Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

King County Public Hospital District No. 1

(Valley Medical Center)

For the period July 1, 2019 through June 30, 2021

Published March 31, 2022

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Office of the Washington State Auditor
Pat McCarthy

March 31, 2022

Board of Commissioners and Board of Trustees
Valley Medical Center
Renton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Valley Medical Center's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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Valley Medical Center
July 1, 2020 through June 30, 2021

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Valley Medical Center are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The District qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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*

Valley Medical Center
July 1, 2019 through June 30, 2021

Board of Commissioners and Board of Trustees
Valley Medical Center
Renton, Washington

We have audited, in accordance with 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 Valley Medical Center, a component unit of the University of Washington, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 30, 2022.

As discussed in Note 12 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect impact on the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 District'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 may exist that have not been identified.

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 the District’s compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 District’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 District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

March 30, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Valley Medical Center
July 1, 2020 through June 30, 2021

Board of Commissioners and Board of Trustees
Valley Medical Center
Renton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Valley Medical Center, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy, State Auditor

Olympia, WA

March 30, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Valley Medical Center
July 1, 2019 through June 30, 2021

Board of Commissioners and Board of Trustees
Valley Medical Center
Renton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Valley Medical Center, a component unit of the University of Washington, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Medical Center, as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 12 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect impact on the District is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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.

Pat McCarthy, State Auditor

Olympia, WA

March 30, 2022

FINANCIAL SECTION

Valley Medical Center
July 1, 2019 through June 30, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021 and 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021 and 2020
Statement of Revenues, Expenses and Changes in Net Position – 2021 and 2020
Statement of Cash Flows – 2021 and 2020
Notes to Financial Statements – 2021 and 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2021 and 2020
Notes to the Schedule of Expenditures of Federal Awards – 2021 and 2020

The following discussion and analysis provides an overview of the financial position and activities of Public Hospital District No. 1 of King County, Washington, dba Valley Medical Center (VMC), for the years ended June 30, 2021, 2020 and 2019. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

VMC is a discretely presented component unit of the University of Washington and part of UW Medicine, which includes UW Medical Center, Harborview Medical Center (Harborview), UW Physicians Network dba UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

Using the Financial Statements

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

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

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

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

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

Results of Operations for Fiscal Year 2021

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in Washington in January 2020 and has spread globally creating an international pandemic, which has significantly impacted the economic conditions at a local, national, and international level. On February 29, 2020, the Governor of the state of Washington declared a state of emergency as a result of the pandemic and the forecasted potential surge of COVID-19 patients and VMC stood up Incident Command on the same day to manage all the efforts related to COVID-19. On March 13, 2020, President Trump declared a national state of emergency, ordering all states to establish emergency operations and authorizing the use of federal funds.

In accordance with direction and mandates from the Governor, starting on March 18, 2020, VMC canceled or postponed all elective procedures and closed some clinics and ambulatory departments. On May 18, 2020, the Governor changed the restrictions on elective procedures allowing VMC to resume elective procedures. The cancellation of elective procedures from mid-March to mid-May had a significant impact on volumes and revenues for fiscal year 2020. VMC received government funding to aid in the reimbursement of additional expenses and the recovery of lost revenues, which were presented in the financial results for fiscal year 2020 and 2021. Throughout fiscal year 2021, there has been several surges of COVID-19 patients. VMC continued the efforts to treat COVID-19 patients while maintaining “normal” operations.

VMC recorded a $21.9 million net operating loss for fiscal year 2021; this is a change of $19.2 million from the net operating loss of $41.1 million in 2020. In 2021, VMC's net position increased by $9.8 million to $286.3 million from $276.6 million. The net operating loss in 2021 was primarily due to increased cost of labor and supplies due to COVID-19. The chart below is a summary of the statements of revenue, expenses, and changes in net position for the past three years.

	2021	2020	2019
		(In thousands)	
Total operating revenues	$ 786,859	712,813	684,884
Total operating expenses	808,748	753,959	689,894
Operating loss	(21,889)	(41,146)	(5,010)
Property tax revenue	24,373	24,003	23,258
Interest income	2,837	4,270	4,001
Interest and amortization expense	(12,657)	(13,961)	(14,853)
Investment (loss) income, net	(2,231)	4,516	3,785
Federal stimulus program	19,855	30,041	—
Other, net	(529)	(874)	980
Nonoperating income	31,648	47,995	17,171
Change in net position	9,759	6,849	12,161
Net position, beginning of year	276,590	269,741	257,580
Net position, end of year	$ 286,349	276,590	269,741

Performance for fiscal year 2021 is primarily being driven by:

- Inpatient days increased 6% from 2020 to 2021 and 1% from 2019 to 2020
- VMC experienced significant reduction in volumes from March to May 2020 after Governor Inslee declared a state of emergency in February 2020 in response to COVID-19 pandemic and ordered the cancellation of all elective procedures and surgeries from March 18, 2020 through May 17, 2020.
- During fiscal year 2021, VMC had to place restrictions on elective surgeries & procedures due to surges of COVID-19 patients from November 23, 2020 to January 31, 2021. Incident Command continues its operations in fiscal year 2021. VMC stood up a mass vaccination site in December 2020 to provide COVID-19 vaccines to employees, patients, and the general public.
- In fiscal year 2021, primary clinic visits were back to 2019 levels. Other areas such as inpatients, surgery cases, emergency room visits, and specialty/urgent care clinic visits were still not back to 2019 levels. Due to the pandemic, VMC experienced longer length of stay and high acuity patients.
- Starting in March 2020 and continuing through fiscal year 2021, VMC's expenses increased significantly due to spending for resources, including, but not limited to, personal protective equipment (PPE) supplies, setting up testing sites for COVID-19, testing fees for COVID-19, setting up vaccination site for COVID-19 vaccines and additional compensation for front line nurses. VMC stayed nimble and reduced expenses such as consulting and travel expenditures. Growth initiatives such as the cancer center and new clinics have been put on pause.
- VMC experienced growth in the contract pharmacies program. Revenue increased 16% over 2020 by $7.3 million to $52.5 million.
- VMC continued to invest in information technology. The primary project underway during fiscal year 2020 and continuing into fiscal year 2021 is the transformation of financial and supply chain system from McKesson to Infor Cloudsuite. The Infor Cloudsuite system is branded as "Compass" at VMC. Compass went live on June 2, 2021.

