PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY, WASHINGTON, DBA VALLEY MEDICAL CENTER

Financial Statements

June 30, 2026 and 2025

(With Independent Auditors' Report Thereon)

**PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER**

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Independent Auditors' Report

The Board of Trustees
The Board of Commissioners
Public Hospital District 1 of King County, Washington
d/b/a Valley Medical Center

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Public Hospital District 1 of King County, Washington d/b/a Valley Medical Center (the District), as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2026 and 2025, and the changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in 2026, the District adopted Governmental Accounting Standards Board Statement No. 103, *Financial Reporting Model Improvements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

Seattle, Washington
September 18, 2026

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The Board of Commissioners
Public Hospital District 1 of King County, Washington
d/b/a Valley Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Hospital District 1 of King County, Washington d/b/a Valley Medical Center (the District), which comprise the District's statement of net position as of June 30, 2026, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District*'s* internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District*'s* internal control. Accordingly, we do not express an opinion on the effectiveness of the District*'s* internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Seattle, Washington
September 18, 2026

PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER

Management's Discussion and Analysis

June 30, 2026 and 2025

(Unaudited)

The following Management's Discussion and Analysis (MD&A) provides an objective and easily readable analysis of Public Hospital District 1 of King County, Washington, dba Valley Medical Center (VMC), for the years ended June 30, 2026 and 2025. Consistent with GASB Statement No. 103, the discussion focuses on the significant financial statement changes, the reasons for those changes, significant capital asset and long-term debt activity, and currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations. It should be read in conjunction with the basic financial statements and accompanying notes that follow this section.

For the fiscal year ended June 30, 2026, VMC remains affiliated with the University of Washington under a strategic alliance agreement; however, it is not reported as a discretely presented component unit of the University.

Overview of the Financial Statements

This annual report includes MD&A and the basic financial statements. The basic financial statements consist of the statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. The notes to the financial statements are an integral part of the basic financial statements.

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

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

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

Financial Summary

VMC reported an operating loss of $13.8 million in fiscal year 2026, compared with operating losses of $49.3 million in fiscal year 2025 and $42.7 million in fiscal year 2024. The $35.5 million improvement in fiscal year 2026 was primarily attributable to higher emergency department, outpatient pharmacy, imaging, laboratory, and therapy volumes; continued strength in contract pharmacy and specialty pharmacy operations; and favorable Medicaid reimbursement adjustments, including Directed Payment Program settlements. These favorable factors were partially offset by the effects of an elevated Medicare payer mix, lower surgical volumes, higher pharmaceutical and medical supply costs, and broader inflationary pressure on operating costs.

The fiscal year 2025 operating loss increased by $6.6 million from fiscal year 2024. The decline in operating results was primarily attributable to inflationary increases in labor and supply costs; reimbursement pressure on patient service revenue; and lower contract pharmacy revenue.

VMC's net position increased by $22.3 million during fiscal year 2026, from $258.8 million at June 30, 2025, to $281.1 million at June 30, 2026. The increase primarily reflects the improvement in operating results described above, together with the effect of nonoperating revenues and expenses. In fiscal year 2025, net position decreased by $26.5 million, from $285.3 million to $258.8 million, primarily because of the operating loss, partially offset by nonoperating revenues and other changes in net position. The following discussion highlights the significant factors contributing to these results.

The table below presents condensed financial information for the past three years, including operating revenues, operating expenses, operating loss, nonoperating revenues/expenses, and change in net position.

	2026	2025	2024
		(In thousands)	
Total operating revenues	$ 1,003,679	989,703	907,671
Total operating expenses	1,017,440	1,039,001	950,419
Operating loss	(13,761)	(49,298)	(42,748)
Property tax revenue	48,388	26,561	26,144
Interest income	4,069	2,820	2,059
Interest and amortization expense	(16,190)	(15,124)	(15,658)
Investment income (loss), net	(264)	3,805	5,176
Other federal and state funding	2,329	6,621	78,155
Other, net	(2,224)	(1,916)	(2,933)
Nonoperating income	36,108	22,767	92,943
Change in net position	22,347	(26,531)	50,195
Net position, beginning of year	258,798	285,329	235,134
Net position, end of year	$ 281,145	258,798	285,329

Performance for Fiscal Year 2026 was primarily driven by:

- Strong growth in emergency department visits, outpatient pharmacy activity, imaging, laboratory, therapy, and primary care volumes, which contributed to favorable gross patient revenue performance throughout the year.
- Significant growth in contract pharmacy, specialty pharmacy, and retail pharmacy operations, which generated substantial other operating revenue and operating margin improvement.
- Favorable Medicaid reimbursement adjustments, including Directed Payment Program (DPP) settlements and Medicaid CPE reserve adjustments.
- Higher Medicare payer mix, which continued to pressure net patient service revenue and reimbursement levels despite strong volume growth.

(Continued)

- Lower surgical and infusion service volumes resulting from physician staffing changes, referral pattern shifts, and migration of certain procedures to ambulatory surgery centers.
- Increased pharmaceutical, medical supply, and purchased service costs due to inflationary pressures and expanded pharmacy operations.
- Additional nonoperating revenue from the voter-approved property tax levy lid increase, partially offset by market-driven investment income fluctuations.

Performance for Fiscal Year 2025 was primarily driven by:

- Growth in admissions, surgeries, emergency department visits, and outpatient activity, resulting in increased net patient service revenue compared to fiscal year 2024.
- Increased reimbursement associated with the Washington State Directed Payment Program (DPP).
- Continued contractual wage increases, market compensation adjustments, and staffing investments to support patient care volumes.
- Increased employee benefit costs associated with workforce growth and compensation changes.
- Growth in retail pharmacy revenue, partially offset by reductions in contract pharmacy revenue resulting from manufacturer-imposed restrictions.
- Ongoing inflationary pressure on labor, medical supplies, pharmaceuticals, and purchased services.
- In fiscal year 2025, VMC implemented two rounds of workforce reductions in March and May to preserve cash and stabilize operations. As part of this initiative, VMC closed three inpatient units, five clinics, and consolidated two additional clinics in May to streamline care delivery and reduce fixed costs.

Key Financial Ratios for Fiscal Year 2026 and 2025

- Financial performance improved significantly during fiscal year 2026. Operating margin improved to (1.4%) from (5.0%) in fiscal year 2025, while total margin improved to 2.1% from (2.6%). As mentioned earlier, the improvement was driven primarily by volume growth, contract pharmacy operations, favorable Medicaid reimbursement adjustments, and increased property tax levy revenues. Net position increased by $22.3 million to $281.1 million at June 30, 2026, compared to a decrease of $26.5 million in fiscal year 2025.
- Liquidity strengthened during fiscal year 2026. Days cash on hand increased to 64.4 days from 55.8 days in fiscal year 2025, while the current ratio improved to 1.59 from 1.52. Net accounts receivable days remained stable at approximately 42 days, reflecting continued effectiveness in revenue cycle management despite ongoing reimbursement and payer mix pressures.
- The organization's capital structure remained stable. Debt-to-capitalization improved to 47.7% from 51.0% when measured using bonded debt only, reflecting scheduled debt repayment and growth in net position. Including lease and subscription liabilities recognized under GASB requirements, debt-to-capitalization increased modestly to 61.3% from 59.8%, primarily due to recognition of the Rackspace subscription liability.

- Labor productivity improved during fiscal year 2026 as salaries, wages, and benefits declined to 72.2% of net patient service revenue from 74.0% in fiscal year 2025. Revenue growth outpaced labor cost growth despite continued wage and benefit pressures.

These metrics clearly demonstrate improved profitability, stronger liquidity, and a stronger balance sheet position in fiscal year 2026.

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

	2026	2025	2024
Available beds	283	328	328
Discharges	14,877	17,198	17,018
Patient days	73,030	86,861	84,804
Average length of stay	4.91	5.05	4.98
Occupancy	71 %	73 %	71 %
Case mix index (CMI)	1.73	1.74	1.78
Surgery cases	11,729	12,669	11,894
Emergency room visits	89,634	90,402	88,319
Primary care clinic visits	209,244	242,978	236,850
Specialty/urgent care clinic visits	412,820	500,193	502,072
Total ambulatory visits	622,064	743,171	738,922
Full-time equivalents (FTEs)	3,513	3,800	3,717
Births	1,847	2,764	2,733

Results of Operations

Total Operating Revenues

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

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

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

Total operating revenues increased to approximately $1.0 billion in fiscal year 2026 from $989.7 million in fiscal year 2025 and $907.7 million in fiscal year 2024. The $14.0 million, or 1.4%, increase in 2026 reflected a $42.0 million increase in other operating revenue, driven primarily by contract, specialty, and retail pharmacy operations, other pharmacy-related programs, joint venture distributions, and ancillary revenues. These increases more than offset a $28.0 million, or 3.0%, decrease in net patient service revenue, primarily attributable to an unfavorable shift in payer mix, including higher Medicare utilization.

Total operating revenues increased $82.0 million, or 9.0%, in fiscal year 2025. Net patient service revenue increased $78.5 million, or 9.2%, primarily due to higher admissions, surgeries, emergency department visits, and ambulatory activity; rate increases; and additional Medicaid reimbursement associated with the Directed Payment Program. Other operating revenue increased $3.5 million as growth in retail pharmacy revenue more than offset reductions in contract pharmacy revenue resulting from drug manufacturer limitations.

While patient volumes remained strong in several outpatient service lines, net patient service revenue was impacted by a higher Medicare payer mix and associated reimbursement pressures. Management continues to focus on growth in ambulatory services, pharmacy operations, and other strategic service lines to diversify revenue sources and offset reimbursement challenges associated with governmental payers.

