,231	4,321,658
U.S. agency mortgages	26,597,141	—	1,076,174	311,103	25,209,864
Tax-exempt issues	991,970	—	991,970	—	—
Mutual funds invested in U.S. government securities	12,198,003	—	—	12,198,003	—
King county investment pool	17,614,086		17,614,086	—	—
State investment pool	23,794	23,794	—	—	—
Other assets	5,390,222	—	2,299,753	—	3,090,469
	$ 164,926,255	26,080,494	58,864,811	39,954,078	40,026,872

(6) Property Tax Revenues

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.

In late January 2012, the District received notification from the King County Assessor's Office that the overall statutory aggregate limit (which is $5.90 per assessed $1,000 in property value) had been exceeded in certain District tax levy codes for the calendar year ended December 31, 2012. Under Washington state statute, the Assessor's Office must recalculate the property tax levy rates when it is found the aggregate rate of certain senior and junior taxing districts within a given levy code area exceeds the $5.90 limit established by RCW 84.52.043. Any required rate recalculations are performed in a specific order specified within RCW 84.52.010(2). In summary, within these priorities, a hospital district receives the first $0.50 of its levy.

Consequently, as a result of this required rate recalculation, the District's tax levy rate was decreased from $0.59 per assessed $1,000 in property value pursuant to the District's authorized tax levy in

(Continued)

November 2011, to $0.50 per assessed $1,000 in property value, resulting in a revised tax levy of $16,782,333. That is a reduction of $3,298,022, or 16%, from the original tax levy, in property tax revenues during calendar year 2012.

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 balance at June 30, 2012 was $8,481,694 and is shown as a current asset on the balance sheet.

(7) Capital Assets

(a) Medical Center's Capital Assets

The activity in VMC's capital asset accounts and related accumulated depreciation for year ended June 30, 2012 is as follows:

	Balance, July 1, 2011	Additions	Retirements	Account transfers	Balance, June 30, 2012
Nondepreciable capital assets:					
Land	$ 13,299,497	—	—	—	13,299,497
Construction in progress	19,257,069	74,586,258	—	(22,692,133)	71,151,194
Total nondepreciable capital assets	32,556,566	74,586,258	—	(22,692,133)	84,450,691
Depreciable capital assets:					
Land improvements	18,186,387	—	—	63,948	18,250,335
Buildings and leasehold improvements	365,032,812	—	(537,020)	6,160,066	370,655,858
Equipment:					
Fixed	27,555,536	—	(2,346,431)	341,745	25,550,850
Major movable	136,873,447	755,640	(16,158,666)	14,481,656	135,952,077
Minor	12,237,789	575,585	(809,380)	1,644,718	13,648,712
Total depreciable capital assets	559,885,971	1,331,225	(19,851,497)	22,692,133	564,057,832
Less accumulated depreciation:					
Land improvements	(9,866,059)	(313,560)	—	—	(10,179,619)
Buildings and leasehold improvements	(111,105,062)	(13,218,190)	392,417	—	(123,930,835)

(Continued)

	Balance, July 1, 2011	Additions	Retirements	Account transfers	Balance, June 30, 2012
Equipment:					
Fixed	$ (21,409,370)	(1,004,247)	1,584,346	—	(20,829,271)
Major movable	(98,940,348)	(16,930,115)	15,586,785	—	(100,283,678)
Minor	(6,862,758)	(1,541,364)	729,382	—	(7,674,740)
Total accumulated depreciation	(248,183,597)	(33,007,476)	18,292,930	—	(262,898,143)
Depreciable capital assets, net	311,702,374	(31,676,251)	(1,558,567)	22,692,133	301,159,689
Capital assets, net	$ 344,258,940	42,910,007	(1,558,567)	—	385,610,380

Total additions to accumulated depreciation of $33,007,476 include $478,535 of nonoperating depreciation expense. These assets are medical office buildings rented or leased to physician practices and others and, therefore, are not considered within the operations of VMC. Therefore, $32,528,941 in depreciation expense is reflected in the operating expenses section of the Statement of Revenues, Expenses, and Changes in Net Assets.

