



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

Financial Statements

June 30, 2025 and 2024

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page(s)
Independent Auditors' Report	1–3
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 <i>Government Auditing Standards</i>	4-5
Management's Discussion and Analysis (Unaudited)	6–18
Basic Financial Statements:	
Statements of Net Position	19–20
Statements of Revenues, Expenses, and Changes in Net Position	21
Statements of Cash Flows	22–23
Notes to Financial Statements	24–50



KPMG LLP
Suite 2800
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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities, of the Public Hospital District No. 1 of King County, Washington d/b/a Valley Medical Center (the District) as of and for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from



fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2025 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 29, 2025



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 No. 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 No. 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, 2025, 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 29, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the VMC'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*.



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 29, 2025

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

The following discussion and analysis provides an overview of the financial position and activities of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center (VMC), as of and for the years ended June 30, 2025 and 2024. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

As of June 30, 2024, VMC was reported as a discretely presented component unit of the University of Washington and part of University of Washington Medical Center (UW Medical Center), UW Physicians Network dba UW Medicine Primary Care (UWM PC), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift), and shared service departments that support the entire UW Medicine enterprise. For the fiscal year ended June 30, 2025, VMC remains affiliated with the University of Washington under a strategic alliance agreement; however, it is no longer reported as a discretely presented component unit of the University.

Using the Financial Statements

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

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

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

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

Results of Operations

The novel coronavirus (COVID-19) pandemic has had widespread impacts on societal and economic conditions at a local, national, and global level, and has had a significant impact on VMC's operations. Financial and liquidity support has been received from federal and state sources and has helped VMC to address the negative impacts from COVID-19. VMC received government funding to aid in the reimbursement of additional expenses, which were presented in the financial results for fiscal years 2025 and 2024.

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

VMC recorded a \$49.3 million net operating loss for fiscal year 2025; this is a change of \$6.6 million from the net operating loss of \$42.7 million in 2024. In 2025, VMC's net position decreased by \$26.5 million to \$258.8 million from \$285.3 million. The net operating loss in 2025 was primarily due to increased cost of labor and supplies as a result of inflationary increases; patient service revenue compression from payers; continued decline in contract pharmacy revenue; and adoption of Statement No. 101 of the Government Accounting Standards Board (GASB 101) for compensated absences. The decrease in net position in 2025 is attributed to the \$49.3 million net operating loss.

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
		(In thousands)	
Total operating revenues	\$ 989,703	907,671	889,001
Total operating expenses	<u>1,039,001</u>	<u>950,419</u>	<u>915,387</u>
Operating loss	<u>(49,298)</u>	<u>(42,748)</u>	<u>(26,386)</u>
Property tax revenue	26,561	26,144	25,595
Interest income	2,820	2,059	1,536
Interest and amortization expense	(15,124)	(15,658)	(16,325)
Investment income (loss), net	3,805	5,176	(334)
Other federal and state funding	4,380	78,155	29,200
Other, net	<u>325</u>	<u>(2,933)</u>	<u>(2,192)</u>
Nonoperating income	<u>22,767</u>	<u>92,943</u>	<u>37,480</u>
Change in net position	(26,531)	50,195	11,094
Net position, beginning of year	<u>285,329</u>	<u>235,134</u>	<u>224,040</u>
Net position, end of year	<u>\$ 258,798</u>	<u>285,329</u>	<u>235,134</u>

Performance for fiscal years 2025 and 2024 is primarily being driven by:

- Inpatient days increased 2.4% from 2024 to 2025 and decreased 0.2% from 2023 to 2024.
- Inpatient discharges increased 1.1% from 2024 to 2025 and 4.4% from 2023 to 2024.
- During fiscal years 2024 and 2025, VMC continued to focus on reducing high length of stay (LOS) and working on initiatives to safely discharge patients with barriers. Although LOS increased by 1.4% from 2024 to 2025, these efforts led to a 4.4% reduction in LOS from 2023 to 2024.
- Contract labor expenses decreased from \$23.6 million in 2024 to \$22.1 million in 2025 and decreased from \$27.7 million in 2023 to \$23.6 million in 2024 due to less utilization of agency personnel.

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

- To remain competitive in the labor market and retain VMC's talented workforce, VMC implemented a two-phase retention program. Phase I was paid out in June 2022 and phase II was paid out in April 2023. VMC also completed wage reopener negotiations with SEIU in fiscal year 2023. Both initiatives have increased labor expenses for fiscal year 2024. VMC completed and implemented an additional wage analysis, mostly for non-contract non-management employees in fiscal year 2025. The project increased labor expenses for fiscal year 2025. In fiscal year 2025, VMC also negotiated new contracts with all 3 labor unions which resulted in higher labor costs.
- In fiscal year 2025, VMC implemented GASB 101, *Compensated Absences*, related to unvested sick leave which resulted in \$9.3 million in additional labor expenses.
- In both fiscal years 2025 and 2024, VMC experienced a significant decline in the contract pharmacies program. In fiscal year 2025, revenue decreased 49% from 2024 by \$3.9 million to \$4.0 million. In fiscal year 2024, revenue decreased 84% from 2023 by \$41.5 million to \$7.9 million.
- VMC continued to invest in information technology. In fiscal year 2024, the primary focus was MyPeople, converting from Kronos to Infor payroll. Infor payroll went live on January 1, 2024. The two key projects underway during fiscal year 2025 and continuing into fiscal year 2026 are UKG Workforce Central (WFC) migrated to UKG Workforce Management (WFM) and cloud data center with Rackspace. The data center project is planned to go live in November 2025. The WFM project is projected to go live in February 2026.
- In fiscal year 2025, Valley Medical Center 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.

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Available beds	328	328	325
Discharges	17,198	17,018	16,298
Patient days	86,861	84,804	84,942
Average length of stay	5.05	4.98	5.21
Occupancy	73 %	71 %	72 %
Case mix index (CMI)	1.74	1.78	1.85
Surgery cases	12,669	11,894	11,866
Emergency room visits	90,402	88,319	83,330
Primary care clinic visits	242,978	236,850	252,201
Specialty/urgent care clinic visits	500,193	502,072	491,133
Total ambulatory visits	743,171	738,922	743,334
Full time equivalents (FTEs)	3,800	3,717	3,639
Births	2,764	2,733	2,507

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

Total Operating Revenues

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

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

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

For the years ended June 30, 2025, 2024, and 2023, VMC's total operating revenues were \$989.7 million, \$907.7 million, and \$889.0 million, composed of \$934.0 million, \$855.5 million, and \$802.5 million in net patient service revenue and \$55.8 million, \$52.2 million, and \$86.5 million in other operating revenue, respectively.

In fiscal year 2025, the increase in net patient service revenue of \$78.5 million is primarily driven by increased admissions, surgeries, emergency room visits, ambulatory visits and other rate increases, including the directed payment program (DPP), which was a new program managed by the Washington State Health Care Authority, effective January 1, 2024. The increase in other operating revenue was due to increased retail pharmacy revenue and offset by reductions in contract pharmacies' revenue from limitations imposed by drug manufacturers. In fiscal year 2024, the increase in net patient service revenue of \$53.0 million is primarily driven by increased admissions, surgeries, emergency room visits and other rate increases, including the DPP. The decrease in other operating revenue was due to significant reductions in contract pharmacies' revenue from limitations imposed by drug manufacturers.