The table below presents composition of total operating revenue for the past three years.

Total Operating Revenues ($ millions)		2026	2025	2024	Increase (Decrease) 2026 vs. 2025	Increase (Decrease) 2025 vs. 2024
Net Patient Service Revenue	$	906.0	934.0	855.5	(28.0)	78.5
Other Operating Revenue		97.7	55.7	52.2	42.0	3.5
Total Operating Revenues	$	1,003.7	989.7	907.7	14.0	82.0

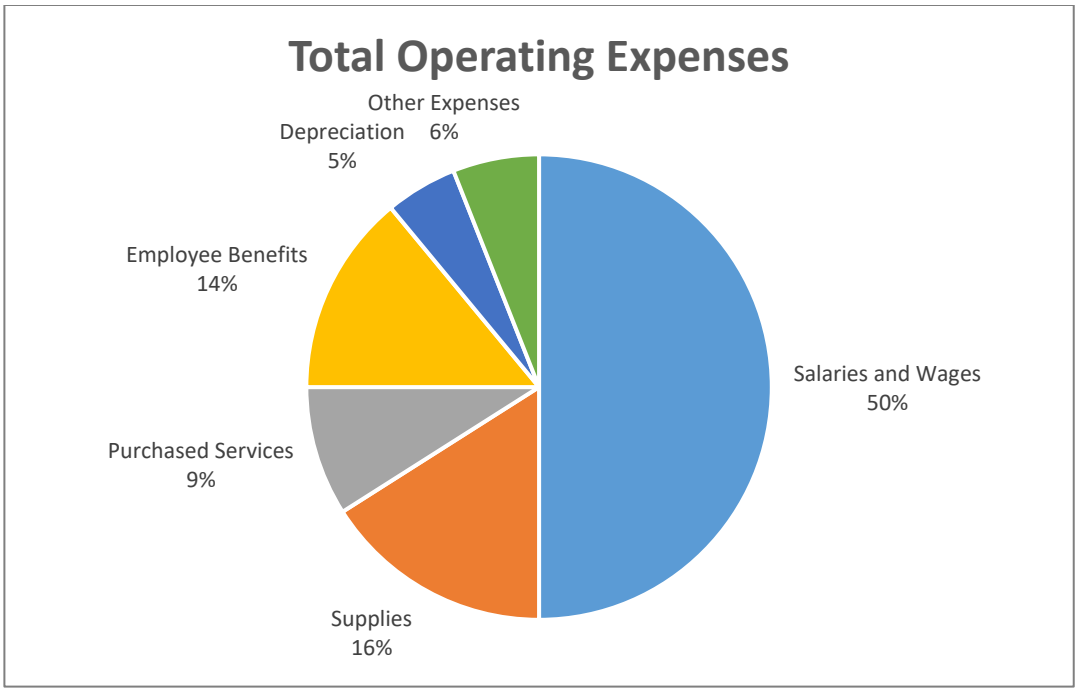
Total Operating Expenses

Total operating expenses were $1.02 billion in fiscal year 2026, compared with $1.04 billion in fiscal year 2025 and $950.4 million in fiscal year 2024. Expenses decreased $21.6 million, or 2.1%, in fiscal year 2026, primarily due to lower labor costs resulting from workforce stabilization initiatives, reduced premium-time utilization, and improved labor productivity. These decreases were partially offset by higher pharmaceutical and medical supply costs, growth in pharmacy operations, inflationary pressures, and increased utilization across outpatient service lines.

Total operating expenses increased $88.6 million, or 9.3%, in fiscal year 2025, primarily due to higher patient volumes, as reflected in the $78.5 million increase in net patient service revenue; inflationary increases in labor, pharmaceuticals, medical supplies, and other operating costs.

(Continued)

The composition of fiscal year 2026 operating expenses is illustrated in the pie chart below.



Salaries, Wages and Employee Benefits

Salaries, wages, and employee benefits totaled $654.5 million in fiscal year 2026, compared with $690.7 million in fiscal year 2025 and $633.8 million in fiscal year 2024. The combined expense decreased $36.2 million, or 5.2%, in fiscal year 2026 after increasing $56.9 million, or 9.0%, in fiscal year 2025.

In fiscal year 2026, salaries and wages decreased $32.4 million, or 6.0%, to $511.3 million, while employee benefits decreased $3.8 million, or 2.6%, to $143.2 million. The decreases primarily reflected workforce management initiatives, improved staffing stability, more efficient workforce deployment, and lower premium-time utilization. Premium-time expense decreased $10.3 million, or 44.8%, due to reduced use of overtime, incentive shifts, and other premium staffing arrangements. As a result, salaries, wages, and employee benefits declined to 72.2% of net patient service revenue from 74.0% in fiscal year 2025.

In fiscal year 2025, salaries and wages increased $39.2 million, or 7.8%, primarily due to staffing requirements associated with higher patient volumes, contractual wage increases, a compensation analysis affecting primarily noncontract and nonmanagement employees, new agreements with VMC's three labor unions, and $9.3 million of additional labor expense recognized upon adoption of GASB Statement No. 101. Employee benefits increased $17.7 million, or 13.7%, primarily due to higher medical and prescription claims. The higher-volume environment included increases in inpatient days, discharges, surgeries, emergency department visits, and ambulatory visits.

Supplies and other expenses include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses were $212.0 million in fiscal year 2026, compared with $193.5 million in fiscal year 2025 and $175.0 million in fiscal year 2024. Expenses increased $18.5 million in both fiscal years 2026 and 2025, representing increases of 9.6% and 10.5%, respectively. The fiscal year 2026 increase was primarily driven by expanded pharmacy operations, higher pharmaceutical acquisition costs, medical supply inflation, and increased outpatient activity. These pharmacy-related costs supported significant growth in other operating revenue. The fiscal year 2025 increase was primarily attributable to higher patient volumes, medical supply costs, and malpractice insurance expenses. Despite continued inflationary and utilization pressures, management maintained its focus on supply-chain optimization and cost-containment initiatives. The favorable impact of labor savings and revenue growth more than offset the increase in supplies and other expenses, contributing to the improvement in operating performance during fiscal year 2026.

Noncapital subsidies and Nonoperating income (expense), consisting primarily of property tax revenue, federal and state funding, and interest and investment income, net of interest and amortization expense and other activities not directly related to patient care, was $36.1 million in fiscal year 2026, compared with $22.8 million in fiscal year 2025 and $92.9 million in fiscal year 2024. Nonoperating income increased $13.3 million, or 58.6%, in fiscal year 2026, primarily due to a $21.8 million increase in property tax revenue following the voter-approved levy lid lift and higher interest income, partially offset by lower investment returns and higher interest expense. In fiscal year 2025, nonoperating income decreased $70.1 million from fiscal year 2024, primarily due to a $73.8 million reduction in federal and state funding as COVID-19 FEMA public assistance revenue declined. Nonoperating income contributed to the $22.3 million increase in net position in fiscal year 2026, compared with a $26.5 million decrease in fiscal year 2025.

Financial Position

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from VMC's statements of net position as of June 30, 2026, 2025, and 2024.

		2026	2025	2024
			(In thousands)	
Current assets	$	313,306	295,284	323,972
Noncurrent assets:				
Other noncurrent assets		28,634	24,881	23,731
Capital assets, net		336,938	348,334	357,758
Right-to-use and subscription assets, net		174,303	101,859	100,434
Investments and other long-term assets		83,066	63,974	72,867
Total assets		936,247	834,332	878,762
Deferred outflows of resources		8,491	9,582	10,689
Total assets and deferred outflows	$	944,738	843,914	889,451
Current liabilities	$	197,164	194,865	200,313
Noncurrent liabilities		396,180	343,891	357,348
Total liabilities		593,344	538,756	557,661
Total deferred inflows of resources		70,249	46,360	46,461
Net position		281,145	258,798	285,329
Total liabilities, deferred inflows, and net position	$	944,738	843,914	889,451

Total assets and deferred outflows of resources were $944.7 million at June 30, 2026, compared with $843.9 million at June 30, 2025 and $889.5 million at June 30, 2024. The $100.8 million, or 11.9%, increase in fiscal year 2026 was primarily attributable to growth in right-to-use and subscription assets, investments, and current assets, partially offset by depreciation of capital assets. Right-to-use and subscription assets increased $72.4 million, or 71.1%, primarily due to subscription assets associated with information technology and infrastructure agreements, including the Rackspace cloud data center project. Capital assets, net, decreased $11.4 million, or 3.3%, as depreciation exceeded capital additions. In fiscal year 2025, total assets and deferred outflows decreased $45.5 million, or 5.1%, primarily due to a $35.7 million reduction in cash and investments associated with operating losses and a $9.4 million decrease in capital assets following a pause in capital projects.

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Total liabilities and deferred inflows of resources were $663.6 million at June 30, 2026, compared with $585.1 million at June 30, 2025 and $604.1 million at June 30, 2024. The $78.5 million, or 13.4%, increase in fiscal year 2026 was primarily attributable to lease and subscription liabilities associated with right-to-use assets recognized during the year, partially offset by scheduled debt repayments. In fiscal year 2025, total liabilities and deferred inflows decreased $19.0 million, or 3.1%, primarily due to scheduled debt repayments and lower estimated third-party payer settlement liabilities, partially offset by higher accounts payable.