Interest expense on borrowed funds during construction is a component of the cost of assets. The amount capitalized represents interest on funds expended for construction. Capitalization of interest ceases when the asset is substantially complete or placed in service.

VMC capitalized interest costs of $1,464,299 during the year ended June 30, 2012.

Property and equipment also include certain capitalized labor incurred to ready such property and equipment for use. Capitalized labor related to information technology and internally generated computer software is capitalized only during the application development stage. Management has explicitly authorized and committed the funding for such capitalized labor in its annual capital and operating budgets. Total capitalized labor and associated benefits were approximately $8,139,000 for the year ended June 30, 2012.

Included in major movable equipment at June 30, 2012 is $4,619,239 of equipment under capital lease. Accumulated amortization of the equipment under capital lease totaling $4,403,143 is included in accumulated depreciation at June 30, 2012.

Approximately $8,900,000 of VMC’s accounts payable as of June 30, 2012 relate to capital assets.

(Continued)

(b) Component Unit's Capital Assets

The activity in the component unit's capital asset accounts and the related accumulated depreciation accounts for the year ended June 30, 2012 is as follows:

	Balance, July 1, 2011	Additions	Retirements	Account transfers	Balance, June 30, 2012
Depreciable capital assets:					
Buildings and leasehold improvements	$ 88,347	5,125	—	—	93,472
Equipment:					
Major movable	6,479,634	98,920	—	—	6,578,554
Minor	356,764	50,358	—	—	407,122
Total depreciable assets	6,924,745	154,403	—	—	7,079,148
Less accumulated depreciation:					
Buildings and leasehold improvements	(47,754)	(765)	—	—	(48,519)
Equipment:					
Major movable	(4,916,328)	(401,218)	—	—	(5,317,546)
Minor	(307,737)	(23,575)	—	—	(331,312)
Total accumulated depreciation	(5,271,819)	(425,558)	—	—	(5,697,377)
Depreciable capital assets, net	$ 1,652,926	(271,155)	—	—	1,381,771

(Continued)

(8) Long-Term Debt and Capital Lease Obligations

Medical Center's Long-Term Debt and Capital Leases

Long-term debt for the District (VMC) consisted of the following as of June 30, 2012:

Limited tax general obligation bonds:		
2011 term bond, 2.19%, due in June and December, in yearly amounts from $1,215,000 in fiscal year 2012 to $2,035,517 in fiscal year 2022, plus interest due semiannually	$	33,532,148
2008 series A and B, 4.0% to 5.25%, due serially in December, in amounts from $1,185,000 in fiscal year 2012 to $17,365,000 in fiscal year 2038, plus interest due semiannually, net of unamortized premium of $889,414 and unamortized loss on refinancing of $2,716,961		215,207,453
2001 series, 4.25% to 5.5%, due serially in December, in amounts from $2,625,000 in fiscal year 2012 to $5,995,000 in fiscal year 2022, plus interest due semiannually. Refunded in September 2011		—
2004 series, 3.75% to 4.25%, due serially in December, in amounts from $1,000,000 in fiscal year 2012 to $1,260,000 in fiscal year 2018, plus interest due semiannually, net of unamortized premiums of $40,352 and unamortized loss on refinance of $177,377		6,722,974
Revenue bonds:		
2010 series A, 3.00% to 5.125%, due serially in June, in amounts from $1,380,000 in 2012 to $2,395,000 in 2024, plus interest due semiannually, net of unamortized premium of $100,225 and unamortized discount of $200,742		21,387,281
Build America bonds:		
2010 series B, 7.90% to 8.00%, due serially in June, in amounts from $2,520,000 in 2025 to $5,485,000 in 2040, plus interest due semiannually		61,155,000
Bonds		338,004,856
Capital lease obligations, stated at present value of future minimum lease payments		229,224
Note payable:		
2011 note payable, 2.25%, due in two payments in 2013 and 2014, plus interest due annually.		960,200
		339,194,280
Less current portion		(8,005,578)
Long-term portion of debt and capital lease obligations	$	331,188,702

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 including in VMC's budgets and 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.