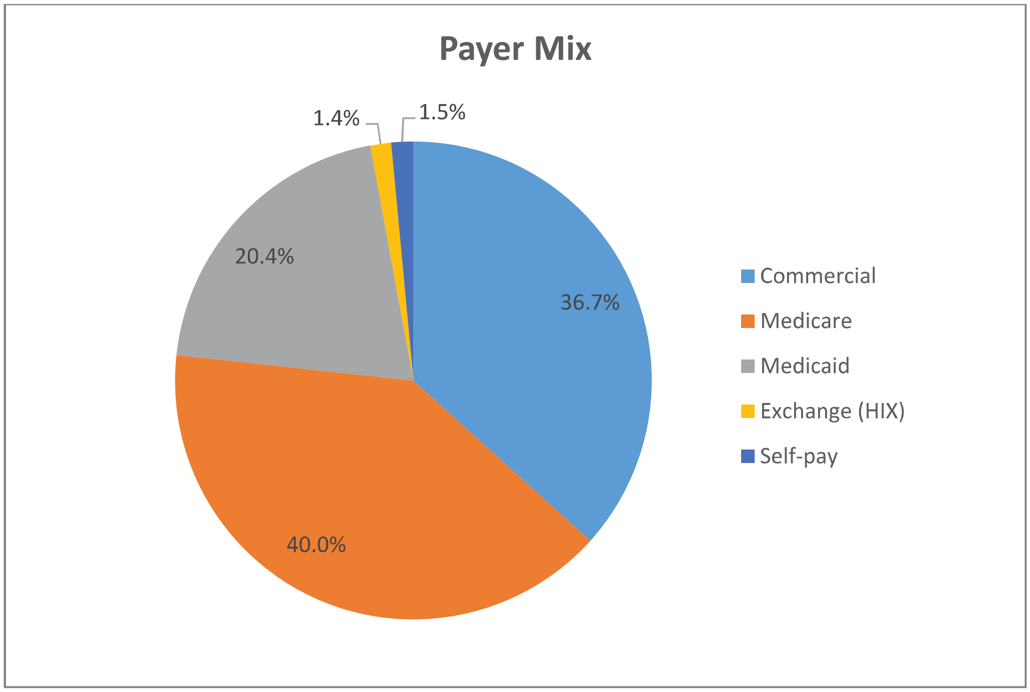
The chart below represents the key performance statistics for the last three years.

	2021	2020	2019
Available beds	330	331	311
Discharges	16,098	16,924	18,271
Patient days	81,114	76,758	75,824
Average length of stay	5.04	4.54	4.15
Occupancy	67 %	66 %	68 %
Case mix index (CMI)	1.75	1.66	1.59
Surgery cases	12,198	11,830	12,878
Emergency room visits	72,175	77,344	85,305
Primary care clinic visits	229,698	215,586	228,591
Specialty/urgent care clinic visits	431,167	412,411	441,541
Full time equivalents (FTEs)	3,524	3,451	3,296
Births	3,017	3,287	3,180

Total Operating Revenues

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

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



VMC's payer mix is a key factor in the overall financial operating results. The chart above illustrates gross payer mix for 2021. For the years ended June 30, 2021, 2020, and 2019, Medicaid revenue represented 20% for all three years. There was a decrease in Commercial revenue in 2021 and 2020 that shifted to Medicare. For the years ended June 30, 2021, 2020, and 2019, Medicare revenue represented 40.0%, 39.5%, and 38.6%, respectively. The shift in payer mix was from Commercial to Medicare, and the shift was primarily due to the aging population within the district, as well as likely migration into the district. The COVID-19 pandemic is also a contributing factor for the payer mix shift.

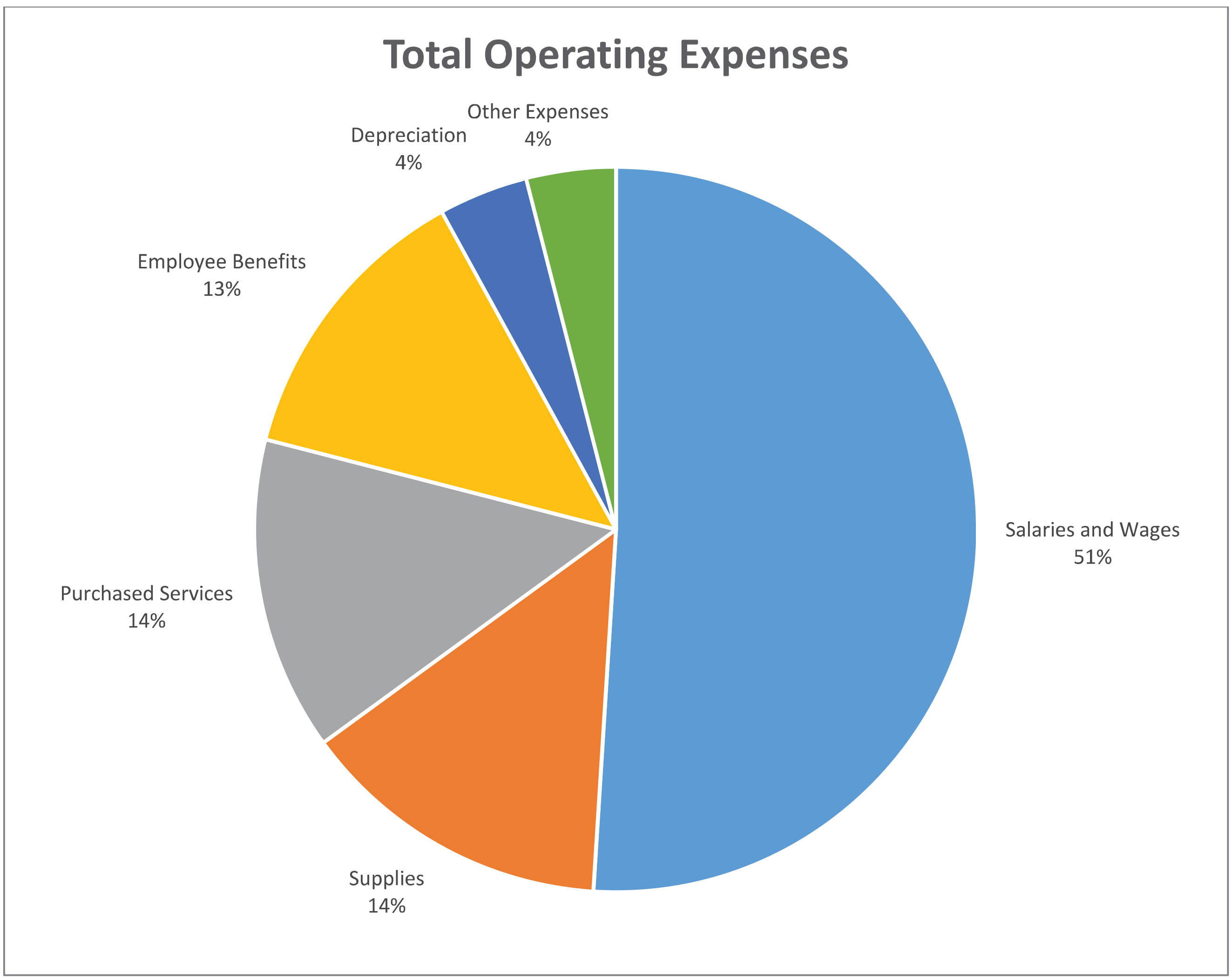
Reimbursement from government payers is generally below commercial rates, and reimbursement rules are complex and subject to both interpretation and settlements.