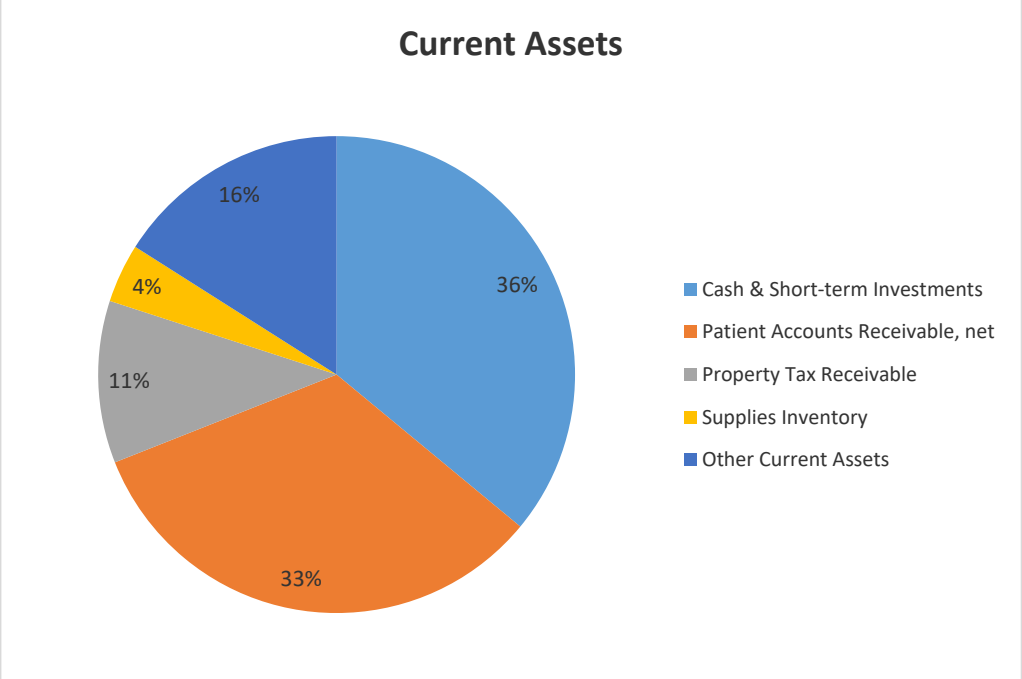
Net position was $281.1 million at June 30, 2026, compared with $258.8 million at June 30, 2025 and $285.3 million at June 30, 2024. Net position increased $22.3 million, or 8.6%, in fiscal year 2026, reflecting improved operating performance and higher nonoperating revenues, including property tax revenue from the voter-approved levy lid lift. In fiscal year 2025, net position decreased $26.5 million, or 9.3%, primarily as a result of the operating loss, partially offset by nonoperating income.

Current Assets

Current assets consist of cash and cash equivalents and other assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers. Current assets were $313.3 million at June 30, 2026, compared with $295.3 million at June 30, 2025 and $324.0 million at June 30, 2024. Current assets increased $18.0 million, or 6.1%, in fiscal year 2026, primarily due to higher property tax receivables and supplies inventory, partially offset by decreases in patient accounts receivable and other current assets. In fiscal year 2025, current assets decreased $28.7 million, or 8.9%, primarily due to lower cash and short-term investments associated with operating losses, partially offset by an increase in other current assets related to the Directed Payment Program receivable. The composition of current assets remained strong, with cash and short-term

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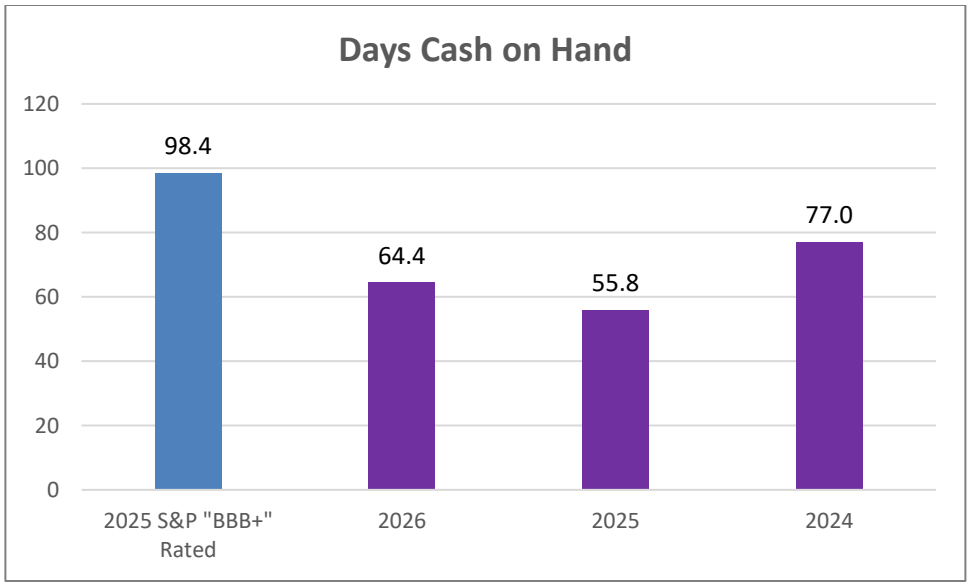
investments and patient accounts receivable comprising approximately 69% of total current assets at June 30, 2026. Fiscal year 2026 composition of current assets is illustrated in the pie chart below.



Cash and short-term investments held by VMC consist of cash, cash equivalents, and investments expected to mature in 12 months or less. Cash and short-term investments were $114.3 million at June 30, 2026, compared with $113.9 million at June 30, 2025 and $140.7 million at June 30, 2024, and represented 36% of current assets in fiscal year 2026. The balance remained relatively stable in fiscal year 2026 after decreasing $26.8 million in fiscal year 2025, primarily due to cash used to fund operating losses. Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on

(Continued)

hand, including short- and long-term investments, as of June 30, 2026 and 2025 are illustrated in the graph below.



Days cash on hand increased to 64.4 days at June 30, 2026 from 55.8 days at June 30, 2025, reflecting improved operating performance and increased property tax collections following the voter-approved levy lid lift. This improvement followed a decrease from 77.0 days at June 30, 2024, primarily due to cash used to fund operating losses associated with higher labor and medical supply costs and deterioration in payer mix.

Net patient accounts receivable was $104.2 million at June 30, 2026, compared with $106.6 million at June 30, 2025 and $112.5 million at June 30, 2024, and represented 33% of current assets in fiscal year 2026. The balance decreased $2.4 million, or 2.3%, in fiscal year 2026 due to continued revenue cycle and collection efforts despite reimbursement and payer mix pressures, following a $5.9 million decrease in fiscal year 2025 attributable to recovery from the Change Healthcare cyber incident and strong revenue cycle management.

Property tax receivables were $33.7 million at June 30, 2026, compared with $13.1 million at June 30, 2025 and $12.9 million at June 30, 2024. The $20.6 million increase in fiscal year 2026 primarily reflected the voter-approved levy lid lift and the timing of tax collections. Property tax receivables remained relatively stable between fiscal years 2024 and 2025.

Noncurrent Assets

Noncurrent assets were $622.9 million at June 30, 2026, compared with $539.0 million at June 30, 2025 and $554.8 million at June 30, 2024. Noncurrent assets increased $83.9 million, or 15.6%, in fiscal year 2026, primarily due to growth in right-to-use and subscription assets and long-term investments, partially offset by lower net capital assets. In fiscal year 2025, noncurrent assets decreased $15.8 million, or 2.8%, primarily due to reductions in long-term investments and net capital assets.

(Continued)

Right-to-use and subscription assets were $174.3 million at June 30, 2026, compared with $101.9 million at June 30, 2025 and $100.4 million at June 30, 2024. The $72.4 million, or 71.1%, increase in fiscal year 2026 primarily reflected subscription assets recognized for information technology and infrastructure agreements, including the Rackspace cloud data center project. The balance increased $1.5 million, or 1.4%, in fiscal year 2025 due to lease and subscription renewals, modifications, and new additions.

Long-term investments were $61.5 million at June 30, 2026, compared with $42.4 million at June 30, 2025 and $51.3 million at June 30, 2024. The $19.1 million, or 45.0%, increase in fiscal year 2026 reflected improved operating performance, higher property tax collections following the voter-approved levy lid lift, and growth in investment balances. In fiscal year 2025, long-term investments decreased $8.9 million, or 17.3%, primarily due to cash used to fund operating losses.

Capital assets, net, were $336.9 million at June 30, 2026, compared with $348.3 million at June 30, 2025 and $357.8 million at June 30, 2024. Net capital assets decreased $11.4 million, or 3.3%, in fiscal year 2026 and $9.5 million, or 2.6%, in fiscal year 2025 because depreciation exceeded capital additions in both years. VMC nevertheless continued investing in strategic infrastructure, technology, and facility improvements supporting long-term operational and clinical objectives.

Overall, VMC's capital investment and financing activities remained aligned with its long-term strategic objectives, supporting continued investment in infrastructure and financial strength while maintaining liquidity and a manageable debt profile.

Noncurrent Liabilities and Deferred Inflows of Resources

Noncurrent liabilities and deferred inflows of resources were $466.3 million at June 30, 2026, compared with $390.3 million at June 30, 2025 and $403.8 million at June 30, 2024. The $76.0 million, or 19.5%, increase in fiscal year 2026 primarily reflected new lease and subscription liabilities associated with information technology and infrastructure investments, including the Rackspace cloud data center project, and higher deferred inflows related to the voter-approved levy lid lift, partially offset by scheduled debt repayments. The balance decreased $13.5 million, or 3.4%, in fiscal year 2025, primarily due to scheduled debt repayments.