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

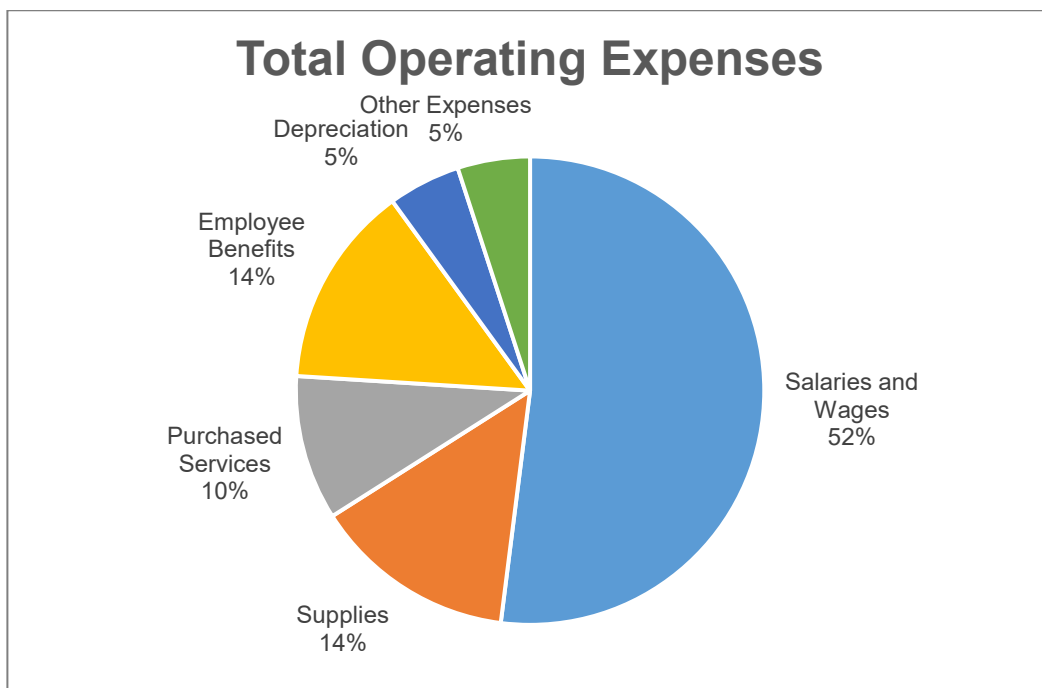
Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

Total Operating Expenses

Total operating expenses were \$1,039.0 million for the year ended June 30, 2025 compared to \$950.4 million for the year ended June 30, 2024. The composition of fiscal year 2025 operating expenses is illustrated in the pie chart below.



Salaries and wages increased \$39.2 million from \$504.5 million in fiscal year 2024 to \$543.7 million in fiscal year 2025 and increased \$22.7 million from \$481.8 million in fiscal year 2023 to \$504.5 million in fiscal year 2024. The increase in 2025 was primarily related to contractually agreed upon wage increases; and adoption of GASB 101 for compensated absences. The increase in 2024 was primarily related to contractually agreed upon wage increases; increases in FTEs due to an increase in volume; and market rate increases from the phase III compensation project.

Employee benefits increased \$17.7 million from \$129.3 million in fiscal year 2024 to \$147.0 million in fiscal year 2025 and increased \$7.7 million from \$121.6 million in fiscal year 2023 to \$129.3 million in fiscal year 2024. Employee benefit costs are a function of employment. In fiscal year 2025, benefits increased by 14% while salaries and wages increased by 8%. In fiscal year 2024, benefits increased by 6% while salaries and wages increased by 5%. The increase in benefit costs for both years was due to higher medical and prescription claims.

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

Supplies and other expenses include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased \$18.5 million from \$175.0 million in fiscal year 2024 to \$193.5 million in fiscal year 2025 and increased \$5.7 million from \$169.3 million in fiscal year 2023 to \$175.0 million in fiscal year 2024. The increase in 2025 was primarily attributed to medical supplies and malpractice insurance expenses. The increase in 2024 was primarily attributed to minor equipment purchases and malpractice insurance expenses.

Depreciation and amortization expenses increased \$2.7 million from \$49.3 million in fiscal year 2024 to \$52.0 million in fiscal year 2025 and decreased \$0.1 million from \$49.4 million in fiscal year 2023 to \$49.3 million in fiscal year 2024. The increase between 2024 and 2025 was due to higher amortization expenses with right-to-use and subscription assets in 2025.

Nonoperating income (expense) consists of revenue from property taxes, federal and state funding, interest and investment income offset by interest and amortization expense, and other activities not directly related to patient care. Net nonoperating income decreased \$70.1 million between fiscal years 2024 and 2025, primarily due to a \$73.8 million decrease in COVID-19 FEMA public assistance funds as most projects were obligated in 2024. Net nonoperating income increased \$55.5 million between fiscal years 2023 and 2024, primarily due to a \$49.0 million increase in COVID-19 FEMA public assistance funds as a result of obligated projects in 2024 and a \$5.5 million increase in investment income in 2024.

Financial Health

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from VMC's statements of net position as of June 30, 2025, 2024, and 2023.

	<u>2025</u>	<u>2024</u> (In thousands)	<u>2023</u>
Current assets	\$ 295,284	323,972	230,155
Noncurrent assets:			
Other noncurrent assets	24,881	23,731	24,262
Capital assets, net	348,334	357,758	366,763
Right-to-use and subscription assets, net	101,859	100,434	97,241
Investments, goodwill, intangible assets, and other	63,974	72,867	95,794
Total assets	834,332	878,762	814,215
Deferred outflows of resources	9,582	10,689	11,804
Total assets and deferred outflows	\$ 843,914	889,451	826,019

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

	<u>2025</u>	<u>2024</u>	<u>2023</u>
		(In thousands)	
Current liabilities	\$ 194,865	200,313	173,944
Noncurrent liabilities	<u>343,891</u>	<u>357,348</u>	<u>367,949</u>
Total liabilities	538,756	557,661	541,893
Total deferred inflows of resources	46,360	46,461	48,992
Net position	<u>258,798</u>	<u>285,329</u>	<u>235,134</u>
Total liabilities, deferred inflows, and net position	<u>\$ 843,914</u>	<u>889,451</u>	<u>826,019</u>

Total assets were \$834.3 million at June 30, 2025 compared to \$878.8 million at June 30, 2024, a decrease of \$44.5 million. Significant events during fiscal year 2025 attributed to the decrease include a decrease of \$35.7 million in cash and investments and a decrease of \$9.4 million in capital assets. Decrease in cash and investments was due to operating losses in 2025. Decrease in capital assets was due to pause on capital projects starting in February 2025.