For the years ended June 30, 2021, 2020, and 2019, VMC's total operating revenues were $786.9 million, $712.8 million, and $684.9 million composed of $707.4 million, $640.0 million, and $622.8 million in net patient service revenue and $79.5 million, $72.8 million, and $62.1 million in other operating revenue, respectively.

In fiscal year 2020 through February, the increase in operating revenue is due to growth in inpatient volumes, growth in outpatient volumes across the clinic network (primary and specialty, and urgent care), and continued increases in outpatient surgical procedures. In fiscal year 2020, operating revenue was reduced in March to May due to cancellation of elective procedures and surgeries and closures of clinics in response to COVID-19 pandemic. In fiscal year 2021, the increase in operating revenue is due to resuming most of the delayed procedures from March to May 2020. The increase in other operating revenue is attributed to increases in contract pharmaceutical volumes.

Total Operating Expenses

Total operating expenses were $808.7 million for the year ended June 30, 2021 compared to $754.0 million for the year ended June 30, 2020. The composition of fiscal year 2021 operating expenses is illustrated in the pie chart below.



Salaries and wages increased $26.7 million from $381.8 million in fiscal year 2020 to $408.5 million in fiscal year 2021. The increase was primarily related to contractually agreed upon wage increases; and additional expensive labor costs in response to COVID-19 pandemic.

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

Employee benefits increased $11.4 million from $93.5 million in fiscal year 2020 to $104.9 million in fiscal year 2021 and increased $9.3 million from $84.2 million in fiscal year 2019 to $93.5 million in fiscal year 2020. Employee benefit costs are a function of employment. In fiscal year 2021, benefits increased by 12% while salaries and wages increased by 7%. The most notable increase in benefits in 2021 was medical claims paid from VMC's self-insured plans. In fiscal year 2020, benefits increased by 11%, while salaries and wages increased by 10%.

Purchased services expense, which consists of professional and consulting fees, increased $12.8 million from $98.6 million in fiscal year 2020 to $111.4 million in fiscal year 2021 and increased $7.6 million from $91.0 million in fiscal year 2019 to $98.6 million in fiscal year 2020. The increase between fiscal year 2020 and 2021 is attributed to the additional lab fees for COVID-19 testing, additional rental expenses and contracted services agreements executed prior to the pandemic for various growth projects, and additional consulting fees from implementation of phase I of Compass. The increase between fiscal year 2019 and 2020 is attributed to additional consulting fees with process improvement projects, additional lab fees for COVID-19 testing, additional rental expenses and contracted services agreements executed prior to the pandemic for various growth projects.

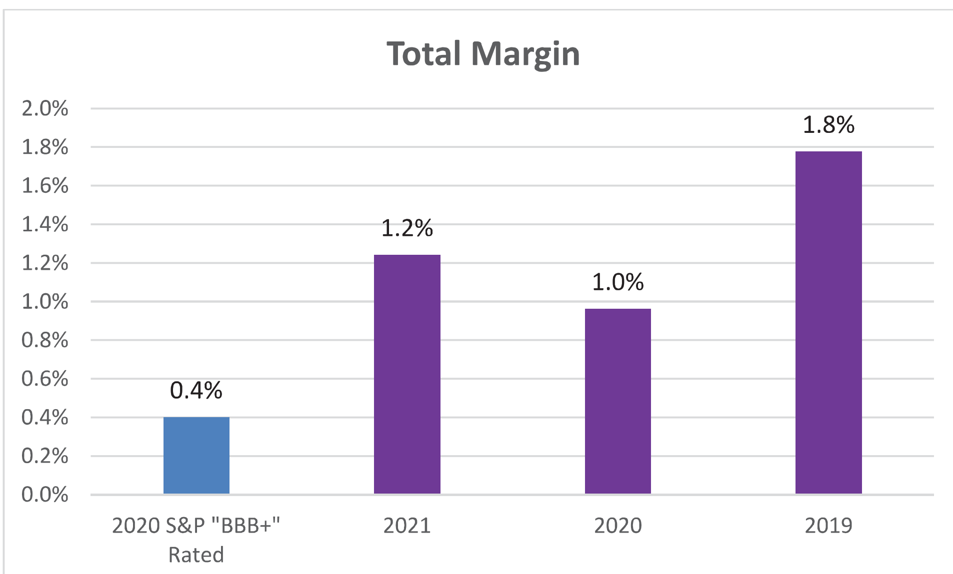
Supplies and other expense include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $5.2 million from $146.9 million in fiscal year 2020 to $152.1 million in fiscal year 2021. The increase is attributed to increased volumes, additional PPE supplies and equipment rentals in response to COVID-19 pandemic. Supplies and other expenses increased $17.0 million from $129.9 million in fiscal year 2019 to $146.9 million in fiscal year 2020. The increase is attributed to additional PPE supplies and equipment rentals in response to COVID-19 pandemic, additional pharmaceutical expenses with the significant growth in the contract pharmacy program, and replacement of certain medical instruments.