Financing covenants associated with the District's revenue bonds require maintaining an amount within the Reserve Account (a subaccount within the Revenue Bond Fund) equal to the Reserve Requirement for all covered revenue bonds (the 2010 series only). That amount is equal to the lesser of the Maximum Annual Debt Service with respect to the 2010 bond series, an aggregate of the sum of 10% of the initial principal amount of the 2010 bond series, or 125% of the Average Annual Debt Service on the 2010 bond series.

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

Management is not aware of any violations with its debt covenants for the year ending June 30, 2012.

Series 2011 Bond Issue

The 2011 Limited Tax General Obligation Refunding Bond was issued on September 7, 2011 for $35,636,412. The Bond was issued for the purpose of refunding, on a current basis, and defeasing the Limited Tax General Obligation Refunding Bonds, 2001, maturing on and after December 1, 2012. The Series 2011 proceeds were irrevocably deposited, on September 7, 2011, into an escrow fund held by an escrow agent. Upon such deposit, the Series 2001 bonds were deemed defeased and are no longer outstanding.

The Series 2011 Term Bond was issued with a fixed interest rate of 2.19%, and has eleven annual maturities of varying amounts between 2011 and 2021. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,052,279 for the year ended June 30, 2012, which will be deferred and amortized over the life of the new bonds. The refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of $5,000,704.

The District has pledged tax revenues to secure the bonds.

2011 Note Payable

In March 2011, the District purchased an infusion center and medical oncology practice from a private physician group. The purchase price for the assets was $3,705,200 and a portion of the purchase price was funded with a note. As of June 30, 2012, the outstanding note payable was $960,200, which has payments in years 2013 and 2014, with a fixed interest rate of 2.25%.

Series 2010 Revenue Bond Issue

The Series 2010 Bonds were issued in two subseries. On June 23, 2010, the District issued $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 are fixed rate.

The Series 2010A Bonds were used to refund and defease all of the Series 1997 Bonds and the eligible portion of the Series 1998 Bonds, as well as acquire District Hospital facilities and land. Of the total, $9,240,000 of the Series 1998 Bonds could not be legally advance refunded with tax-exempt obligations proceeds. Consequently, the District used its own operational funds to cash defease that portion of the Series 1998 Bonds.

To refund and defease the Series 1997 Bonds and the Eligible Series 1998 Bonds, the District irrevocably deposited a portion of the Series 2010A Bond proceeds, along with District funds, into an escrow fund held by an escrow agent. Upon such deposit, on June 23, 2010, the Series 1997 Bonds and Eligible Series 1998 bonds were deemed defeased and are no longer outstanding.

The Series 2010A consists of serial bonds of $16,255,000, which were issued with interest rates ranging from 3.00% to 5.00% at yields of 2.30% to 4.85%, maturing between 2012 and 2020, and an $8,890,000 5.125% term bond is due in 2024.

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 recently constructed 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 mature in 2030 and 2040.

Under the BAB bonds, the District receives 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 ending June 30, 2012, the District received $1,706,294 in subsidy payments, which are recorded in other nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

Although the refunding of the 1997 and 1998 series resulted in a difference in cash flow requirements of $5.2 million between the defeased debt and the newly issued debt, the District obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3.6 million in 2010.

Series 2008 Bond Issue

The District issued $218,220,000 in limited tax general obligation and refunding bonds, Series 2008A and 2008B, in March 2008. The 2008 series refunded two prior bond series, the 2005 revenue bonds and the 2006 limited tax general obligation Series A and B bonds.

Series 2008A was for $113,315,000 and comprised $97,745,000 of 5.0% – 5.25% term bonds maturing beginning with $14,730,000 maturing in 2023 to $59,725,000 5.0% bonds maturing in 2037. Within this subseries, $15,570,000 of this subseries was in 4.0% – 5.0% serial bonds, which mature for eight consecutive years beginning in 2012. Series 2008A is insured by a rated bond insurer.