Total assets were \$878.8 million at June 30, 2024 compared to \$814.2 million at June 30, 2023, an increase of \$64.6 million. Significant events during fiscal year 2024 attributed to the increase include an increase in other receivables of \$19.0 million due to DPP. The other significant event was a receipt of \$70.3 million from FEMA during fiscal year 2024.

Current Assets

Current assets consist of cash and cash equivalents and other assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers. Total current assets were \$295.3 million at fiscal year-end

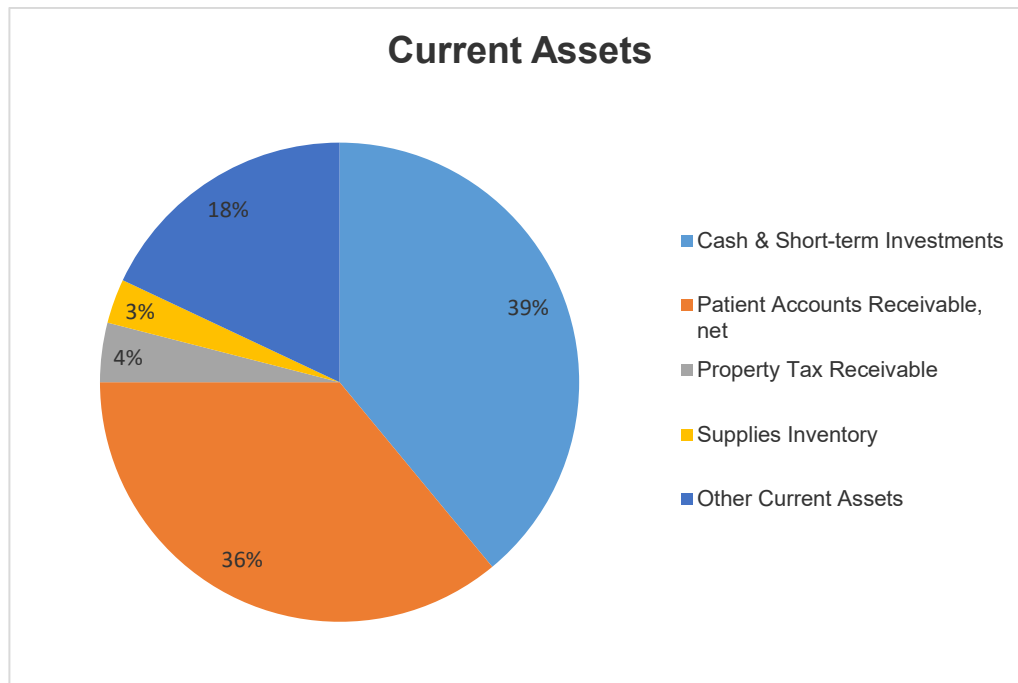
**PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER**

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

2025, compared to \$324.0 million at fiscal year-end 2024. Fiscal year 2025 composition of current assets is illustrated in the pie chart below.



Cash and short-term investments held by VMC consist of cash, cash equivalents, and investments expected to mature in 12 months or less. Cash and short-term investments decreased \$26.8 million in 2025 from \$140.7 million at June 30, 2024 to \$113.9 million at June 30, 2025 and increased \$56.7 million in 2024 from \$84.0 million at June 30, 2023 to \$140.7 million at June 30, 2024. The decrease in 2025 was attributed to loss from operations. The increase in 2024 was attributed to the receipts of FEMA funds. The majority of these funds were invested in short-term investments. Days cash on hand is utilized to evaluate an organization's

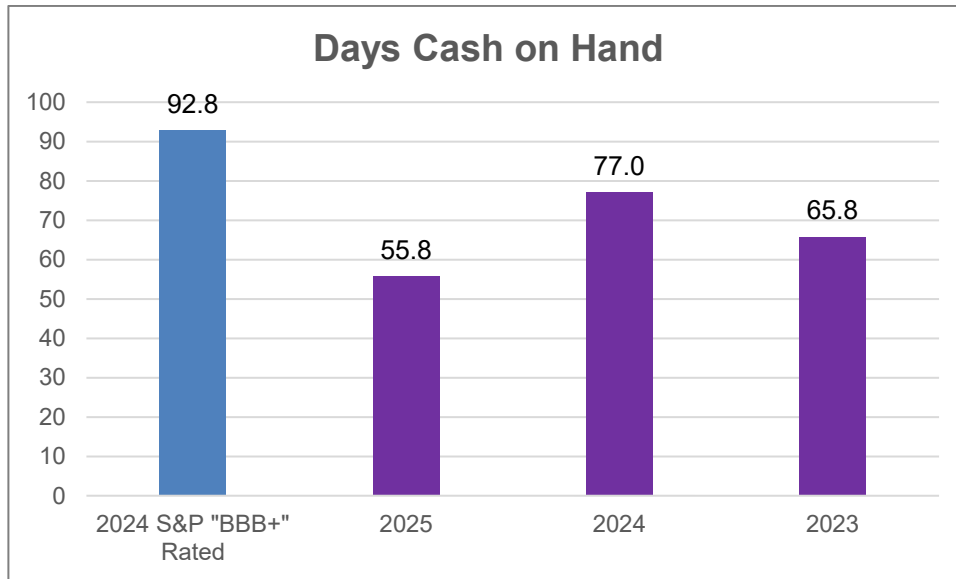
**PUBLIC HOSPITAL DISTRICT NO. 1 OF KING COUNTY,
WASHINGTON, DBA VALLEY MEDICAL CENTER**

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

continuing ability to meet its short-term operating needs. Days cash on hand, including short and long-term investments, as of June 30 for fiscal years 2025, 2024 and 2023 are illustrated in the graph below.



VMC's total days cash on hand, including short and long-term investments, decreased 21.2 days from 77.0 days at June 30, 2024 to 55.8 days at June 30, 2025 and increased 11.2 days from 65.8 days at June 30, 2023 to 77.0 days at June 30, 2024. The decrease in 2025 was attributed to significant operating loss from large increases in labor and medical supplies costs and deterioration of payer mix. The increase in 2024 was attributed to the receipts of FEMA funds.

Net patient accounts receivable was \$106.6 million as of June 30, 2025, compared to \$112.5 million as of June 30, 2024. The decrease of \$5.9 million was due to full recovery from the Change Healthcare cyber incident in February 2024 and strong revenue cycle management. Net patient accounts receivable was \$112.5 million as of June 30, 2024, compared to \$100.6 million as of June 30, 2023. The increase of \$11.9 million was driven by growth in revenue and residual effects from the Change Healthcare cyber incident in February 2024.

Other current assets were \$52.4 million at June 30, 2025 and \$48.6 million at June 30, 2024, an increase of \$3.8 million in 2025. The increase was attributed to the DPP receivable. Other current assets were \$48.6 million at June 30, 2024 and \$23.5 million at June 30, 2023, an increase of \$25.1 million in 2024. The increase was attributed to \$19.0 million in the DPP receivable, which was new in 2024 due to DPP becoming effective January 1, 2024.