Depreciation expense decreased $1.3 million from $33.1 million in fiscal year 2020 to $31.8 million in fiscal year 2021 and decreased $3.9 million from $37.0 million in fiscal year 2019 to $33.1 million in fiscal year 2020. The decrease between 2020 and 2021 was due to computer equipment becoming fully depreciated and less projects being placed into service due to the delays caused by the pandemic. The decrease between 2019 and 2020 was due to several major IT systems have been fully depreciated.

Nonoperating income (expense) consists of revenue from property taxes, federal stimulus program, interest and investment income offset by interest and amortization expense, and other activities not directly related to patient care. Net nonoperating income decreased $16.3 million between fiscal years 2020 and 2021, primarily due to $10.2 million less revenue recognized for federal stimulus program in fiscal year 2021 and a decrease in investment income. Net nonoperating income increased $30.8 million between fiscal years 2019 and 2020, primarily due to $30.0 million of revenue recognized related to the federal stimulus program in response to COVID-19, also called provider relief funds in fiscal year 2020.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of change in net position and is a common measure of total hospital profitability. Total margin for the fiscal years 2021, 2020, and 2019 compared to the industry median for Standard & Poor's (S&P's) BBB+ rated healthcare systems is illustrated in the bar chart below.



Financial Health

Statements of Net Position

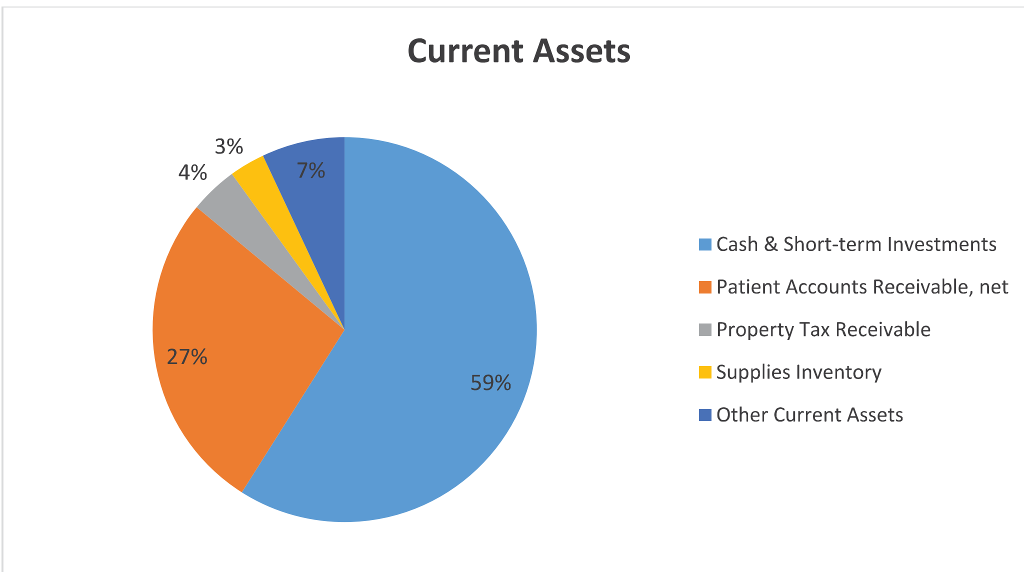
The table below is a presentation of certain condensed financial information derived from VMC's statements of net position as of June 30, 2021, 2020, and 2019.

		2021	2020	2019
			(In thousands)	
Current assets	$	300,585	306,661	213,241
Noncurrent assets:				
Capital assets, net		399,320	393,217	385,131
Other noncurrent assets		128,103	144,978	149,240
Investments, goodwill, intangible assets, and other		2,519	3,181	4,064
Total assets		830,527	848,037	751,676
Deferred outflow of resources		14,033	15,112	16,119
Total assets and deferred outflows		844,560	863,149	767,795
Current liabilities		204,793	229,307	135,831
Noncurrent liabilities		325,694	328,062	338,374
Total liabilities		530,487	557,369	474,205
Total deferred inflows of resources		27,723	29,190	23,849
Net position	$	286,350	276,590	269,741

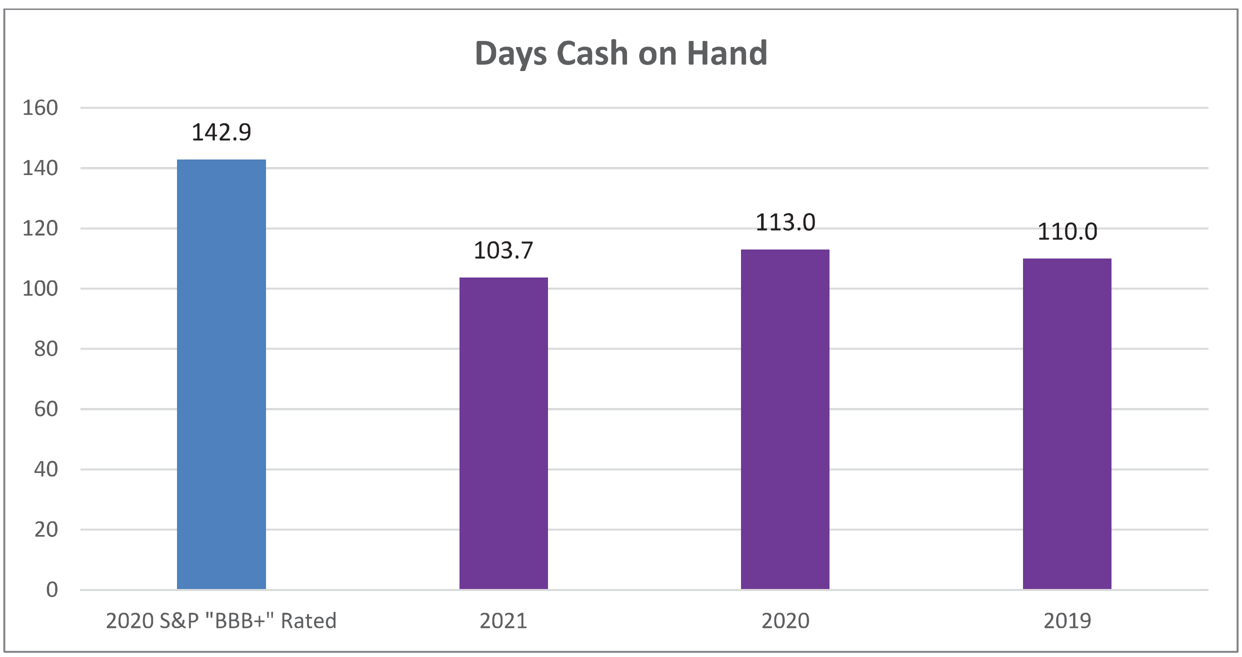
Total assets were $830.5 million at June 30, 2021 compared to $848.0 million at June 30, 2020, a decrease of $17.5 million, and $751.7 million at June 30, 2019, an increase of $96.3 million between 2019 and 2020. The decrease between 2020 and 2021 is attributed to spend down of bond proceeds and reduction in unearned compensation plan. Most of the change between 2019 and 2020 is attributed to $64.3 million of Medicare advanced payments and $21.1 million safety net hospital stimulus payment in 2020.