Series 2008B was for $104,905,000 5.25% term bonds, beginning with $8,920,000 maturing in 2023 to $69,260,000 maturing in 2037. Series 2008B is uninsured.

The District has pledged tax revenues to secure the bonds.

Long-term debt, capital lease obligations, and deferred compensation activity for fiscal year 2012 is as follows:

	Balance, July 1, 2011	Additions	Reductions	Balance, June 30, 2012	Amounts due within one year
Limited tax general obligation bonds:					
2011 series	$ —	35,636,412	2,104,264	33,532,148	4,085,000
2008 series	216,919,118	—	1,711,665	215,207,453	880,000
2004 series	7,695,895	—	972,921	6,722,974	1,030,000
2001 series	37,405,795	—	37,405,795	—	—
Revenue bonds:					
2010 Series A	22,459,850	—	1,072,569	21,387,281	1,445,000
Build America bonds:					
2010 Series B	61,155,000	—	—	61,155,000	—
Note payable	2,330,200	—	1,370,000	960,200	480,100
Capital lease obligations	400,092	—	170,868	229,224	85,478
Total long-term debt and capital lease obligations	348,365,950	35,636,412	44,808,082	339,194,280	8,005,578
Deferred compensation	3,036,090	487,524	267,915	3,255,699	—
Total noncurrent liabilities	$ 351,402,040	36,123,936	45,075,997	342,449,979	8,005,578

(Continued)

A summary of future maturities of long-term debt, excluding capital leases, for the next five years and thereafter, as of June 30, 2012, using the fixed interest rates, for both principal and interest, is presented below:

	Principal	Interest
2013	$ 7,920,100	18,083,444
2014	8,145,100	17,833,873
2015	7,905,000	17,572,202
2016	8,185,000	17,292,025
2017	8,500,000	16,976,784
2018 – 2022	40,691,412	80,133,468
2023 – 2027	57,795,000	69,067,820
2028 – 2032	74,630,000	50,264,969
2033 – 2037	96,095,000	25,972,494
2038 – 2041	32,995,000	2,990,225
	342,861,612	$ 316,187,304
Plus amount representing net unamortized bond discounts and premiums	829,248	
Less amount representing unamortized deferred losses on refinancings	(4,725,804)	
	$ 338,965,056	

(Continued)

(a) Capital Leases

VMC acquired certain equipment under capital lease obligations. The imputed interest rate on the equipment under capital lease is 3.5%. These leases are collateralized by the related equipment. Future minimum lease payments and the present value of net minimum lease payments are as follows:

Year ending June 30:		
2013	$	93,292
2014		84,816
2015		64,467
Total minimum lease payments		242,575
Less amount representing interest		13,351
		229,224
Present value of capital lease payments:		
Less current portion		85,478
	$	143,746

(b) Line of Credit

VMC has an unsecured $2.0 million line of credit with its banking institution, with an interest rate set at 1.75% above the daily 3-month LIBOR (London Interbank Offered Rate) in effect at the time the line of credit is utilized. The line of credit was unused during fiscal year 2012, and there was no outstanding balance as of June 30, 2012. This line of credit is in effect until September 2012.

Component Unit's Long-Term Debt and Capital Leases

The component unit has no outstanding long-term debt. The capital lease obligation as of June 30, 2012 consists of an equipment lease with a present value of $675,151, with total monthly payments of $19,613, including imputed interest of 6.2%, maturing in 2015.

The schedule of capital leases is as follows:

	Balance, July 1, 2011	Additions	Reductions	Balance, December 31, 2012	Amounts due within one year
Capital lease obligations	$ 862,330	—	187,179	675,151	199,112

(Continued)

Future minimum lease payments and the present value of net minimum lease payments are as follows:

2013	$	235,356
2014		235,356
2015		235,356
2016		39,226
Total minimum lease payments		745,294
Less amount representing interest		(70,143)
		675,151
Present value of capital lease payments:		
Less current portion		(199,112)
	$	476,039

(9) Purchased and Self-Insurance

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 reserves.