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

Noncurrent Assets

Long-term investments decreased \$8.9 million from \$51.3 million at June 30, 2024 to \$42.4 million at June 30, 2025. The decrease between 2024 and 2025 was primarily attributed to a significant loss from operations. Long-term investments decreased \$22.8 million from \$74.1 million at June 30, 2023 to \$51.3 million at June 30, 2024. The decrease between 2023 and 2024 was primarily attributed to investment strategies where more funds were invested in short-term securities for better yields.

Capital assets decreased \$9.5 million during fiscal year 2025 from \$357.8 million at June 30, 2024 to \$348.3 million at June 30, 2025 and decreased \$9.0 million during fiscal year 2024 from \$366.8 million at June 30, 2023 to \$357.8 million at June 30, 2024. The decreases in both years were attributed to a pause on many capital projects due to the need to preserve cash. VMC has current commitments of \$8.1 million at June 30, 2025 related to various construction projects, equipment purchases and information technology implementations.

Right-to-use and subscription assets increased \$1.5 million during fiscal year 2025 from \$100.4 million at June 30, 2024 to \$101.9 million at June 30, 2025 and increased \$3.2 million during fiscal year 2024 from \$97.2 million at June 30, 2023 to \$100.4 million at June 30, 2024. The increases in both years are due to renewals, modifications and new additions.

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

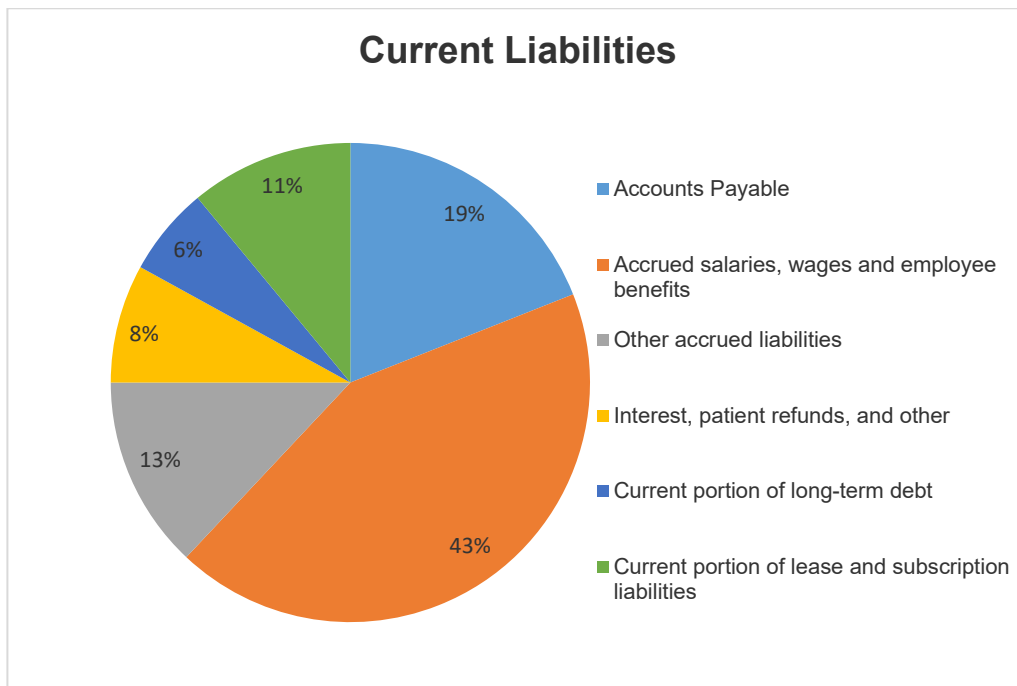
Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within one year. Total current liabilities were \$194.9 million at June 30, 2025, compared to \$200.3 million at June 30, 2024. Fiscal year 2025 composition of current liabilities is illustrated in the pie chart below.



Accounts payable increased \$8.8 million between June 30, 2024 and June 30, 2025 from \$29.0 million to \$37.8 million and increased \$0.9 million between June 30, 2023 and June 30, 2024 from \$28.1 million to \$29.0 million. Changes in accounts payable are primarily driven by timing of payments to vendors, as well as overall volume growth. Included in accounts payable as of June 30, 2025 and 2024 were amounts accrued for capital related expenditures of \$5.9 million and \$2.8 million, respectively.

Accrued salaries, wages, and employee benefits decreased \$3.8 million from \$86.5 million at June 30, 2024 to \$82.7 million at June 30, 2025 and increased \$6.8 million from \$79.7 million at June 30, 2023 to \$86.5 million at June 30, 2024. Changes in accrued salaries, wages, and employee benefits are related to timing of payments to employees.

Other accrued liabilities, including estimated third-party payer settlements, decreased \$14.5 million from \$40.3 million at June 30, 2024 to \$25.8 million at June 30, 2025 and increased \$17.9 million from \$22.4 million at June 30, 2023 to \$40.3 million at June 30, 2024. The decrease in 2025 was attributed to adjustments to reserves for 2020 to 2024 Certified Public Expenditures (CPE) Disproportionate (DSH) cost settlements. The increase in 2024 was primarily due to adjustments to reserves for the 2024 CPEDSH cost settlement.

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt, long-term lease and subscription liabilities. Total noncurrent liabilities were \$343.9 million at June 30, 2025, compared to \$357.3 million at June 30, 2024.

Long-term debt decreased from \$266.1 million at June 30, 2024 to \$252.6 million at June 30, 2025 and decreased from \$278.9 million at June 30, 2023 to \$266.1 million at June 30, 2024. The decreases in both years were a result of payments made in accordance with debt repayment schedules. Management is not aware of any violations of its debt covenants for the years ended June 30, 2025 and 2024. S&P Global Ratings issued a long-term rating of BBB+ to VMC on July 14, 2022 and a rating of BBB to VMC's 2016 bond issue on December 27, 2023. Moody's affirmed an Aa3 issuer rating and A2 limited tax general obligation rating to VMC on May 31, 2023.

Factors Affecting the Future

Cautionary Note Regarding Forward-Looking Statements

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

Economic Uncertainty Facing the Healthcare Industry

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

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

Reimbursement for patient services from federal, state and private insurance payers continues to be a concern as healthcare costs continue to rise. There is continued downward pressure on average realized payment rates from commercial payer plans and a reduction in the number or percentage of VMC's patients under such plans. VMC participates in the 340B Drug Pricing Program, which is a federal program that requires drug manufacturers provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices. In the past several years, a number of drug manufacturers have reduced the benefits to covered entities through the elimination of access to certain 340B priced drugs in contract pharmacy settings.

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

Management's Discussion and Analysis

June 30, 2025 and 2024

(Unaudited)

This has led to legal action at the federal level in an attempt to reinstate previous savings. Major federal appellate court rulings in the Third and D.C. Circuits have affirmed manufacturers' ability to restrict contract pharmacy arrangements under the 340B statute. The Supreme Court has not yet reviewed these decisions, and a Seventh Circuit ruling is also pending. This has resulted in uncertainty related to the financial impact of the 340B program in the future. Due to these uncertainties, management cannot predict the impact on VMC's future revenues and operations.