Current Assets

Current assets consist of cash and cash equivalents and other current assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers. Total current assets were $300.6 million at fiscal year-end 2021, compared to $306.7 million at year-end 2020. Fiscal year 2021 composition of current assets is illustrated in the pie chart below.



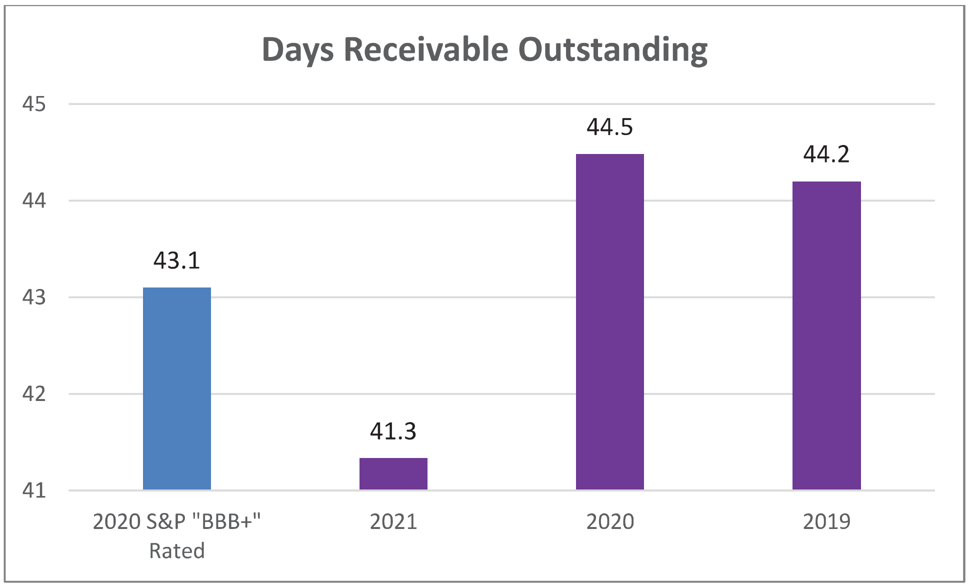
Cash and short-term investments held by VMC consist of cash, cash equivalents, and investments expected to mature in 12 months or less. Cash and short-term investments decreased $10.8 million in 2021 from $187.7 million at June 30, 2020 to $176.9 million at June 30, 2021. The decrease in 2021 was attributed to repayment of Medicare advanced payments. Cash and short-term investments increased $86.3 million in 2020 from $101.4 million at June 30, 2019 to $187.7 million at June 30, 2020. The increase in 2020 was attributed to cash received from the Medicare advanced payment program and the federal stimulus program. Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, including short and long-term investments and noncurrent assets unrestricted for general capital improvements and operations but excluding Medicare advanced payments, as of June 30 for fiscal years 2021, 2020 and 2019 are illustrated in the graph below.



VMC's total days cash on hand, including short and long-term investments and board-designated assets for general capital improvements and operations, decreased 9.3 days from 113.0 days at June 30, 2020 to 103.7 days at June 30, 2021 and increased 3.0 days from 110.0 days at June 30, 2019 to 113.0 days at June 30, 2020. The decrease between 2020 and 2021 was primarily due to increase in expenses for response to COVID-19 pandemic. The increase between 2019 and 2020 was primarily due to federal stimulus payments that are offset by increases in expenses for response to COVID-19 pandemic.

Net patient accounts receivable was $80.1 million as of June 30, 2021, compared to $77.8 million as of June 30, 2020. The increase of $2.3 million was driven by growth in revenue. Net patient accounts receivable at June 30, 2020 and 2019 were $77.8 million and $75.4 million, respectively. The increase of $2.4 million was driven by the impact of the COVID-19 pandemic where payers were slower in processing claims.

Days receivable outstanding illustrates an organization's ability to convert patient service revenue to cash. Days receivable outstanding as of June 30 for fiscal years 2021, 2020, and 2019 are illustrated in the graph below.



VMC's total net days receivable outstanding decreased 3.2 days from 44.5 days at June 30, 2020 to 41.3 days at June 30, 2021 and increased 0.3 days from 44.2 days at June 30, 2019 to 44.5 days at June 30, 2020. Net patient accounts receivable days decreased between 2020 and 2021 and only increased slightly between 2019 and 2020, representing continued strong revenue cycle management.