Net Position

Net position was $281.1 million at June 30, 2026, compared with $258.8 million at June 30, 2025 and $285.3 million at June 30, 2024. Net position increased $22.3 million, or 8.6%, in fiscal year 2026, primarily reflecting improved operating results and higher property tax revenue following the voter-approved levy lid lift. Unrestricted net position increased $20.1 million to $191.7 million, while net investment in capital assets and restricted expendable net position increased to $83.2 million and $6.2 million, respectively. In fiscal year 2025, net position decreased $26.5 million, or 9.3%, primarily because of the operating loss, partially offset by nonoperating income.

The growth in net position, combined with improved liquidity and operating performance, strengthened the organization's overall financial position and enhanced its ability to support future strategic, capital, and operational initiatives.

Significant Capital Asset and Long-Term Financing Activity

Capital assets, net, were $336.9 million at June 30, 2026, compared with $348.3 million at June 30, 2025 and $357.8 million at June 30, 2024. Net capital assets decreased $11.4 million, or 3.3%, in fiscal year 2026 and $9.5 million, or 2.6%, in fiscal year 2025 because depreciation exceeded capital additions in both years. Capital investment continued to focus on strategic infrastructure, technology, and clinical equipment supporting VMC's long-term operational and clinical objectives.

Right-to-use and subscription assets were $174.3 million at June 30, 2026, compared with $101.9 million at June 30, 2025 and $100.4 million at June 30, 2024. The $72.4 million, or 71.1%, increase in fiscal year 2026 primarily reflected subscription assets recognized for technology and infrastructure agreements, including the Rackspace cloud data center project. The balance increased $1.5 million in fiscal year 2025 due to lease and subscription additions, renewals, and modifications.

Long-term debt, including current maturities, decreased to $250.8 million at June 30, 2026 from $264.1 million at June 30, 2025 and $276.8 million at June 30, 2024, reflecting scheduled principal repayments in both years. No new debt was issued during fiscal year 2026. Lease and subscription liabilities increased $71.9 million, or 63.5%, in fiscal year 2026, primarily due to subscription-based information technology arrangements, including the Rackspace cloud data center project, after increasing $1.5 million in fiscal year 2025. The corresponding right-to-use and subscription assets and liabilities were recognized in accordance with applicable GASB accounting requirements.

Subsequent to fiscal year-end, VMC completed a bond refunding transaction in September 2026 to refinance 2016 bonds. The refinancing is expected to generate approximately $9.0 million in present value savings over the remaining life of the refunded bonds and will reduce future debt service costs. Because the refunding occurred after June 30, 2026, the transaction is not reflected in the fiscal year 2026 Statement of Net Position. Management believes the refinancing strengthens VMC's long-term debt profile and provides additional financial flexibility to support future strategic and capital initiatives.

Currently Known Facts, Decisions, or Conditions

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in this report may constitute forward-looking statements. These statements are based on current expectations, estimates, and assumptions regarding future events and operating performance. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied by such statements. Factors that may affect future results include, but are not limited to, changes in economic conditions, labor market dynamics, inflationary pressures, reimbursement rates, governmental funding programs, regulatory requirements, pharmaceutical pricing, and other factors affecting the healthcare industry. VMC undertakes no obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Economic Uncertainty Facing the Healthcare Industry

The healthcare industry continues to face significant financial and operational challenges. Although VMC experienced improved financial performance during fiscal year 2026, management expects ongoing pressure from inflation, labor costs, supply chain disruptions, pharmaceutical pricing, and reimbursement constraints.

(Continued)

Broader economic conditions may continue to impact patient volumes, payer mix, service utilization patterns, and operating expenses.

Labor market conditions remain an area of focus for healthcare providers nationwide. While VMC reduced premium staffing costs and improved workforce stability during fiscal year 2026, competition for clinical and support personnel remains strong. Continued wage and benefit pressures may increase future operating expenses and could affect VMC's ability to recruit and retain qualified staff.

Reimbursement and Regulatory Environment

Reimbursement for patient services from federal, state, and commercial payers continues to present challenges as healthcare costs increase and reimbursement growth remains limited. VMC continues to experience pressure from a growing Medicare population and reimbursement rates that do not fully offset increases in labor, pharmaceutical, and supply costs. Management continues to pursue operational efficiencies and strategic growth opportunities to mitigate these pressures.

VMC participates in the federal 340B Drug Pricing Program, which provides access to discounted outpatient pharmaceuticals. The long-term financial impact of ongoing legal and regulatory challenges affecting contract pharmacy arrangements remains uncertain. Future changes to the program could materially affect pharmacy-related revenues and operating performance.

Changes to the Medicaid Directed Payment Program (DPP) are projected to significantly reduce VMC's future net benefit if no modifications are made to the program. Because DPP funding is an important source of support for services provided to Medicaid beneficiaries, reductions in funding could have a material impact on future operating results. VMC continues to work with the Washington State Hospital Association and other stakeholders to advocate for reimbursement methodologies that more accurately reflect regional Medicaid utilization and patient care needs.

Strategic Priorities and Outlook

VMC's long-term financial performance will depend on its ability to successfully execute strategies focused on operational efficiency, workforce stability, revenue diversification, and growth in ambulatory and pharmacy services. Management remains focused on improving care delivery, optimizing service lines, enhancing patient access, and managing costs while maintaining high-quality patient care.

The voter-approved levy lid lift approved in November 2025 provides additional financial flexibility and supports VMC's long-term strategic and capital priorities. However, continued success will depend on VMC's ability to effectively manage reimbursement pressures, changing patient care delivery models, inflationary cost increases, and evolving regulatory requirements.

As healthcare delivery continues to shift toward outpatient settings and value-based reimbursement models, management believes that maintaining operational efficiency, strong liquidity, and disciplined financial stewardship will remain critical to VMC's long-term success.

Contacting VMC's Financial Management

This financial report is intended to provide taxpayers, patients, creditors, and other interested parties with a general overview of VMC's finances and operations and to demonstrate VMC's accountability for the financial resources and tax funding it receives.

VMC's annual financial information is available on its website at 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 (EMMA) system at emma.msrb.org.

Questions regarding this report or requests for additional financial information should be directed to:

Chief Financial Officer Valley Medical Center, PO Box 50010, Renton, Washington 98058

Phone: 425.690.1000.

PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER

Statements of Net Position

June 30, 2026 and 2025

Assets		2026	2025
Current assets:			
Cash and cash equivalents	$	83,318,822	81,101,022
Short-term investments		30,991,781	32,829,278
Accounts receivable, less allowance for uncollectible accounts of $36,105,096 in 2026 and $33,650,767 in 2025		104,191,984	106,622,978
Property tax receivable		33,702,416	13,148,577
Supplies inventory		12,463,183	9,184,603
Prepaid expenses and other assets		48,637,987	52,397,089
Total current assets		313,306,173	295,283,547
Long-term investments		61,509,021	42,416,955
Capital assets:			
Land		13,651,981	13,651,981
Construction in progress		14,076,534	11,896,841
Depreciable capital assets, net of accumulated depreciation		309,209,355	322,784,892
Total capital assets		336,937,870	348,333,714
Right-to-use and subscription assets, net of accumulated amortization		174,302,537	101,858,872
Investment in joint venture		21,557,368	21,557,368
Long-term lease receivable		28,634,118	24,881,472
Total assets		936,247,087	834,331,928
Deferred outflows of resources		8,490,724	9,582,517
Total assets and deferred outflows	$	944,737,811	843,914,445

(Continued)

PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER

Statements of Net Position

June 30, 2026 and 2025

Liabilities and Net Position		2026	2025
Current liabilities:			
Accounts payable	$	41,125,156	37,780,992
Accrued salaries, wages, and benefits		80,666,712	82,731,039
Other accrued liabilities, including estimated third-party payer settlements		16,096,770	25,827,037
Interest, patient refunds, and other		19,455,992	15,021,974
Current portion of long-term debt		12,255,000	11,445,000
Current portion of lease and subscription liabilities		27,564,183	22,059,149
Total current liabilities		197,163,813	194,865,191
Long-term debt, net of current portion		238,518,044	252,634,056
Long-term lease and subscription liabilities		157,661,907	91,257,243
Total liabilities		593,343,764	538,756,490
Deferred inflows:			
Deferred inflow of resources related to leases		27,684,730	24,121,558
Other deferred inflows of resources		42,564,149	22,238,349
Total deferred inflows		70,248,879	46,359,907
Net position:			
Invested in capital assets, net of related debt		83,229,675	81,918,877
Restricted:			
Expendable for specific operating activities		6,200,471	5,319,438
Unrestricted		191,715,022	171,559,733
Total net position		281,145,168	258,798,048
Total liabilities, deferred inflows, and net position	$	944,737,811	843,914,445

See accompanying notes to basic financial statements.

PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2026 and 2025

	2026	2025
Operating revenues:		
Net patient service revenue (net of VMC's provision for uncollectible accounts of $49,577,285 in 2026 and $26,286,357 in 2025)	$ 905,953,285	933,952,123
Other operating revenue	97,725,771	55,751,016
Total operating revenues	1,003,679,056	989,703,139
Operating expenses:		
Salaries and wages	511,250,129	543,689,948
Employee benefits	143,205,012	147,039,340
Purchased services	95,099,075	102,786,226
Supplies and other expenses	212,037,326	193,482,795
Depreciation and amortization	55,848,459	52,002,385
Total operating expenses	1,017,440,001	1,039,000,694
Operating loss	(13,760,945)	(49,297,555)
Noncapital subsidies:		
Property tax revenue	48,387,579	26,560,525
Other federal and state funding	2,329,070	6,620,722
Total noncapital subsidies	50,716,649	33,181,247
Operating loss and noncapital subsidies	36,955,704	(16,116,308)
Nonoperating income (expense):		
Interest income	4,069,133	2,820,307
Interest and amortization expense	(16,189,761)	(15,123,864)
Investment (loss) income, net	(264,176)	3,805,270
Other, net	(690,908)	(61,876)
Distributions to members	(1,532,872)	(1,854,349)
Net nonoperating (expense) income	(14,608,584)	(10,414,512)
Increase (decrease) in net position	22,347,120	(26,530,820)
Net position, beginning of year	258,798,048	285,328,868
Net position, end of year	$ 281,145,168	258,798,048

See accompanying notes to basic financial statements.

PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER

Statements of Cash Flows

Years ended June 30, 2026 and 2025

	2026	2025
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 897,348,036	922,006,355
Payments to suppliers and contractors	(298,187,638)	(293,101,419)
Payments to and on behalf of employees	(656,519,468)	(694,822,168)
Other cash receipts	93,478,626	54,821,487
Net cash provided by (used in) operating activities	36,119,556	(11,095,745)
Cash flows from noncapital financing activities:		
Cash received from tax levy	49,485,764	26,594,750
Cash received from other federal and state funding	4,576,019	10,391,476
Other	1,952,180	3,004,069
Net cash provided by noncapital financing activities	56,013,963	39,990,295
Cash flows from capital and related financing activities:		
Principal payments on long-term debt and finance lease obligations	(40,390,585)	(33,864,974)
Interest paid	(17,006,668)	(16,070,007)
Purchases of capital assets	(19,206,545)	(21,404,247)
Other	137,691	108,257
Net cash used in capital and related financing activities	(76,466,107)	(71,230,971)
Cash flows from investing activities:		
Sale of investments	20,000,000	54,862,204
Purchases of investments	(37,518,745)	(2,129,663)
Investment and interest income	4,069,133	2,820,307
Net cash provided by (used in) investing activities	(13,449,612)	55,552,848
Net increase in cash and cash equivalents	2,217,800	13,216,427
Cash and cash equivalents, beginning of year	81,101,022	67,884,595
Cash and cash equivalents, end of year	$ 83,318,822	81,101,022

(Continued)

PUBLIC HOSPITAL DISTRICT 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER

Statements of Cash Flows

Years ended June 30, 2026 and 2025

		2026	2025
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(13,760,945)	(49,297,555)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization		55,848,459	52,002,385
Provision for uncollectible accounts		49,577,285	26,286,357
Changes in assets and liabilities:			
Accounts receivable		(47,146,290)	(20,381,579)
Supplies inventory		(3,278,580)	3,758
Prepaid expenses and other assets		(713,787)	(9,833,819)
Accounts payable		3,090,179	6,023,031
Accrued salaries, wages, and benefits		(2,064,327)	(3,732,898)
Other accrued liabilities and estimated third-party payer settlements		(9,730,267)	(14,463,835)
Other liabilities		4,297,829	2,298,410
Net cash used in operating activities	$	36,119,556	(11,095,745)
Supplemental disclosure of noncash investing, capital, and financing activities:			
Increase in accrued capital included in accounts payable	$	222,243	3,022,701
Net unrealized (losses) gains on investments		(299,932)	2,718,147
Net additions in right-to-use assets		25,757,164	10,740,266
Net additions in subscription assets		70,200,426	9,238,970

See accompanying notes to basic financial statements.

(1) Organization

Public Hospital District 1 of King County, Washington (the District) is a Washington municipal corporation established under Chapter 70.44 Revised Code of the State of Washington (RCW). The District includes the majority of the cities of Kent, Renton, and Covington, and portions of Bellevue, Newcastle, Maple Valley, Black Diamond, Auburn, SeaTac, Tukwila, and Federal Way. The District is considered a political subdivision of the State of Washington and is allowed, by law, to be its own treasurer.

The District, dba Valley Medical Center (VMC), and the University of Washington (the University) participate in a Strategic Alliance Agreement. Under this agreement, VMC has been reported as a discretely presented component unit of the University, subject to the oversight of a Board of Trustees, through the fiscal year ended June 30, 2024. On December 16, 2024, the Board of Commissioners passed Resolution No. 1064 regarding its decision not to extend the term of the strategic alliance agreement (SAA) beyond its initial term set to expire on December 31, 2026. As part of this unwinding process, VMC is not a discretely presented component unit of the University for the fiscal years ended June 30, 2026 and 2025. The Board of Trustees oversees the healthcare operations of the District, while a publicly elected Board of Commissioners oversees the District's tax levies and certain nonhealthcare-related functions.

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

The Board of Trustees is designed to include all of the then-current Public Hospital District Commissioners, as well as five trustees who reside within the District Service Area, at least three of whom also reside within the boundaries of the District. In addition, two current or former trustees of the UW Medicine board or a Board of another component unit within UW Medicine and the CEO of UW Medicine and Dean of the University of Washington School of Medicine or his designee also serve on the Board of Trustees. As part of the process to unwind the Strategic Alliance Agreement, the University designated positions on VMC's Board of Trustees were not filled as of June 30, 2025. The Board of Trustees members, which included the five elected commissioners, during fiscal year 2026 were:

Lawrence Rude, Chair
Ricardo Polintan (President of Board of Commissioners)
Anthony Berkley (Commissioner)
Carol Barber (Commissioner)
Dustin Lambro (Commissioner)
Rita Miller (Commissioner)
Malik Baz
Gary Kohlwes
Donna Russell
Julie Taylor

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

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

(Continued)

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of purchase.

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the deposits may not be returned to the depositor. The Federal Deposit Insurance Corporation (FDIC) provides insurance to depositors to guard against custodial credit risk. FDIC insurance coverage is provided for account balances up to $250,000 per depositor, per insured bank. As of June 30, 2026 and 2025, VMC had no bank balances subject to custodial credit risk as any deposits in excess of $250,000 were covered by collateral held in a multi−financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(d) Investments

VMC holds investments, as allowed by State law, in the form of bankers' acceptances, repurchase agreements, obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, and certificates of deposit with financial institutions in accordance with state guidelines. Investments are for the funding of future capital improvements, self-insurance liabilities, and operations. Long-term investments represent unrestricted and undesignated investments with greater than one year to maturity as of June 30, 2026 and 2025.

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

(e) Inventories

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

(f) Capital Assets

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

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

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

(g) Compensated Absences

VMC employees earn vacation leave at rates based on the employee's level of employment, applicable labor agreements, and length of service and sick leave based on hours worked during a biweekly pay period. Vacation leave has a year-end cap of 240 hours. Vacation leave balances can be converted to monetary compensation upon employment termination. Sick leave vested balances, which are unlimited, may be converted to monetary compensation upon employment termination based on continuous years of service depending upon the employee's level of employment and the applicable labor agreement. Sick leave unvested balances are forfeited upon employee termination. VMC recognizes vacation and sick leave liabilities when earned.

Vacation leave accrued at June 30, 2026 and 2025 was $29.9 million and $31.2 million, respectively. Sick leave accrued as of June 30, 2026 and 2025 was $13.1 million and $12.4 million, respectively.

(Continued)

The accrued annual and sick leave liabilities are included in accrued salaries, wages, and benefits in the accompanying statements of net position.

(h) Third-Party Payer Settlements

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

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

(i) Classification of Revenues and Expenses

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

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

Noncapital subsidies are tax levy income and federal and state funding.

Nonoperating revenues and expenses are recorded for certain nonexchange transactions. These activities include investment activity, debt service related to bonds, and other peripheral or incidental transactions.

(j) Net Patient Service Revenue

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

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

(i) Medicare

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

(ii) Medicaid

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

(iii) Commercial

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

(iv) UW Medicine Accountable Care Network

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

(k) Financial Assistance

VMC provides care without charge or at amounts less than established charges to patients who meet certain criteria under its financial assistance policy. VMC maintains records to identify and monitor the level of financial assistance it provides. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because VMC does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as net patient service revenue. The charges associated with financial assistance provided by VMC were approximately $15.9 million and $36.7 million for the years ended June 30, 2026 and 2025,

respectively. The decrease in fiscal year 2026 primarily reflected a policy change implemented in May 2025, when VMC discontinued presumptive financial assistance write-offs and began requiring patients to apply for assistance. The policy change resulted in fewer accounts qualifying for financial assistance and a corresponding increase in bad debt expense.

VMC estimates the cost of financial assistance using its cost to charge ratio of 24.2% and 23.9% for the fiscal years ended June 30, 2026 and 2025, respectively. Applying VMC's cost to charge ratio of 24.2% to total financial assistance of $15.9 million results in a cost of financial assistance of approximately $3.8 million for the fiscal year ended June 30, 2026. Applying VMC's cost to charge ratio of 23.9% to total financial assistance of $36.7 million results in a cost of financial assistance of approximately $8.8 million for the fiscal year ended June 30, 2025.

(l) Federal Income Taxes

The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year. Since 1983, the District has been deemed a 501(c)(3) entity by the Internal Revenue Service (IRS).

(m) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the excess of the reacquisition price over the carrying amount of bonds refinanced in fiscal years 2017 and 2019. This balance is amortized to interest expense through 2040. The balance was $8.5 million and $9.6 million at June 30, 2026 and 2025, respectively.

Deferred inflows of resources related to leases consist of deferred revenue from the application of GASB 87, *Leases*. VMC leases or subleases land and building suites to physician groups or other medical facilities. VMC recorded $27.7 million and $24.1 million for the years ended June 30, 2026 and 2025, respectively.