Recent changes to the Medicaid Directed Payment Program (DPP) are projected to reduce VMC's net benefit by up to 80% over the next 10 years if not addressed. DPP is a key funding source for serving a high volume of Medicaid patients, and this reduction poses a significant financial risk. VMC is actively working with the Washington State Hospital Association (WSHA) and legislative partners to advocate for adjustments that reflect the region's Medicaid population and service needs. In the meantime, VMC is pursuing cost containment and service line optimization to manage the impact and maintain access to care.

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

Contacting VMC's Financial Management

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

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

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

Statements of Net Position

June 30, 2025 and 2024

Assets	2025	2024
Current assets:		
Cash and cash equivalents	\$ 81,101,022	67,884,595
Short-term investments	32,829,278	72,863,486
Accounts receivable, less allowance for uncollectible accounts of \$33,650,767 in 2025 and \$27,937,905 in 2024	106,622,978	112,527,756
Property tax receivable	13,148,577	12,924,316
Supplies inventory	9,184,603	9,188,361
Prepaid expenses and other assets	52,397,089	48,583,346
Total current assets	<u>295,283,547</u>	<u>323,971,860</u>
Long-term investments	42,416,955	51,310,017
Capital assets:		
Land	13,651,981	12,884,281
Construction in progress	11,896,841	11,382,132
Depreciable capital assets, net of accumulated depreciation	322,784,892	333,491,716
Total capital assets	348,333,714	357,758,129
Right-to-use and subscription assets, net of accumulated amortization	101,858,872	100,433,512
Goodwill, intangible assets, and other	21,557,368	21,557,368
Long-term lease receivable	24,881,472	23,730,572
Total assets	834,331,928	878,761,458
Deferred outflows of resources	9,582,517	10,689,177
Total assets and deferred outflows	<u>\$ 843,914,445</u>	<u>889,450,635</u>

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

Statements of Net Position

June 30, 2025 and 2024

Liabilities and Net Position	2025	2024
Current liabilities:		
Accounts payable	\$ 37,780,992	29,028,345
Accrued salaries, wages, and benefits	82,731,039	86,463,937
Other accrued liabilities, including estimated third-party payer settlements	25,827,037	40,290,872
Interest, patient refunds, and other	15,021,974	13,315,526
Current portion of long-term debt	11,445,000	10,675,000
Current portion of lease and subscription liabilities	22,059,149	20,539,390
Total current liabilities	194,865,191	200,313,070
Long-term debt, net of current portion	252,634,056	266,087,381
Long-term lease and subscription liabilities	91,257,243	91,260,194
Total liabilities	538,756,490	557,660,645
Deferred inflows:		
Deferred inflow of resources related to leases	24,121,558	23,111,769
Other deferred inflows of resources	22,238,349	23,349,353
Total deferred inflows	46,359,907	46,461,122
Net position:		
Invested in capital assets, net of related debt	81,918,877	79,261,867
Restricted:		
Expendable for specific operating activities	5,319,438	2,454,075
Unrestricted	171,559,733	203,612,926
Total net position	258,798,048	285,328,868
Total liabilities, deferred inflows, and net position	\$ 843,914,445	889,450,635

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating revenues:		
Net patient service revenue (net of VMC's provision for uncollectible accounts of \$26,286,357 in 2025 and \$23,288,955 in 2024)	\$ 933,952,123	855,508,959
Other operating revenue	<u>55,751,016</u>	<u>52,162,150</u>
Total operating revenues	<u>989,703,139</u>	<u>907,671,109</u>
Operating expenses:		
Salaries and wages	543,689,948	504,460,966
Employee benefits	147,039,340	129,260,638
Purchased services	102,786,226	92,311,514
Supplies and other expenses	193,482,795	175,037,152
Depreciation and amortization	<u>52,002,385</u>	<u>49,348,623</u>
Total operating expenses	<u>1,039,000,694</u>	<u>950,418,893</u>
Operating loss	<u>(49,297,555)</u>	<u>(42,747,784)</u>
Nonoperating income (expense):		
Property tax revenue	26,560,525	26,143,734
Interest income	2,820,307	2,059,474
Interest and amortization expense	(15,123,864)	(15,658,313)
Investment income, net	3,805,270	5,175,765
Other federal and state funding	6,620,722	79,274,763
Other, net	(61,876)	(2,868,293)
Distributions to members	<u>(1,854,349)</u>	<u>(1,184,414)</u>
Net nonoperating income	<u>22,766,735</u>	<u>92,942,716</u>
(Decrease) increase in net position	<u>(26,530,820)</u>	<u>50,194,932</u>
Net position, beginning of year	<u>285,328,868</u>	<u>235,133,936</u>
Net position, end of year	<u>\$ 258,798,048</u>	<u>285,328,868</u>

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 922,006,355	846,173,924
Payments to suppliers and contractors	(311,906,969)	(286,737,820)
Payments to and on behalf of employees	(694,822,168)	(626,977,588)
Other cash receipts	54,821,487	53,331,289
Net cash used in operating activities	<u>(29,901,295)</u>	<u>(14,210,195)</u>
Cash flows from noncapital financing activities:		
Cash received from tax levy	26,594,750	26,135,019
Cash received from other federal and state funding	10,391,476	70,339,753
Other	3,004,069	(167,865)
Net cash provided by noncapital financing activities	<u>39,990,295</u>	<u>96,306,907</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt and finance lease obligations	(15,161,105)	(16,711,452)
Interest paid	(12,799,625)	(13,350,095)
Purchases of capital assets	(21,404,247)	(22,577,971)
Other	(3,060,444)	(2,752,237)
Net cash used in capital and related financing activities	<u>(52,425,421)</u>	<u>(55,391,755)</u>
Cash flows from investing activities:		
Sale of investments	54,862,204	24,770,724
Purchases of investments	(2,129,663)	(42,440,005)
Investment and interest income	2,820,307	2,059,474
Net cash provided by (used in) investing activities	<u>55,552,848</u>	<u>(15,609,807)</u>
Net increase in cash and cash equivalents	13,216,427	11,095,150
Cash and cash equivalents, beginning of year	<u>67,884,595</u>	<u>56,789,445</u>
Cash and cash equivalents, end of year	<u>\$ 81,101,022</u>	<u>67,884,595</u>

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

Statements of Cash Flows

Years ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (49,297,555)	(42,747,784)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	33,196,836	32,958,009
Provision for uncollectible accounts	26,286,357	23,288,955
Changes in assets and liabilities:		
Accounts receivable	(20,381,579)	(35,253,592)
Supplies inventory	3,758	200,985
Prepaid expenses and other assets	(9,833,819)	(17,227,144)
Accounts payable	6,023,031	113,140
Accrued salaries, wages, and benefits	(3,732,898)	6,744,015
Other accrued liabilities and estimated third-party payer settlements	(14,463,835)	17,906,077
Other liabilities	2,298,409	(192,856)
Net cash used in operating activities	<u>\$ (29,901,295)</u>	<u>(14,210,195)</u>
Supplemental disclosure of noncash investing, capital, and financing activities:		
Increase in accrued capital included in accounts payable	\$ 3,022,701	746,459
Net unrealized gains on investments	2,718,147	3,359,832
Net Additions in right to use assets	10,740,266	18,225,061
Net Additions in subscription assets	9,238,970	4,201,528

See accompanying notes to basic financial statements.