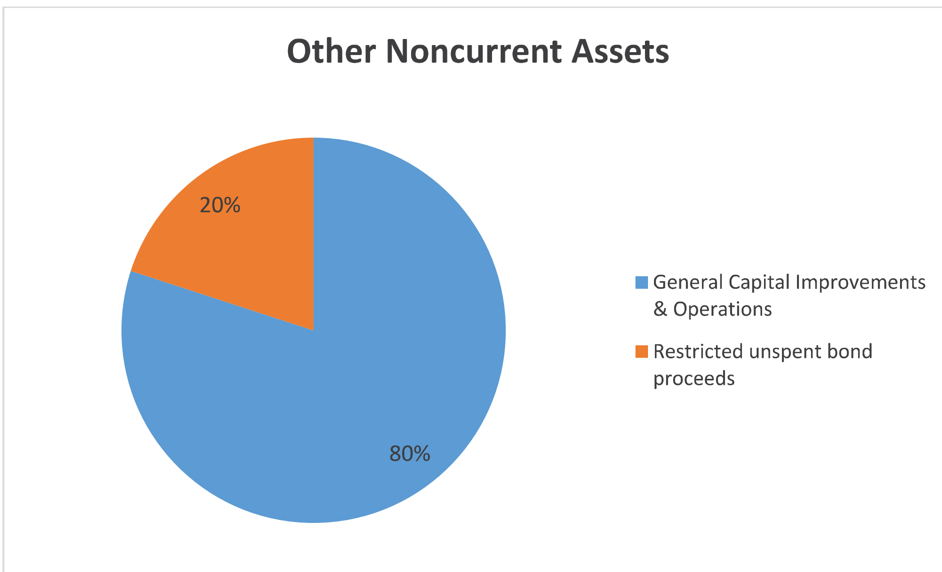
As of June 30, 2021, 41% of the gross patient accounts receivable balance is due from commercial payers, 53% is due from government payers Medicare and Medicaid, 5% from self-pay patients, and 1% is due from health exchange insured patients. As of June 30, 2020, 44% of the gross patient accounts receivable balance is due from commercial payers, 51% is due from government payers Medicare and Medicaid, 4% from self-pay patients, and 1% is due from health exchange insured patients. As of June 30, 2019, 42% of gross patient accounts receivable balance is due from commercial payers, 53% is due from government payers Medicare and Medicaid, 4% from self-pay patients, and 1% from health exchange insured patients.

Property tax receivable was $12.0 million at June 30, 2021 and that was essentially the same amount at June 30, 2020. In fiscal year 2020, property tax receivable increased $0.5 million and was primarily reflective of increased property values.

Other Noncurrent Assets

Other noncurrent assets consist of board-designated assets held by VMC for general capital improvements and other operations, restricted unspent bond proceeds, unearned compensation plan arrangements, and various revenue obligation bond agreements. VMC issued series 2018 bonds on December 18, 2018 that resulted in $50 million of new bond proceeds to fund capital projects. Restricted unspent bond proceeds were $25.9 million as of June 30, 2021. VMC issued series 2020 bonds on March 17, 2020 to refund series 2010A bonds that eliminated the debt service requirements for revenue bonds.

The chart below outlines the composition of other noncurrent assets as of June 30, 2021.

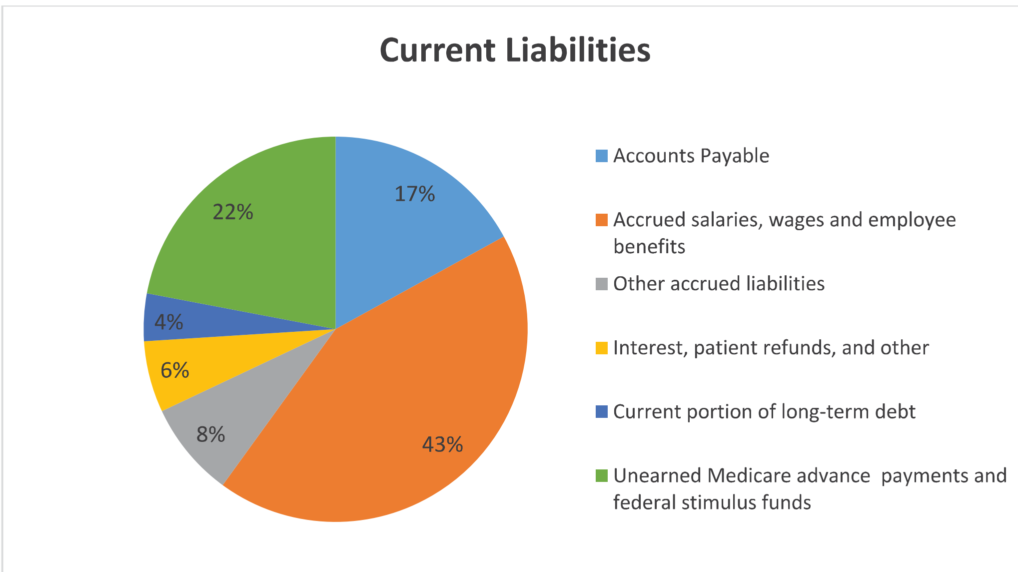


Total other noncurrent assets decreased $16.9 million from $145.0 million at June 30, 2020 to $128.1 million at June 30, 2021. The decrease in fiscal year 2021 was primarily related to unspent bond proceeds decreased by $12.4 million and unearned compensation plan arrangements decreased by $6.9 million. The decrease of the $6.9 million in unearned compensation plan arrangements was the result of the former CEO retired in December 2020 and was eligible to take his deferred compensation. Total other noncurrent assets decreased $4.2 million from $149.2 million at June 30, 2019 to $145.0 million at June 30, 2020. The decrease in 2020 was primarily related to unspent bond proceeds decreased by $6.7 million.

Capital assets increased $6.1 million during fiscal year 2021 from $393.2 million at June 30, 2020 to $399.3 million at June 30, 2021 and increased $8.1 million during fiscal year 2020 from $385.1 million at June 30, 2019 to $393.2 million at June 30, 2020. The increases in 2020 and 2021 were primarily due to improvements done in the second floor of the hospital and construction in progress for the cancer center project. VMC has current commitments of $10.8 million at June 30, 2021 related to various construction projects, equipment purchases and information technology implementations.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within one year. Total current liabilities were $204.8 million at June 30, 2021, compared to $229.3 million at June 30, 2020. Fiscal year 2021 composition of current liabilities is illustrated in the pie chart below.



Accounts payable increased $9.7 million between June 30, 2020 and June 30, 2021 from $23.9 million to $33.6 million and increased $3.3 million between June 30, 2019 and June 30, 2020 from $20.6 million to $23.9 million. Changes in accounts payable are primarily driven by timing of payments to vendors, as well as overall volume growth. The increase between fiscal year 2020 and fiscal year 2021 was also attributed to the implementation of Compass in June 2021 that caused delays in processing invoices. Included in accounts payable as of June 30, 2021 and 2020 were amounts accrued for capital related expenditures of $8.3 million and $5.1 million, respectively.