Other deferred inflows of resources consist of deferred property tax revenue, a deferred gain from the sale of Valley Professional Center North (VPCN), and deferred rental income from the ground lease of Valley East Pavilion. Deferred property tax revenue is recorded in January and amortized to property tax revenue over the calendar year. The balance of the deferred gain on the sale of VPCN is being amortized to other nonoperating income through 2028. The balance of the deferred rental income is being amortized to other nonoperating income through 2119. The following are the components of other deferred inflows of resources as of June 30, 2026 and 2025:

	VMC	
	2026	**2025**
Property tax revenue	$ 35,177,168	13,525,144
Deferred gain on sale of VPCN	1,153,231	2,412,305
Deferred rental income Valley East Pavilion	6,233,750	6,300,900
Total deferred inflows of resources	$ 42,564,149	22,238,349

(Continued)

(n) Net Position

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

(o) Recently Adopted and New Accounting Pronouncements

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, which is effective for the fiscal year ending June 30, 2026. The objectives of this Statement are to enhance the effectiveness of the financial reporting model by updating or refining certain requirements in the following areas: Management's Discussion and Analysis (MD&A); presentation of unusual or infrequent items (superseding the concepts of extraordinary and special items); the proprietary fund statement of revenues, expenses, and changes in net position; major component unit information; budgetary comparison information; and financial trends in the statistical section. VMC has adopted the standard for fiscal year 2026 on a retrospective basis by updating MD&A and adding noncapital subsidies to the Statement of revenue, expenses and changes in net position.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*, which is effective for the fiscal year ending June 30, 2026. The purpose of this Statement is to improve transparency and consistency in capital asset disclosures by requiring certain types of capital assets to be disclosed separately, and to require disclosures for capital assets held for sale. The adoption of this standard does not have a material impact on VMC's financial statements.

In December 2025, the GASB issued Statement No. 105, Subsequent Events, which is effective for the fiscal year ending June 30, 2027. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued, and it modifies the subsequent events time frame throughout the GASB literature. The Statement clarifies the distinction between recognized and nonrecognized subsequent events, requires disclosure of the date through which subsequent events have been evaluated, and establishes specific note disclosure requirements for significant nonrecognized events. VMC is currently evaluating the impact of the adoption of this standard, which is not expected to have a material impact on VMC's financial statements.

(p) Immaterial Adjustments

VMC adjusted immaterial prior period amounts within the statements of cash flows. The adjustments are for presentation purposes only and do not change the results of operations in the prior period.

(3) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments and estimated risk share settlements under reimbursement agreements with third-party payers. Retroactive adjustments are

accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2026 and 2025, net patient service revenue increased approximately $9.7 million and $11.2 million, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement.

The following are the components of net patient service revenue for VMC for the years ended June 30, 2026 and 2025:

		2026	2025
Gross patient service revenue	$	3,080,897,504	3,178,516,680
Less adjustments to patient service revenue:			
Financial assistance		(15,924,425)	(36,734,542)
Contractual discounts		(2,109,442,509)	(2,181,543,658)
Provision for uncollectible accounts		(49,577,285)	(26,286,357)
Total adjustments to patient service revenue		(2,174,944,219)	(2,244,564,557)
Net patient service revenue	$	905,953,285	933,952,123

VMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of net patient service revenue and gross accounts receivable by primary payers as of and for the years ended June 30, 2026 and 2025 were as follows:

	2026	
	Net patient service revenue	Gross accounts receivable
Medicare	33 %	40 %
Medicaid	14	12
Commercial and other	50	39
Self-pay	1	7
Exchange (HIX)	2	2
Total	100 %	100 %

(Continued)

	2025	
	Net patient service revenue	**Gross accounts receivable**
Medicare	30 %	34 %
Medicaid	17	16
Commercial and other	50	41
Self-pay	1	7
Exchange (HIX)	2	2
Total	100 %	100 %

(a) Medicaid Certified Public Expenditure Reimbursement

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

"Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claim will be allowed federal match on the amount of the related certified public expenditures. Per the CMS-approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. VMC recognized $8.4 million and $9.4 million in net patient service revenue under this program for the years ended June 30, 2026 and 2025, respectively.

In addition, VMC receives the federal match portion of Disproportionate Share Payments (DSH), which are the lesser of qualifying uncompensated care costs or the hospital's specific limit. VMC recognized $9.3 million and $9.7 million in net patient service revenue from DSH funding for the years ended June 30, 2026 and 2025, respectively, in the statements of revenues, expenses, and changes in net position. DSH revenue in fiscal years 2026 and 2025 was primarily due to final cost settlements or adjustments to reserve estimates for prior cost report years.

CPE payments are subject to retrospective determination of actual costs once VMC's Medicare Cost Report is audited by CMS. CPE program payments are not considered final until the retrospective cost reconciliation is complete, after VMC receives its Medicare Notice of Program Reimbursements (NPR) for the corresponding cost reporting year. To date, beginning with the 2006 CPE year, State Fiscal Years 2006 to 2022 CPE program years have had a final settlement. As of June 30, 2026, VMC had estimated payables of $16.1 million for fiscal years 2023 to 2026. As of June 30, 2025, VMC had estimated payables of $25.3 million for fiscal years 2021 to 2025, which are included as liabilities in other accrued liabilities, including estimated third-party payer settlements in the accompanying statements of net position.

With the introduction of the directed payment program (see details at note 3(c), the benefits from the CPE program are reduced significantly in fiscal years 2026 and 2025 as the directed payment program payments reduce uncompensated care costs.

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

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

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

VMC recognized net revenue of $0.4 million each year from the PSSP program for the years ended June 30, 2026 and 2025. VMC recognized net revenue of $6.0 million and $9.0 million from the PAP program for the years ended June 30, 2026 and 2025, respectively. These amounts are included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

(c) Directed Payment Program (DPP)

The directed payment program was effective January 1, 2024 and is managed by WSHCA benefiting certain public hospital districts.

Under the program, VMC receives supplemental Medicaid payments for hospital services for which it bills. These supplemental payments equal the difference between the standard Medicaid Managed Care Organization reimbursement rate and the upper payment limit allowable by federal law. VMC provides the nonfederal share of the supplemental payments that will be used to obtain the matching federal funds.

VMC has an estimated DPP receivable of $25.6 million and $24.2 million for the years ended June 30, 2026 and 2025, respectively, which is included in the prepaid expenses and other assets in the statements of net position.

VMC recognized net revenue of $57.1 million and $59.0 million from the DPP program for the years ended June 30, 2026 and 2025 respectively, which is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

(4) Property Tax Revenue

The King County Treasurer acts as an agent to collect property taxes in the county for all taxing authorities. Taxes are levied annually on January 1 on property values as of the prior May 31. Assessed values are established by the county assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Funds are distributed monthly to the District by the County Treasurer as collected.

The District is permitted by law to levy up to $0.75 per $1,000 assessed valuation for general district purposes. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the annual growth in the amount of regular property taxes the District may levy to 1% (the "levy lid"), unless a greater amount is authorized by a vote of the people pursuant to RCW 84.55.050 (a "levy lid lift"). As a result of this limitation and growth in assessed values, the District's levy rate had declined to approximately $0.30 per $1,000 in prior years.

On November 4, 2025, the voters of the District approved a levy lid lift authorizing the District to increase its regular property tax levy rate to $0.75 per $1,000 of assessed valuation for collection beginning in calendar year 2026, an increase of approximately $0.46 per $1,000 over the prior rate. The 2026 levy amount is used for the purpose of computing the limitations on the District's regular property tax levies in subsequent years; accordingly, the increased levy is permanent and will grow by at least the applicable statutory limit factor in future years.

For calendar year 2026, the District's tax levy rate was $0.75 per $1,000 of assessed property value pursuant to the voter-approved levy lid lift and the District's authorized tax levy in December 2025, resulting in a tax levy of $70.4 million.

For the calendar year 2025, the District's tax levy rate was $0.30 per assessed $1,000 in property value pursuant to the District's authorized tax levy in December 2024 resulting in a tax levy of $27.1 million.

Property taxes are recorded as receivables when levied. Because State law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made. Given property taxes are recorded on a calendar-year basis, the property tax receivable balances at June 30, 2026 and 2025 are $33.7 million and $13.1 million, respectively, and are shown as current assets in the statements of net position. See note 2(q) for deferred inflow for deferred property tax revenue.

Revenues from taxation are $48.4 million and $26.6 million for the fiscal years 2026 and 2025, respectively, and are recorded as noncapital subsidies in the statements of revenues, expenses and changes in net position.

The District has pledged its future tax revenues, as well as operating revenues, to repay its limited tax general obligation bonds issued in 2016 and 2018.

(5) Deposits and Investments

RCW Chapter 39.59 authorizes VMC to make investments in accordance with Washington State law. VMC also has a formalized investment policy that VMC may, through formal interlocal agreement, invest funds not immediately required for expenditure with the King County Investment Pool (the Pool) and/or the Washington State Treasurer's Local Government Investment Pool (the LGIP), which are classified as cash equivalents on the statements of net position, or may separately invest such funds in either actively managed individual portfolio or mutual fund accounts that meet all statutory investment requirements. These pools permit withdrawals on demand or within a short period of time and are used to manage daily liquidity needs. As a result, VMC classifies its investment in these pools as cash equivalents.

Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, eligible bankers' acceptances,

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

The required risk assessments related to each type of investment are disclosed below.