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

Notes to Financial Statements

June 30, 2025 and 2024

(1) Organization

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

The District, dba Valley Medical Center (VMC), and the University of Washington (the University) participate in a Strategic Alliance Agreement. Under this agreement, VMC 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 no longer a discretely presented component unit of the University for the fiscal year ended June 30, 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. These positions are not filled as of June 30, 2025. The Board of Trustees members, which included the five elected Board of Commissioners, during fiscal year 2025 were:

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

Malik Baz
Gary Kohlwes
Donna Russell
Julie Taylor
Cynthia Dold (through March 2025)
Bernie Dochnahl (through Feb 2025)

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

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

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

Notes to Financial Statements

June 30, 2025 and 2024

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Use of Estimates

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

(c) General Accounts

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

(i) Operating Account

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

(ii) Plant and Construction Accounts

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

(iii) Bond Account

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

(iv) Restricted Accounts

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

(d) Cash and Cash Equivalents

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

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

Notes to Financial Statements

June 30, 2025 and 2024

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the deposits may not be returned to the depositor. The Federal Deposit Insurance Corporation (FDIC) provides insurance to depositors to guard against custodial credit risk. Under FDIC insurance coverage is provided for account balances up to \$250,000 per depositor, per insured bank. As of June 30, 2025 and 2024, VMC had no bank balances subject to custodial credit risk as any deposits in excess of \$250,000 were covered by collateral held in a multi-financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(e) Investments

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

(f) Inventories

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

(g) Capital Assets

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

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

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

Notes to Financial Statements

June 30, 2025 and 2024

by external consultants and reviewed by VMC management. The estimated useful lives used by VMC are as follows:

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

(h) Goodwill, Intangible Assets, and Other

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

(i) Compensated Absences

VMC employees earn 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 adopted GASB 101 to record liability for compensated absences in fiscal year 2025. VMC recognizes vacation and sick leave liabilities when earned.

Vacation leave accrued at June 30, 2025 and 2024 was \$31.2 million and \$29.4 million, respectively. Sick leave accrued as of June 30, 2025 and 2024 was \$12.4 million and \$7.2 million, respectively. The accrued annual and sick leave liabilities are included in accrued salaries, wages, and benefits in the accompanying statements of net position.

(j) Third-Party Payer Settlements

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

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

Notes to Financial Statements

June 30, 2025 and 2024

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

(k) Classification of Revenues and Expenses

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

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

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

(l) Net Patient Service Revenue

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

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

(i) Medicare

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

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

Notes to Financial Statements

June 30, 2025 and 2024

(ii) Medicaid

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

(iii) Commercial

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

(iv) UW Medicine Accountable Care Network

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

(m) Federal Emergency Management Agency Public Assistance Funds

In an effort to recover unreimbursed expenses associated with COVID-19 response, VMC applied for reimbursement from Federal Emergency Management Agency (FEMA) public assistance program. VMC recognized \$4.4 million and \$78.2 million of FEMA revenue, which is reflected in other federal and state funding in the accompanying statements of revenues, expenses and changes in the net position for the years ended June 30, 2025 and 2024, respectively.

(n) Financial Assistance

VMC provides care without charge or at amounts less than established charges to patients who meet certain criteria under its financial assistance policy. VMC maintains records to identify and monitor the level of financial assistance it provides. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because VMC does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as net patient service revenue. The charges associated with financial assistance provided by VMC were approximately \$36.7 million and \$32.0 million for the years ended June 30, 2025 and 2024, respectively.

VMC estimates the cost of financial assistance using its cost to charge ratio of 23.9% and 24.4% for the fiscal years ended June 30, 2025 and 2024, respectively. 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. Applying VMC's cost to charge ratio of 24.4% to total financial assistance of \$32.0 million results in a cost of financial assistance of approximately \$7.8 million for the fiscal year ended June 30, 2024.

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

Notes to Financial Statements

June 30, 2025 and 2024

(o) Federal Income Taxes

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

(p) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the excess of the reacquisition price over the carrying amount of bonds refinanced in fiscal years 2017 and 2019. This balance is amortized to interest expense through 2040. The balance was \$9.6 million and \$10.7 million at June 30, 2025 and 2024, respectively.

Deferred inflows of resources related to leases consist of deferred revenue from the adoption of GASB 87, *Leases*, effective in fiscal year 2022. VMC leases or subleases land and building suites to physician groups or other medical facilities. VMC recorded \$24.1 million and \$23.1 million for the years ended June 30, 2025 and 2024, 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, 2025 and 2024:

VMC		
	2025	2024
Property tax revenue	\$ 13,525,144	13,266,658
Deferred gain on sale of VPCN	2,412,305	3,714,645
Deferred rental income Valley East Pavilion	6,300,900	6,368,050
Total deferred inflows of resources	<u>\$ 22,238,349</u>	<u>23,349,353</u>

(q) Net Position

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

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

Notes to Financial Statements

June 30, 2025 and 2024

(r) Recently Adopted and New Accounting Pronouncements

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for the fiscal year ending June 30, 2025. This statement results in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and eliminates potential comparability differences between governments that offer different types of leave. Incremental liabilities related to the adoption of this standard were not material to the financial statements as a whole.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*, which is effective for the fiscal year ending June 30, 2025. This statement requires disclosure of certain risks that may significantly affect financial position, including certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. No risk disclosures are required in connection with the adoption of this standard.

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 is currently analyzing the impact of the adoption of this standard.

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 will not have a material impact on VMC's financial statements.

(s) Reclassifications

Certain reclassifications have been made to the previously reported amounts in order to conform with current presentation. Specifically, funding from affiliates and funding to affiliates were reclassified to other federal and state funding.

(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 2025 and 2024, net patient service revenue increased approximately \$11.2 million and \$20.4 million, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement. The \$20.4 million in 2024 included \$16.4 million of 340B remedy payments (section 340B of the Public Health Services Act).