Accrued salaries, wages, and employee benefits increased $18.5 million from $68.9 million at June 30, 2020 to $87.4 million at June 30, 2021 and increased $9.4 million from $59.5 million at June 30, 2019 to $68.9 million at June 30, 2020. Changes in accrued salaries, wages, and employee benefits are also related to timing of payments to employees, as well as the overall growth in FTEs due to volume growth and expansion. The increase between 2020 and 2021 was primarily due to $6.5 million deferred FICA tax payable and $6.3 million 403(b) retirement plan liabilities recorded in 2021.

Other accrued liabilities, including estimated third-party payer settlements, decreased $15.0 million from $31.2 million at June 30, 2020 to $16.2 million at June 30, 2021 and decreased $0.7 million from $31.9 million at June 30, 2019 to $31.2 million at June 30, 2020. The decrease in 2021 was due to payments of fiscal year 2014 to 2016 final settlement and fiscal year 2019 interim settlement. The decrease in 2020 was due to payments of fiscal year 2013 final settlement and fiscal year 2018 interim settlement.

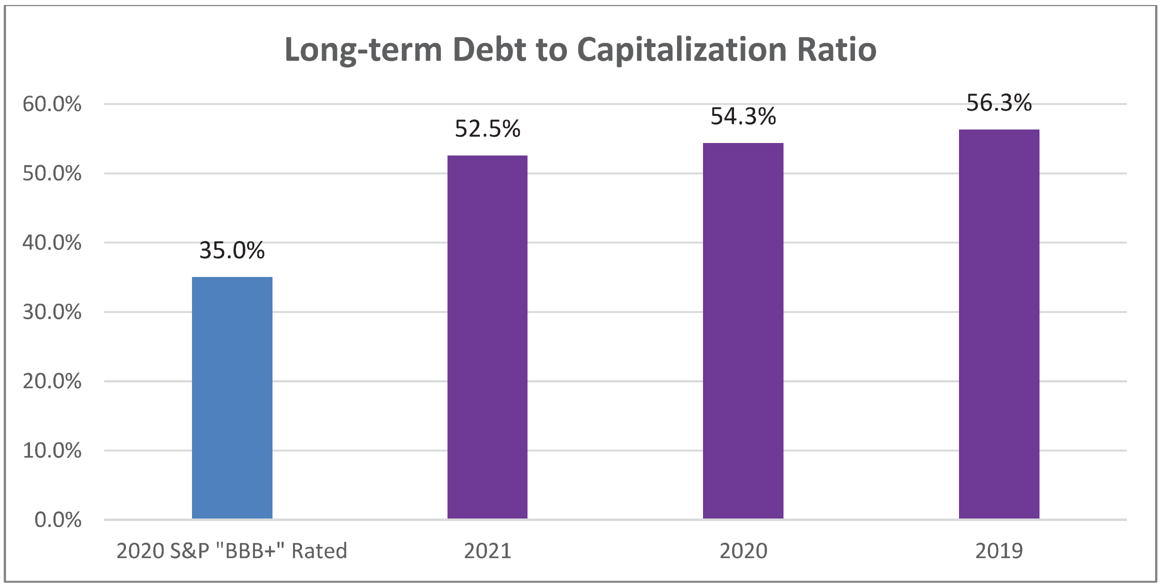
Medicare advanced payments and unearned federal stimulus funds decreased $36.9 million from $82.2 million at June 30, 2020 to $45.3 million at June 30, 2021. It was a new liability recorded in fiscal year 2020. The decrease in fiscal year 2021 was due to reclassification of $12.1 million Medicare advanced payments as a long-term liability, repayment of $6.9 million Medicare advanced payments and recognition of $19.9 million federal stimulus program revenue in the statements of revenues, expenses and changes in net position. VMC applied for six-month advanced payments from Medicare and received $64.3 million on April 7, 2020 to stabilize it's cash position due to lost revenues from the cancellation of elective procedures in response to COVID-19 pandemic. On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which would give hospital providers one year from the date of original advance before Medicare can begin to recover the advances and twenty-nine months from the date of the original advance to fully repay the advanced payment without interest. VMC also received $21.1 million of federal stimulus payment as a safety net hospital in June 2020 and $2.0 million in July 2020 as hot spot target distribution that were part of the Provider Relief Fund. See more detail discussions on this topic in 2(n) of notes to financial statements.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt and other noncurrent liabilities. Total noncurrent liabilities were $325.7 million at June 30, 2021, compared to $328.1 million at June 30, 2020.

Long-term debt decreased from $317.6 million at June 30, 2020 to $307.0 million at June 30, 2021 and decreased from $332.4 million at June 30, 2019 to $317.6 million at June 30, 2020. The decrease in 2021 was a result of payments made in accordance with debt repayment schedules. The decrease in 2020 was a result of payments made in accordance with debt repayment schedules and the refinancing of series 2010A bonds. Management is not aware of any violations with its debt covenants for the years ended June 30, 2021 and 2020. S&P Global Ratings issued long-term rating of A-/Stable to VMC on March 29, 2021.

Long-term debt to capitalization is a ratio used to evaluate the capital structure of healthcare organizations. The graph below shows the long-term debt to capitalization ratio as of June 30 for 2021, 2020, and 2019 and comparison to the S&P BBB+ rated hospitals has been included in the bar chart below.



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

Net Position

Invested in capital assets, net of related debt increased by $5.0 million from $117.8 million at June 30, 2020 to $122.8 million at June 30, 2021 and increased by $15.6 million from $102.2 million at June 30, 2019 to $117.8 million at June 30, 2020. The increases in both fiscal year2021 and 2020 were due to capital additions and repayment of related debt.

Unrestricted increased by $4.5 million from $157.9 million at June 30, 2020 to $162.4 million at June 30, 2021 and decreased by $6.1 million from $164.0 million at June 30, 2019 to $157.9 million at June 30, 2020. The increase in fiscal year 2021 was due to the increase in net position in the statement of revenues, expenses, and changes in net position was more than the increase in net investment in capital. The decrease in fiscal year 2020 was due to the increases in net position in the statement of revenues, expenses, and changes in net position was less than the combined impact from the increase in net investment in capital and decrease in restricted for debt services.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources decreased by $1.1 million from $15.1 million at June 30, 2020 to $14.0 million at June 30, 2021. Deferred outflows of resources decreased by $1.0 million from $16.1 million at June 30, 2019 to $15.1 million at June 30, 2020. The decreases in 2021 and 2020 were due to amortization of the deferred amount from the debt refinancing.