The self-insurance reserve represents the estimated ultimate cost of settling claims resulting from events that have occurred on or before the balance sheet date. The reserve 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.

Management believes that these estimated liabilities are adequate; however, the establishment of reserves is an inherently uncertain process and there can be no assurance that currently established liabilities will provide adequate to cover actual ultimate expenses. Subsequent actual experience could result in liabilities being too high or too low, which could positively or negatively impact VMC's reported operations in future periods.

(a) Professional and General Liability

VMC purchases insurance from a third-party insurance carrier for professional and general liability. Insurance limits are $2,000,000 per claim with an $8,500,000 annual aggregate, on an occurrence basis. VMC also maintains excess commercial insurance above the first layer of $2,000,000/$8,500,000 on a claims-made basis with a limit of liability of $25,000,000 per occurrence and $25,000,000 annual aggregate.

Settlement amounts have not exceeded insurance coverage in the last three years.

(b) 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 subject to a specific benefit deductible of $225,000 in 2012. VMC has recorded an actuarially estimated liability for health claims of $3,347,421 as of June 30, 2012, which is included in accrued salaries, wages, and benefits in the accompanying VMC balance sheet. The health benefit claims reserve at June 30, 2012 is based on undiscounted calculations.

(c) Workers' Compensation

VMC is self-insured for the first $500,000 of each worker's compensation claims in 2012. The accrued liabilities for the self-insured components of this plan include the 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 $3,396,736 at June 30, 2012, which is included in accrued salaries, wages, and benefits in the accompanying VMC balance sheet. The workers' compensation reserve at June 30, 2012 is based on undiscounted calculations.

(d) Changes in the Self-Insurance Reserve – Tail Liability

VMC has established a reserve based on the requirement of GASB 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 reserve 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 reserve as it relates to the tail liability for professional liability insurance as of June 30, 2012 are noted below:

Reserve at June 30, 2011	$	1,440,000
Incurred claims and changes to estimate		(150,000)
Required reserve at June 30, 2012	$	1,290,000

The self-insurance reserve is included in the interest, patient refunds and other line item on the balance sheet.

(Continued)

(10) Vacation and Sick Leave

(a) Vacation

All biweekly paid employees of VMC and component unit who are in regularly scheduled full – or part-time positions, except for employees who have elected a wage premium in lieu of benefits or as otherwise specified in individual employment contracts or relevant labor contracts, earn annual vacation hours based on actual hours worked/paid. Employees become eligible to use accrued annual vacation hours the first full pay period following the completion of six consecutive months (180 days) or 1,040 hours worked of employment. The biweekly annual vacation accrual rates vary depending on the employee's level of employment, applicable labor agreements, and length of service. The maximum accrual of annual leave is two times the annual accrual rate.

After six months or 1,040 hours of continuous service, upon termination in good standing and with appropriate notice given to VMC, payment of unused but accrued annual leave will be made. At June 30, 2012, VMC's liability was approximately $10.4 million and is included in accrued salaries, wages, and benefits in the accompanying balance sheet.

(b) Accrued Sick Leave

All biweekly paid employees of VMC and component unit who are in regularly scheduled full – or part-time positions, except for employees who have elected a wage premium in lieu of benefits or as otherwise specific in individual employment contracts or relevant labor contracts, earn sick leave hours based upon actual hours worked/paid. Nearly all employees become eligible to use vested sick leave the full pay period following the completion of three consecutive months (90 days) of employment.

Depending on the labor contract, employee's level of employment and appropriate notice and standing to VMC upon termination, vested sick leave may be paid out. At June 30, 2012, VMC's liability for unused vested sick leave was approximately $3.8 million and is included in accrued salaries, wages, and benefits in the accompanying balance sheet.