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

Notes to Financial Statements

June 30, 2025 and 2024

The following are the components of net patient service revenue for VMC for the years ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Gross patient service revenue	\$ 3,178,516,680	2,966,643,207
Less adjustments to patient service revenue:		
Financial assistance	(36,734,542)	(31,991,756)
Contractual discounts	(2,181,543,658)	(2,055,853,537)
Provision for uncollectible accounts	<u>(26,286,357)</u>	<u>(23,288,955)</u>
Total adjustments to patient service revenue	<u>(2,244,564,557)</u>	<u>(2,111,134,248)</u>
Net patient service revenue	<u>\$ 933,952,123</u>	<u>855,508,959</u>

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, 2025 and 2024 were as follows:

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

	<u>2024</u>	
	<u>Net patient service revenue</u>	<u>Gross accounts receivable</u>
Medicare	33 %	35 %
Medicaid	14	17
Commercial and other	50	41
Self-pay	1	5
Exchange (HIX)	<u>2</u>	<u>2</u>
Total	<u>100 %</u>	<u>100 %</u>

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

Notes to Financial Statements

June 30, 2025 and 2024

(a) Medicaid Certified Public Expenditure Reimbursement

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

“Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claim will be allowed federal match on the amount of the related certified public expenditures. Per the CMS-approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. VMC recognized \$9.4 million and \$9.0 million in net patient service revenue under this program for the years ended June 30, 2025 and 2024, 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 \$9.7 million and \$9.9 million in net patient service revenue from DSH funding for the years ended June 30, 2025 and 2024, respectively, in the statements of revenues, expenses, and changes in net position. DSH revenue in fiscal years 2024 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 2020 CPE program years have had a final settlement. As of June 30, 2025, VMC had estimated payables of \$25.3 million for fiscal years 2021 to 2025. As of June 30, 2024, VMC had estimated payables of \$39.0 million for fiscal years 2020 to 2024, 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 CPE program are reduced significantly in fiscal years 2024 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) program are programs managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospitals.

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

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

Notes to Financial Statements

June 30, 2025 and 2024

VMC recognized net revenue of \$0.4 million each year from the PSSP program for the years ended June 30, 2025 and 2024. VMC recognized net revenue of \$9.0 million and \$9.3 million from the PAP program for the years ended June 30, 2025 and 2024, 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 the Washington State Health Care Authority (WSHCA) benefiting certain public hospital districts.

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

VMC has an estimated DPP receivable of \$24.2 million and \$19.0 million for the years ended June 30, 2025 and 2024, respectively, which is included in the prepaid expenses and other assets in the statements of net position.

VMC recognized net revenue of \$59.0 million and \$28.2 million from the DPP program for the years ended June 30, 2025 and 2024 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 rate. The District may also levy taxes at a lower rate. Greater amounts of tax, above the limit, need to be for a specific capital project and authorized by a vote of the people.

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.

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

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, 2025 and 2024 are \$13.1 million and

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

Notes to Financial Statements

June 30, 2025 and 2024

\$12.9 million, respectively, and are shown as current assets in the statements of net position. See note 2(q) for deferred inflow for deferred property tax revenue.

Revenues from taxation are \$26.6 million and \$26.1 million for the fiscal years 2025 and 2024, respectively, and are recorded as nonoperating revenue in the statements of revenues, expenses and changes in net position.

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

(5) Deposits and Investments

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

Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, eligible bankers' acceptances, eligible commercial paper and corporate notes, and repurchase and reverse repurchase agreements. Investments of debt proceeds are governed by the provisions of the debt agreements, which also must meet statutory requirements.

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

At June 30, 2025 and 2024, deposits and investments of VMC consist of the following:

	<u>2025</u>	<u>2024</u>
Unrestricted cash	\$ 62,090,105	55,496,479
Unrestricted investments and cash equivalents:		
U.S. Treasury and agency securities and bonds	51,967,574	108,116,144
Corporate notes	23,232,734	15,930,582
Investment pools	<u>13,631,978</u>	<u>10,061,619</u>
	<u>88,832,286</u>	<u>134,108,345</u>
Restricted assets:		
Cash and cash equivalents	<u>5,424,864</u>	<u>2,453,274</u>
	<u><u>\$ 156,347,255</u></u>	<u><u>192,058,098</u></u>

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

Notes to Financial Statements

June 30, 2025 and 2024

(a) Credit Risk

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

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

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

As of June 30, 2025 and 2024, VMC's investment in the Pool was not rated by a NRSRO. In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency and mortgage-backed securities, municipal securities (rated at least A by two NRSROs), commercial paper (rated at least the equivalent of A-1 by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the LGIP managed by the Washington State Treasurer's Office.

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

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

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

Level 3 – Unobservable inputs for an asset or liability

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

Notes to Financial Statements

June 30, 2025 and 2024

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 pools 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	\$ <u>43,448,440</u>	<u>31,751,868</u>		<u>100.0 %</u>

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

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

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.

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

Notes to Financial Statements

June 30, 2025 and 2024

(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

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

Notes to Financial Statements

June 30, 2025 and 2024

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.

2025	Remaining maturity (in months)					
	Investment type	Carrying value	12 months or less	13 to 24 months	25 to 48 months	More than 48 months
U.S. Treasury securities	\$	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

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

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

Notes to Financial Statements

June 30, 2025 and 2024

(6) Capital Assets

(a) VMC's Capital Assets

The activity in VMC's capital asset and related accumulated depreciation accounts for the years ended June 30, 2025 and 2024 is set forth below:

	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

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

Notes to Financial Statements

June 30, 2025 and 2024

	<u>Balance</u> <u>June 30, 2023</u>	<u>Additions/ adjustments</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2024</u>
Nondepreciable capital assets:					
Land	\$ 13,145,009	—	—	(260,728)	12,884,281
Construction in progress	12,341,902	23,479,919	(24,439,689)	—	11,382,132
Total capital assets not being depreciated	25,486,911	23,479,919	(24,439,689)	(260,728)	24,266,413
Capital assets being depreciated:					
Land improvements	24,524,914	—	483,320	—	25,008,234
Buildings, renovations, and furnishings	546,615,300	—	7,216,881	(721,034)	553,111,147
Fixed equipment	22,633,678	—	—	—	22,633,678
Movable equipment	244,362,017	106,853	16,719,651	(4,540,263)	256,648,258
Minor equipment	22,500,699	—	19,837	(75,148)	22,445,388
Total capital assets being depreciated	860,636,608	106,853	24,439,689	(5,336,445)	879,846,705
Total capital assets at historical cost	886,123,519	23,586,772	—	(5,597,173)	904,113,118
Less accumulated depreciation for:					
Land improvements	(13,674,500)	(400,042)	—	—	(14,074,542)
Buildings, renovations, and furnishings	(270,493,041)	(16,018,312)	—	278,386	(286,232,967)
Fixed equipment	(21,508,263)	(132,732)	—	—	(21,640,995)
Movable equipment	(193,861,923)	(14,236,797)	—	4,424,308	(203,674,412)
Minor equipment	(19,823,227)	(982,962)	—	74,116	(20,732,073)
Total accumulated depreciation	(519,360,954)	(31,770,845)	—	4,776,810	(546,354,989)
Total capital assets, net \$	366,762,565	(8,184,073)	—	(820,363)	357,758,129

Depreciation and amortization recognized in operating expenses were \$52.0 million and \$49.3 million for the years ended June 30, 2025 and 2024, respectively. Included in these amounts were \$20.0 million and \$17.6 million related to right-to-use lease and subscription assets amortization for the years ended June 30, 2025 and 2024, respectively.