At June 30, 2026 and 2025, deposits and investments of VMC consist of the following:

		2026	2025
Unrestricted cash	$	47,195,437	62,090,105
Unrestricted investments and cash equivalents:			
U.S. Treasury and agency securities and bonds		69,238,887	51,967,574
Corporate notes		23,247,175	23,232,734
Investment pools		29,892,581	13,631,978
		122,378,643	88,832,286
Restricted assets:			
Cash and cash equivalents		6,230,804	5,424,864
	$	175,804,884	156,347,255

(a) Credit Risk

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

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

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

As of June 30, 2026 and 2025, VMC's investment in the Pool was not rated by an NRSRO. In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency and mortgage-backed securities, municipal securities (rated at least A by two NRSROs),

commercial paper (rated at least the equivalent of A-1 by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the LGIP managed by the Washington State Treasurer's Office.

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

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

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

Level 3 – Unobservable inputs for an asset or liability

The composition of investments, reported at fair value by investment type and rating at June 30, 2026 and excluding unrestricted and restricted cash and cash equivalent balances of $53.4 million, and investment pool balances of $29.9 million, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ 68,821,251	—	AA+/A-1+	74.4 %
U.S. agency mortgages	—	417,636	AA+	0.5
Corporate notes	—	23,247,175	A/A-/A+/AA+/AA-/BBB+	25.1
Total investments by fair value level	$ 68,821,251	23,664,811		100.0 %

The composition of investments, reported at fair value by investment type and rating at June 30, 2025 and excluding unrestricted and restricted cash and cash equivalent balances of $67.5 million, and investment pool balances of $13.6 million, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ 43,448,440	—	AA+	57.8 %
U.S. agency securities	—	7,719,506	AA+	10.3
U.S. agency mortgages	—	799,628	AA+	1.0
Corporate notes	—	23,232,734	A/A-/A+/AA+/AA-	30.9
Total investments by fair value level	$ 43,448,440	31,751,868		100.0 %

(Continued)

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

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

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

(b) Custodial Credit Risk

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

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

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

(c) Interest Rate Risk

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

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

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

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

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

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

		Remaining maturity (in months)			
2026		12 months	13 to	25 to	More than
Investment type	Carrying value	or less	24 months	48 months	48 months
U.S. Treasury securities	$ 68,821,251	23,416,286	15,010,765	22,777,708	7,616,492
U.S. agency mortgages	417,636	45,320	86,897	135,605	149,814
King County Investment Pool	29,892,581	—	29,892,581	—	—
Corporate notes	23,247,175	7,685,352	3,212,176	12,349,647	—
	$ 122,378,643	31,146,958	48,202,419	35,262,960	7,766,306

		Remaining maturity (in months)			
2025		12 months	13 to	25 to	More than
Investment type	Carrying value	or less	24 months	48 months	48 months
U.S. Treasury securities	$ 43,448,440	25,136,884	3,378,476	8,935,810	5,997,270
U.S. agency securities	7,719,506	7,719,506	—	—	—
U.S. agency mortgages	799,628	21,887	190,921	369,166	217,654
King County Investment Pool	13,631,978	—	13,631,978	—	—
Corporate notes	23,232,734	—	7,526,915	10,611,773	5,094,046
	$ 88,832,286	32,878,277	24,728,290	19,916,749	11,308,970

(6) Capital Assets

(a) VMC's Capital Assets

The activity in VMC's capital assets and related accumulated depreciation accounts for the years ended June 30, 2026 and 2025 is set forth below:

	Balance June 30, 2025	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2026
Nondepreciable capital assets:					
Land	$ 13,651,981	—	—	—	13,651,981
Construction in progress	11,896,841	18,986,583	(16,806,890)	—	14,076,534
Total capital assets not being depreciated	25,548,822	18,986,583	(16,806,890)	—	27,728,515
Capital assets being depreciated:					
Land improvements	25,044,693	—	229,851	—	25,274,544
Buildings, renovations, and furnishings	561,512,509	—	7,767,061	(418,865)	568,860,705
Fixed equipment	22,633,678	—	—	(14,214)	22,619,464
Movable equipment	260,636,658	483,750	7,140,107	(1,745,924)	266,514,591
Minor equipment	22,129,127	—	1,669,871	(564,855)	23,234,143
Total capital assets being depreciated	891,956,665	483,750	16,806,890	(2,743,858)	906,503,447
Total capital assets at historical cost	917,505,487	19,470,333	—	(2,743,858)	934,231,962

	Balance June 30, 2025	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2026
Less accumulated depreciation for:					
Land improvements	$ (14,478,890)	(420,545)	—	—	(14,899,435)
Buildings, renovations, and furnishings	(299,592,245)	(16,034,499)	—	418,864	(315,207,880)
Fixed equipment	(21,751,576)	(84,359)	—	14,215	(21,821,720)
Movable equipment	(212,328,966)	(13,688,051)	—	1,672,970	(224,344,047)
Minor equipment	(21,020,096)	(564,948)	—	564,034	(21,021,010)
Total accumulated depreciation	(569,171,773)	(30,792,402)	—	2,670,083	(597,294,092)
Total capital assets, net	$ 348,333,714	(11,322,069)	—	(73,775)	336,937,870

(Continued)

	Balance June 30, 2024	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2025
Nondepreciable capital assets:					
Land	$ 12,884,281	—	767,700	—	13,651,981
Construction in progress	11,382,132	23,514,461	(22,999,752)	—	11,896,841
Total capital assets not being depreciated	24,266,413	23,514,461	(22,232,052)	—	25,548,822
Capital assets being depreciated:					
Land improvements	25,008,234	—	36,459	—	25,044,693
Buildings, renovations, and furnishings	553,111,147	—	12,387,693	(3,986,331)	561,512,509
Fixed equipment	22,633,678	—	—	—	22,633,678
Movable equipment	256,648,258	316,278	9,668,857	(5,996,735)	260,636,658
Minor equipment	22,445,388	—	139,043	(455,304)	22,129,127
Total capital assets being depreciated	879,846,705	316,278	22,232,052	(10,438,370)	891,956,665
Total capital assets at historical cost	904,113,118	23,830,739	—	(10,438,370)	917,505,487

	Balance June 30, 2024	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2025
Less accumulated depreciation for:					
Land improvements	$ (14,074,542)	(404,348)	—	—	(14,478,890)
Buildings, renovations, and furnishings	(286,232,967)	(16,100,961)	—	2,741,683	(299,592,245)
Fixed equipment	(21,640,995)	(110,581)	—	—	(21,751,576)
Movable equipment	(203,674,412)	(14,609,188)	—	5,954,634	(212,328,966)
Minor equipment	(20,732,073)	(727,864)	—	439,841	(21,020,096)
Total accumulated depreciation	(546,354,989)	(31,952,942)	—	9,136,158	(569,171,773)
Total capital assets, net	$ 357,758,129	(8,122,203)	—	(1,302,212)	348,333,714

Depreciation and amortization recognized in operating expenses were $55.8 million and $52.0 million for the years ended June 30, 2026 and 2025, respectively. Included in these amounts were $25.1 million and $20.0 million related to right-to-use lease and subscription assets amortization for the years ended June 30, 2026 and 2025, respectively.

(Continued)

(7) Long-Term Debt and Lease Obligations

(a) VMC's Long-Term Debt

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

	2026	2025
Limited tax general obligation bonds:		
2018 series, 4% to 5%, due serially on December 1, in amounts from $2,620,000 in 2026 to $3,995,000 in 2044, plus interest due semiannually, including unamortized premium of $4,865,065	$ 90,845,065	93,719,631
2016 series, 4% to 5%, due serially on December 1, in amounts from $9,635,000 in 2026 to $16,455,000 in 2038, plus interest due semiannually, including unamortized premium of $6,697,979	159,927,979	170,359,425
Total long-term debt	250,773,044	264,079,056
Less current portion	(12,255,000)	(11,445,000)
Total long-term debt, net of current portion	$ 238,518,044	252,634,056

(i) Long-Term Debt Overview

Series 2018 Bond Issue

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

Series 2016 Bond Issue

The 2016 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $193.9 million. These proceeds were used to refund the majority of the 2008 bonds. The District has pledged tax revenues to secure the bonds. The deferred amount on the refunding is being amortized over the life of the bond and is recorded in deferred outflow of resources in the statements of net position. The remaining principal amount of $153.2 million as of June 30, 2026 will be defeased with 2026 Limited Tax General Obligation Refunding Bonds. See footnote (12) for more information.

(ii) Debt Compliance

Under the terms of its financing agreements, the District has agreed to meet certain covenants. Bond covenants related to the Limited Tax General Obligation (LTGO) bonds require budgeting for

making annual levies of taxes, within constitutional and statutory tax limitations provided by law on all property within the District subject to taxation, together with any other money legally available, to be sufficient to pay the principal and interest of the LTGO bonds.

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

(iii) Long-Term Debt Maturities

The following schedule shows debt service requirements for the next five years and thereafter, as of June 30, 2026, for both principal and interest. Total unamortized premiums and discounts are $11.6 million as of June 30, 2026.