(11) Retirement Plans

VMC maintains a defined contribution plan, the Money Purchase Pension Plan, that covers substantially all of its employees. The plan is administered by VMC. VMC's contribution is based on the salaries of active participants in accordance with formulas specified in the plan. Plan provisions and contribution requirements are established by VMC and may be amended by VMC's Board of Commissioners. Actuarial assumptions are not used in the determination of costs because benefits are payable only to the extent of available assets derived from contributions and plan earnings.

Employer contributions to the plan were $13,764,208 for the year ended June 30, 2012. Employee contributions are permitted within the plan in an amount up to 10% of pay period earnings, capped at the annual amount allowed by federal law, and totaled $735,515 for the year ended June 30, 2012.

VMC offers its employees two deferred compensation plans created in accordance with Internal Revenue Code (IRC) 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 $7,180,386 for the year ended June 30, 2012. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

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 advisor. VMC does not hold the assets of either plan in a trustee capacity and does not perform fiduciary accountability for the plan.

(12) Concentrations of Credit Risk

VMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

The mix of accounts receivable from patients and third-party payors at June 30, 2012 for VMC and the component unit was as follows:

	VMC	Component unit
Medicare	25%	23%
Medicaid	14	3
Blue Shield/Regence	15	21
PPO/First Choice	10	—
Blue Cross/Premera	6	12
Patient	13	4
Commercial	11	20
Other third-party payors	6	17
	100%	100%

(Continued)

(13) Commitments and Contingencies

(a) Operating Leases

VMC leases certain facilities and equipment under operating lease arrangements with its component unit and third parties, some of which contain renewal options. Likewise, the component unit leases certain medical office space and other equipment under operating leases with VMC and third parties.

The following is a schedule by year of future minimum lease payments by year for VMC and the component unit as of June 30, 2012:

	VMC	Component unit
2013	$ 9,985,985	1,032,000
2014	7,235,905	901,000
2015	5,649,174	574,000
2016	4,502,252	257,000
2017	4,087,023	257,000
Thereafter	14,751,551	214,000
Total minimum lease payments	$ 46,211,890	3,235,000

Rent expense on operating leases for VMC for 2012 was $10,264,608.

The component unit has several lease agreements with VMC. Office space for two different locations is leased from VMC for approximately $875,000 for the year ending June 30, 2012. The leases expire in December 2014 and May 2018, respectively. Of the component unit's $3,235,000 in total outstanding minimum lease payments, $3,104,000 is due to VMC.

(b) 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 on VMC's future financial position or results from operations.

(c) Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by healthcare providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management, to the best of their

knowledge, 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.

(d) Risk Management

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.

(e) Construction and Information Technology Commitments

VMC has committed to various construction and equipment projects, as well as significant information technology implementations, including a new electronic medical record system, which includes both billing and clinical components, in 2013 and beyond. As of June 30, 2012, the future commitments for these projects total $23.7 million.

(f) Collective Bargaining Agreements

VMC has a total of approximately 2,800 employees. Of this total, approximately 73% are covered under one of VMC's collective bargaining agreements as of June 30, 2012. Two bargaining units' contracts expired by June 30, 2012. One was successfully renegotiated prior to June 30, 2012, and management anticipates the other contract will be successfully negotiated. No contracts expire during the year ending June 30, 2013.

(14) Pledged Tax Revenues

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 2001 (defeased in September 2011), 2004, 2008, and 2011 to finance construction, other capital improvements, medical equipment and technology, and information technology systems.

(15) Meaningful Use

Beginning in 2011, the Medicaid Electronic Health Records incentive program was developed as part of a federally funded stimulus plan designed to help to eligible professionals and hospitals adopt and meaningfully use electronic health record technology. For the year ended June 30, 2012, VMC recorded $1,348,873 of other operating revenue related to Medicaid compensation for meaningful use of electronic health records. This amount may be subject to future audits.

(16) Related-Party Transactions

A total of $570,550 was paid by VMC to the UW Medicine for the year ending June 30, 2012 for transactions primarily related to reference laboratory work, providing contracted nursing assistance with the Valley Nurse Line, and management assistance with the various pharmacies.