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

Notes to Financial Statements

June 30, 2025 and 2024

(7) Long-Term Debt and Lease Obligations

(a) VMC's Long-Term Debt

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

	<u>2025</u>	<u>2024</u>
Limited tax general obligation bonds:		
2018 series, 4% to 5%, due serially on December 1, in amounts from \$1,940,000 in 2025 to \$3,995,000 in 2044, plus interest due semiannually, including unamortized premium of \$5,469,631	\$ 93,719,631	96,286,185
2016 series, 4% to 5%, due serially on December 1, in amounts from \$8,735,000 in 2025 to \$16,455,000 in 2038, plus interest due semiannually, including unamortized premium of \$7,954,425	<u>170,359,425</u>	<u>180,476,196</u>
Total long-term debt	264,079,056	276,762,381
Less current portion	<u>(11,445,000)</u>	<u>(10,675,000)</u>
Total long-term debt, net of current portion	\$ <u>252,634,056</u>	<u>266,087,381</u>

(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.

(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

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

Notes to Financial Statements

June 30, 2025 and 2024

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, 2025, for both principal and interest. Total unamortized premiums and discounts are \$13.4 million as of June 30, 2025.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 11,445,000	12,246,625	23,691,625
2027	12,255,000	11,654,125	23,909,125
2028	13,110,000	11,020,000	24,130,000
2029	14,010,000	10,342,000	24,352,000
2030	14,960,000	9,617,750	24,577,750
2031–2035	90,840,000	35,431,250	126,271,250
2036–2040	79,165,000	11,009,375	90,174,375
2041–2045	14,870,000	1,532,500	16,402,500
Total payments	\$ <u>250,655,000</u>	<u>102,853,625</u>	<u>353,508,625</u>

(iv) Change in Total Long-Term Liabilities

Changes in total long-term liabilities, exclusive of lease liabilities, during the fiscal years ended June 30, 2025 and 2024 are summarized below:

	<u>Balance June 30, 2024</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2025</u>	<u>Due within one year</u>
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	<u>276,762,381</u>	<u>—</u>	<u>(12,683,325)</u>	<u>264,079,056</u>	<u>11,445,000</u>
Total long-term liabilities	\$ <u>276,762,381</u>	<u>—</u>	<u>(12,683,325)</u>	<u>264,079,056</u>	<u>11,445,000</u>

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

Notes to Financial Statements

June 30, 2025 and 2024

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

(b) Leases and Subscription-Based Information Technology Arrangements

(i) Lessee

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

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

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

Certain leases require VMC to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, or other payments based on performance or usage.

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

Notes to Financial Statements

June 30, 2025 and 2024

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 \$6.4 million and \$5.8 million during the fiscal years ended June 30, 2025 and 2024, 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, 2025 and 2024 is set forth below:

	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	<u>168,406,388</u>	<u>13,109,299</u>	<u>13,080,232</u>	<u>(6,210,295)</u>	<u>188,385,624</u>
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	<u>(67,972,876)</u>	<u>(23,459,469)</u>	<u>—</u>	<u>4,905,593</u>	<u>(86,526,752)</u>
Total lease assets, net	<u>\$ 100,433,512</u>	<u>(10,350,170)</u>	<u>13,080,232</u>	<u>(1,304,702)</u>	<u>101,858,872</u>

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

Notes to Financial Statements

June 30, 2025 and 2024

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

Lease and Subscription Liabilities

Changes in lease and subscription liabilities during the fiscal years ended June 30, 2025 and 2024 are summarized below:

	Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Fiscal year ended:						
June 30, 2025	\$ 111,799,584	15,568,293	10,621,234	(24,672,719)	113,316,392	22,059,149
June 30, 2024	107,371,978	7,899,224	17,132,468	(20,604,086)	111,799,584	20,539,390

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

Notes to Financial Statements

June 30, 2025 and 2024

Lease and Subscription Maturities

The following schedule shows future annual lease and subscription payments, and in five-year increments thereafter, as of June 30, 2025, for both principal and interest:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 22,059,149	3,113,678	25,172,827
2027	17,730,579	2,548,145	20,278,724
2028	16,261,941	2,038,105	18,300,046
2029	15,913,397	1,572,386	17,485,783
2030	13,820,994	1,071,447	14,892,441
2031–2035	26,885,874	1,405,933	28,291,807
2036–2040	<u>644,458</u>	<u>8,114</u>	<u>652,572</u>
Total payments	\$ <u>113,316,392</u>	<u>11,757,808</u>	<u>125,074,200</u>

(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

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

Notes to Financial Statements

June 30, 2025 and 2024

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

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

(a) Professional and General Liability

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

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

The self-insurance liability of approximately \$1.0 million as of June 30, 2025 and 2024, is included in the interest, patient refunds and other liabilities in the statements of net position.

(b) Employee Medical and Dental

VMC is self-insured for medical and dental benefits. The accrued liabilities for the self-insured component of the plan include the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. VMC also carries stop-loss coverage for medical claims subject to aggregate and specific deductibles. The aggregate deductible is applied once to the first medical claim in the calendar year and specific deductible is applied to each medical claim filed in the calendar year. VMC has recorded an actuarially estimated liability for health (medical and dental) claims that have been incurred but not reported of \$4.4 million at June 30, 2025 and 2024. 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 2025 and 2024. Excess insurance coverage is purchased for risk above the per claim self-insured retention level. The accrued liabilities of the plan include the self-insured components of unpaid portion that have been reported and estimates for claims that have been incurred but not reported. VMC has recorded an

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

Notes to Financial Statements

June 30, 2025 and 2024

actuarially determined estimated liability for workers' compensation claims of \$5.0 million at June 30, 2025 and 2024, 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 services, with a 2% employer match on a 2% employee contribution for all employees. Employer contributions into the 403(b) plan totaled \$29.9 million and \$27.8 million for the years ended June 30, 2025 and 2024, 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 \$9.6 million and \$10.3 million was paid and recognized by VMC to divisions of the University for the years ended June 30, 2025 and 2024, 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.

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

Notes to Financial Statements

June 30, 2025 and 2024

(11) Commitments and Contingencies

(a) Construction Commitments

VMC has current commitments at June 30, 2025 of \$8.1 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 3,900 employees. Of this total, approximately 72% are covered under collective bargaining agreements as of June 30, 2025. 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

On August 4, 2025, the Board of Commissioners of Public Hospital District No. 1 of King County (Valley Medical Center) unanimously approved placing a levy lid lift measure on the November 2025 ballot. If approved, the measure would increase the regular property tax levy rate to \$0.75 per \$1,000 of assessed value for collection in 2026—a \$0.46 increase—and generate approximately \$42 million additional tax revenue annually to support hospital operations and capital needs.

Valley Medical Center has not requested a levy lid lift increase in over 20 years. This event occurred after the fiscal year-end and does not impact the financial statements as of June 30, 2025. Any resulting financial effects will be reflected in future periods, contingent on the outcome of the ballot measure.