	Principal	Interest	Total
2027	$ 12,255,000	11,654,125	23,909,125
2028	13,110,000	11,020,000	24,130,000
2029	14,010,000	10,342,000	24,352,000
2030	14,960,000	9,617,750	24,577,750
2031	15,955,000	8,844,875	24,799,875
2032–2036	96,670,000	30,743,500	127,413,500
2037–2041	60,830,000	7,509,500	68,339,500
2042–2046	11,420,000	875,250	12,295,250
Total payments	$ 239,210,000	90,607,000	329,817,000

(iv) Change in Total Long-Term Liabilities

Changes in total long-term liabilities, exclusive of lease liabilities, during the fiscal years ended June 30, 2026 and 2025 are summarized below:

	Balance June 30, 2025	Increases	Decreases	Balance June 30, 2026	Due within one year
Limited tax general obligation bonds:					
2018 Series	$ 93,719,631	—	(2,874,566)	90,845,065	2,620,000
2016 Series	170,359,425	—	(10,431,446)	159,927,979	9,635,000
Total long-term debt	264,079,056	—	(13,306,012)	250,773,044	12,255,000
Total long-term liabilities	$ 264,079,056	—	(13,306,012)	250,773,044	12,255,000

(Continued)

	Balance June 30, 2024	Increases	Decreases	Balance June 30, 2025	Due within one year
Limited tax general obligation bonds:					
2018 Series	$ 96,286,185	—	(2,566,554)	93,719,631	2,270,000
2016 Series	180,476,196	—	(10,116,771)	170,359,425	9,175,000
Total long-term debt	276,762,381	—	(12,683,325)	264,079,056	11,445,000
Total long-term liabilities	$ 276,762,381	—	(12,683,325)	264,079,056	11,445,000

(b) Leases and Subscription-Based Information Technology Arrangements

(i) Lessee

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

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

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

Certain leases require VMC to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, or other payments based on performance or usage. Variable lease payments, other than those payments that depend on an index or rate or are fixed in

substance, are excluded from the measurement of the lease liability. Variable lease payments are recognized within purchased services in the statements of revenues, expenses and changes in net position when the event, activity or circumstance in the lease agreement on which those payments are assessed occurs. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $6.3 million and $6.4 million during the fiscal years ended June 30, 2026 and 2025, respectively.

Right-to-use and Subscription Assets

The activity in VMC's right-to-use and subscription assets and related accumulated amortization accounts for the fiscal years ended June 30, 2026 and 2025 is set forth below:

	Balance June 30, 2025	Additions	Modifications/ renewals	Deductions	Balance June 30, 2026
Lease and subscription assets:					
Building	$ 147,026,777	10,283,892	17,967,512	(2,226,996)	173,051,185
Equipment	10,762,882	—	176,452	(443,696)	10,495,638
Subscription	30,595,965	72,533,842	3,316,057	(5,649,473)	100,796,391
Total lease assets	188,385,624	82,817,734	21,460,021	(8,320,165)	284,343,214
Less accumulated amortization for:					
Buildings	(66,324,517)	(15,097,707)	—	9,709	(81,412,515)
Equipment	(5,656,798)	(1,645,257)	—	443,696	(6,858,359)
Subscription	(14,545,437)	(12,553,165)	—	5,328,799	(21,769,803)
Total accumulated amortization	(86,526,752)	(29,296,129)	—	5,782,204	(110,040,677)
Total lease assets, net	$ 101,858,872	53,521,605	21,460,021	(2,537,961)	174,302,537

(Continued)

	Balance June 30, 2024	Additions	Modifications/ renewals	Deductions	Balance June 30, 2025
Lease and subscription assets:					
Building	$ 138,863,074	1,550,926	8,845,190	(2,232,413)	147,026,777
Equipment	8,186,319	—	2,645,424	(68,861)	10,762,882
Subscription	21,356,995	11,558,373	1,589,618	(3,909,021)	30,595,965
Total lease assets	168,406,388	13,109,299	13,080,232	(6,210,295)	188,385,624
Less accumulated amortization for:					
Buildings	(54,147,882)	(14,409,027)	—	2,232,392	(66,324,517)
Equipment	(4,107,007)	(1,618,652)	—	68,861	(5,656,798)
Subscription	(9,717,987)	(7,431,790)	—	2,604,340	(14,545,437)
Total accumulated amortization	(67,972,876)	(23,459,469)	—	4,905,593	(86,526,752)
Total lease assets, net	$ 100,433,512	(10,350,170)	13,080,232	(1,304,702)	101,858,872

Lease and Subscription Liabilities

Changes in lease and subscription liabilities during the fiscal years ended June 30, 2026 and 2025 are summarized below:

	Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Fiscal year ended:						
June 30, 2026	$ 113,316,392	81,824,718	18,800,678	(28,715,698)	185,226,090	27,564,183
June 30, 2025	$ 111,799,584	15,568,293	10,621,234	(24,672,719)	113,316,392	22,059,149

(Continued)

Lease and Subscription Maturities

The following schedule shows future annual lease and subscription payments, and in five-year increments thereafter, as of June 30, 2026, for both principal and interest:

		Principal	Interest	Total
2027	$	27,564,183	5,633,810	33,197,993
2028		26,548,669	4,673,483	31,222,152
2029		25,502,350	3,869,756	29,372,106
2030		23,842,133	3,031,753	26,873,886
2031		19,552,499	2,285,141	21,837,640
2032–2036		57,767,039	4,094,325	61,861,364
2037–2041		4,449,217	323,375	4,772,592
Total payments	$	185,226,090	23,911,643	209,137,733

(ii) Lessor

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

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

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

(8) Risk Management

VMC is exposed to risk of loss related to professional and general liability; employee medical, dental, and pharmaceutical claims; and injuries to employees. VMC maintains a program of purchased insurance and excess insurance coverage for professional and general liability, as well as self-insurance liabilities. VMC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial

insurance coverage is purchased for claims arising from such matters, and no claims have exceeded such coverage. In the event a claim exceeds the amount of coverage purchased, the amount exceeding the coverage is the responsibility of the company, in this case, VMC.

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

(a) Professional and General Liability

VMC purchases insurance from a third-party insurance carrier for professional and general liability. Insurance limits are $5.0 million per claim, with a $15.0 million annual aggregate, on an occurrence basis. VMC also maintains excess commercial insurance above the first layer of $5.0 million/$15.0 million on a claims-made basis with a limit of liability of $40.0 million per occurrence and a $40.0 million annual aggregate.

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

The self-insurance liability of approximately $1.0 million as of June 30, 2026 and 2025, is included in the interest, patient refunds and other liabilities in the statements of net position.

(b) Employee Medical and Dental

VMC is self-insured for medical and dental benefits. The accrued liabilities for the self-insured component of the plan include the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. VMC also carries stop-loss coverage for medical claims subject to aggregate and specific deductibles. The aggregate deductible is applied once to the first medical claim in the calendar year and the specific deductible is applied to each medical claim filed in the calendar year. VMC has recorded an actuarially estimated liability for health (medical and dental) claims that have been incurred but not reported of $4.4 million at June 30, 2026 and 2025. These liabilities are included in accrued salaries, wages, and employee benefits liabilities in the accompanying VMC statements of net position.

(c) Workers' Compensation

VMC is self-insured for workers' compensation claims up to $1.0 million per claim in 2026 and 2025. Excess insurance coverage is purchased for risk above the per claim self-insured retention level. The accrued liabilities of the plan include the self-insured components of the unpaid portion that have been reported and estimates for claims that have been incurred but not reported. VMC has recorded an

actuarially determined estimated liability for workers' compensation claims of $5.0 million at June 30, 2026 and 2025, which are included in accrued salaries, wages, and benefits liabilities in the accompanying VMC statements of net position.

(9) Retirement Plans

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

VMC contributes a 5% employer contribution into the 403(b) plan for all employee groups who have completed three years of service, with a 2% employer match on a 2% employee contribution for all employees. Employer contributions into the 403(b) plan totaled $28.7 million and $29.9 million for the years ended June 30, 2026 and 2025, respectively.

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

VMC placed the deferred compensation plan assets of the plans into a trust for the exclusive benefit of plan participants and beneficiaries. VMC has limited administrative involvement and does not select investment options for either plan, as each plan has an investment adviser. VMC does not hold the assets of either plan in a trustee capacity and does not perform fiduciary accountability for the plans.

(10) Related-Party Transactions

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

(a) University of Washington

A total of $1.5 million and $9.6 million was paid and recognized by VMC to divisions of the University for the years ended June 30, 2026 and 2025, respectively, for transactions primarily related to referenced laboratory work and management assistance within various departments. The expenses are recorded as purchased services expense in the statements of revenues, expenses, and changes in net position.

(11) Commitments and Contingencies

(a) Construction Commitments

VMC has current commitments at June 30, 2026 of $12.1 million related to various construction projects, equipment purchases and information technology implementations. VMC intends to use unrestricted funds for these commitments.

(b) Regulatory Environment

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

(c) Litigation

VMC is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effects to VMC's future financial position or results from operations.

(d) Collective Bargaining Agreements

VMC has a total of approximately 4,000 employees. Of this total, approximately 74% are covered under collective bargaining agreements as of June 30, 2026. Nurses are represented by Service Employees International Union (SEIU) 1199 and other healthcare and support workers are represented by Office and Professional Employees International Union (OPEIU) and International Union of Operating Engineers (IUOE). The collective bargaining agreements with SEIU 1199 expire on June 30, 2027. OPEIU and IUOE agreements expire on October 31, 2027.

(12) Subsequent Events

2026 Limited Tax General Obligation Refunding Bonds

On September 10, 2026, VMC issued $146.95 million of tax-exempt fixed rate Limited Tax General Obligation Refunding Bonds, 2026 (the "2026 Bonds"). This bond issuance included 5% coupon serial bonds due annually from December 1, 2026 through December 1, 2037, with interest payable on June 1 and December 1 of each year. This issuance generated a premium of $10.0 million. The bond proceeds were used to retire, defease, and refund the District's $153.23 million outstanding 2016 Limited Tax General Obligation Refunding Bonds, with the remainder to finance the costs of issuance. The refunding resulted in an economic gain (the difference between the present values of the debt service payments on the refunded and refunding debt) of approximately $9.0 million.