(17) Healthcare Reform

As enacted, the Health Reform Law will change how health care services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Further, it provides for a value-based purchasing program, the establishment of Accountable Care Organizations (ACOs) and bundled payment pilot programs, which may create sources of additional revenue. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the individual mandate provisions of the Health Reform Law but struck down the provisions that would have allowed Health and Human Services (HHS) to penalize states that do not implement the Medicaid expansion provisions with the loss of existing federal Medicaid funding. States that choose not to implement the Medicaid expansion will forego funding established by the Health Reform Law to cover most of the expansion costs. The State of Washington has elected to implement Medicaid expansion in order to take advantage of all opportunities associated with health care reform. A Health Care Cabinet has been established by the State of Washington and tasked with implementing the policies and rules necessary to carry out health care reform statewide for all affected state agencies.

(18) Subsequent Events

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

The following subsequent events occurred after June 30, 2012 but prior to the issuance of the audit report:

1. On July 23, 2012, by a vote of 3-2, the majority of the District's Board of Commissioners passed Resolution 996, directing the defeasance of certain limited tax obligation bonds and the creation of corresponding escrow accounts. On September 17, 2012, the Board of Trustees passed a motion directing management to follow the current debt schedule and maintain its cash position by not defeasing any existing debt. On October 1, 2012, the majority of the District's Board of Commissioners passed Resolution 997, authorizing the President of the Board of Commissioners to issue a request for proposals for hiring bond counsel to implement the terms of Resolution 996.

2. In August 2011, the Budget Control Act of 2011 was passed by Congress and President Obama. At the time of audit issuance, automatic budget reductions, or sequestration, will begin on January 2, 2013, unless Congress enacts a separate budgetary deficit reduction package before then. Based upon the preliminary Office of Management and Budget report, sequestration includes a 7.6% reduction to the direct payment federal subsidy for municipal bonds created by the American Recovery and

(Continued)

Reinvestment Act of 2009. It is possible VMC's taxable 2010 Series B Build America Bonds may be impacted. The proposed reduction in the subsidy would increase VMC's interest expense by approximately $130,000 per year.

3. On October 1, 2012, by a vote of 3-2, the majority of the District's Board of Commissioners passed Resolution 998, authorizing the President of the Board of Commissioners to initiate litigation, if necessary, to determine the validity of the Strategic Alliance Agreement with University of Washington. The passage of this resolution by itself does not necessarily mean any changes in the Strategic Alliance Agreement, or litigation, between the two parties is forthcoming.

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

Supplementary Information Aggregating Balance Sheet

June 30, 2012

Assets	VMC	Component Unit – IPV	Eliminations	Aggregated
Current assets:				
Cash and cash equivalents	$ 24,584,212	1,363,546	—	25,947,758
Short-term investments	18,835,857	—	—	18,835,857
Restricted unspent bond proceeds	7,951,660	—	—	7,951,660
Accounts receivable, less allowance for uncollectible accounts	53,133,042	1,297,888	—	54,430,930
Property tax receivable	8,481,694	—	—	8,481,694
Due from:				
Primary government	—	153,601	(153,601)	—
Component unit	1,287,899	—	(1,287,899)	—
Noncurrent assets, available for current obligations	32,976,897	—	—	32,976,897
Supplies inventory	4,246,711	38,582	—	4,285,293
Prepaid expenses and other assets	9,332,265	67,870	—	9,400,135
Total current assets	160,830,237	2,921,487	(1,441,500)	162,310,224
Long-term investments	24,178,275	—	—	24,178,275
Noncurrent assets:				
Unrestricted for general capital improvements and operations	70,469,244	—	—	70,469,244
Restricted for self-insurance reserve funds	6,320,907	—	—	6,320,907
Restricted unspent bond proceeds	7,997,039	—	—	7,997,039
Restricted under deferred compensation arrangements	3,635,818	—	—	3,635,818
Restricted under revenue bond indenture agreements	7,348,790	—	—	7,348,790
	95,771,798	—	—	95,771,798
Less amounts available for current obligations	(32,976,897)	—	—	(32,976,897)
Total noncurrent assets	62,794,901	—	—	62,794,901
Capital assets:				
Land	13,299,497	—	—	13,299,497
Construction in progress	71,151,194	—	—	71,151,194
Depreciable capital assets, net of accumulated depreciation	301,159,689	1,381,771	—	302,541,460
Total capital assets	385,610,380	1,381,771	—	386,992,151
Deferred financing costs, net	3,777,937	—	—	3,777,937
Goodwill and intangible assets	4,894,671	—	—	4,894,671
Total assets	$ 642,086,401	4,303,258	(1,441,500)	644,948,159

(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 Balance Sheet

June 30, 2012

Liabilities and Net Assets	VMC	Component Unit – IPV	Eliminations	Aggregated
Current liabilities:				
Accounts payable	$ 19,152,813	202,270	—	19,355,083
Accrued salaries, wages and benefits	33,072,565	215,912	—	33,288,477
Due to:				
Primary government	—	1,287,899	(1,287,899)	—
Component unit	153,601	—	(153,601)	—
Other accrued liabilities, including estimated third-party payor settlements	3,637,560	—	—	3,637,560
Interest, patient refunds and other	8,975,841	99,912	—	9,075,753
Deferred property tax revenue	8,393,046	—	—	8,393,046
Current portion of long-term debt and capital lease obligations	8,005,578	199,112	—	8,204,690
Total current liabilities	81,391,004	2,005,105	(1,441,500)	81,954,609
Deferred compensation	3,255,699	—	—	3,255,699
Long-term debt and capital lease obligations, net of current portion	331,188,702	476,039	—	331,664,741
Total liabilities	415,835,405	2,481,144	(1,441,500)	416,875,049
Net assets:				
Invested in capital assets net of related debt	62,413,772	706,620	—	63,120,392
Restricted:				
For debt service	7,348,790	—	—	7,348,790
Expendable for specific operating activities	358,525	—	—	358,525
Unrestricted	156,129,909	1,115,494	—	157,245,403
Total net assets	226,250,996	1,822,114	—	228,073,110
Total liabilities and net assets	$ 642,086,401	4,303,258	(1,441,500)	644,948,159

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)

Aggregating Statement of Revenue and Expense and Changes in Net Assets

Year ended June 30, 2012

	VMC	Component Unit – IPV	Eliminations	Aggregated
Operating revenues:				
Net patient service revenue (net of provision for bad debts)	$ 405,616,069	13,496,961	—	419,113,030
Other operating revenue	22,958,470	11,937	(5,676,618)	17,293,789
Total operating revenues	428,574,539	13,508,898	(5,676,618)	436,406,819
Operating expenses:				
Salaries and wages	194,315,940	2,772,053	—	197,087,993
Employee benefits	60,582,211	946,224	—	61,528,435
Supplies and other expenses	149,825,045	4,313,105	(1,712,552)	152,425,598
Depreciation	32,528,941	425,558	—	32,954,499
Total operating expenses	437,252,137	8,456,940	(1,712,552)	443,996,525
Operating income (loss)	(8,677,598)	5,051,958	(3,964,066)	(7,589,706)
Nonoperating income (expense):				
Revenue from taxation	17,818,068	—	—	17,818,068
Interest income	3,900,299	—	—	3,900,299
Interest and amortization expense	(17,781,734)	(48,175)	—	(17,829,909)
Investment income (loss)	904,426	—	—	904,426
Other, net	(1,370,651)	3,342	(45,944)	(1,413,253)
Members' distributions	—	(5,698,519)	4,010,010	(1,688,509)
Net nonoperating income (expense)	3,470,408	(5,743,352)	3,964,066	1,691,122
Decrease in net assets	(5,207,190)	(691,394)	—	(5,898,584)
Net assets, beginning of year	231,458,186	2,513,508	—	233,971,694
Net assets, end of year	$ 226,250,996	1,822,114	—	228,073,110

See accompanying independent auditors' report.