Deferred inflows of resources decreased $1.5 million from $29.2 million at June 30, 2020 to $27.7 million at June 30, 2021. The decrease between 2020 and 2021 was due to amortization of a deferred gain on sale of VPCN and deferred rental income. Deferred inflows of resources increased $5.4 million from $23.8 million at June 30, 2019 to $29.2 million at June 30, 2020. The increase between 2019 and 2020 was due to addition of $6.6 million deferred rental income from the ground lease on the new medical office building Valley Medical Pavilion.

Factors Affecting the Future

Economic Uncertainty Facing the Healthcare Industry

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

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

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

Embright LLC

UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance in 2017 to expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. UW Medicine, MultiCare, and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following University board of regent approval in October 2018. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the partners to develop care delivery models that will improve patient care and experience at a more affordable cost. Together, the founding organizations represent 14 hospitals, more than 6,500 providers, and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary, and post acute care. Throughout the network, teams are also implementing evidence-based clinical protocols and care pathways, standardized processes and care management services for complex patients.

Contacting VMC's Financial Management

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

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

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

Statements of Net Position

June 30, 2021 and 2020

		Valley Medical Center		Component unit – Imaging Partners at Valley	
Assets		**2021**	**2020**	**2021**	**2020**
Current assets:					
Cash and cash equivalents	$	151,528,013	113,674,321	1,171,502	1,205,500
Short-term investments		25,335,479	74,034,808	—	—
Accounts receivable, less allowance for uncollectible accounts of $18,587,950 in 2021 and $16,617,369 in 2020		80,102,677	77,781,343	—	—
Property tax receivable		11,987,874	12,036,353	—	—
Due from:					
Primary government		—	—	1,096,888	529,927
Component unit		743,731	308,739	—	—
Supplies inventory		9,437,924	7,133,613	—	—
Prepaid expenses and other assets		21,449,258	21,691,529	76,238	79,580
Total current assets		300,584,956	306,660,706	2,344,628	1,815,007
Long-term investments		150,456	257,008	—	—
Other noncurrent assets:					
Unrestricted for general capital improvements and operations		102,228,033	99,769,877	—	—
Restricted unspent bond proceeds		25,853,206	38,254,147	—	—
Restricted under unearned compensation plan arrangements		21,363	6,913,778	—	—
Restricted under revenue bond indenture agreements		—	40,492	—	—
Total other noncurrent assets		128,102,602	144,978,294	—	—
Capital assets:					
Land		14,025,533	14,025,533	—	—
Construction in progress		62,192,820	37,759,466	—	—
Depreciable capital assets, net of accumulated depreciation		323,101,933	341,432,400	4,263,617	554,548
Total capital assets		399,320,286	393,217,399	4,263,617	554,548
Goodwill, intangible assets, and other		2,368,054	2,924,101	—	—
Total assets		830,526,354	848,037,508	6,608,245	2,369,555
Deferred outflow of resources		14,033,230	15,111,746	—	—
Total assets and deferred outflows	$	844,559,584	863,149,254	6,608,245	2,369,555

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

Statements of Net Position

June 30, 2021 and 2020

Liabilities and Net Position	Valley Medical Center 2021	Valley Medical Center 2020	Component unit – Imaging Partners at Valley 2021	Component unit – Imaging Partners at Valley 2020
Current liabilities:				
Accounts payable	$ 33,629,207	23,888,046	203,357	104,101
Accrued salaries, wages, and benefits	87,366,801	68,858,584	—	—
Due to:				
Primary government	—	—	743,731	308,739
Component unit	1,096,888	529,927	—	—
Other accrued liabilities, including estimated third-party payer settlements	16,165,875	31,221,411	—	—
Interest, patient refunds, and other	12,475,328	12,053,522	—	—
Current portion of long-term debt and capital lease obligations	8,793,850	10,569,719	770,570	—
Medicare advanced payments and unearned federal stimulus funds	45,265,010	82,185,897	—	—
Total current liabilities	204,792,959	229,307,106	1,717,658	412,840
Unearned compensation plan	21,363	6,913,778	—	—
Long-term debt and capital lease obligations, net of current portion	307,016,985	317,596,925	3,044,681	—
Other long-term liabilities	18,655,770	3,550,806	—	—
Total liabilities	530,487,077	557,368,615	4,762,339	412,840
Deferred inflows of resources	27,723,016	29,190,450	—	—
Net position:				
Invested in capital assets, net of related debt	122,830,477	117,795,663	448,366	554,548
Restricted:				
For debt service	—	40,492	—	—
Expendable for specific operating activities	1,112,496	815,050	—	—
Unrestricted	162,406,518	157,938,984	1,397,540	1,402,167
Total net position	286,349,491	276,590,189	1,845,906	1,956,715
Total liabilities, deferred inflows, and net position	$ 844,559,584	863,149,254	6,608,245	2,369,555

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

	VMC		Component unit – IPV	
	2021	**2020**	**2021**	**2020**
Operating revenues:				
Net patient service revenue (net of VMC's provision for uncollectible accounts of $17,087,893 in 2021 and $15,761,141 in 2020)	$ 707,367,054	639,969,576	643	1,272
Other operating revenue	79,491,475	72,843,638	8,680,932	7,868,050
Total operating revenues	786,858,529	712,813,214	8,681,575	7,869,322
Operating expenses:				
Salaries and wages	408,510,087	381,790,804	—	—
Employee benefits	104,859,272	93,547,257	—	—
Purchased services	111,430,978	98,616,841	877,796	848,620
Supplies and other expenses	152,125,250	146,856,313	283,051	221,225
Depreciation	31,822,216	33,147,695	496,600	218,055
Total operating expenses	808,747,803	753,958,910	1,657,447	1,287,900
Operating (loss) income	(21,889,274)	(41,145,696)	7,024,128	6,581,422
Nonoperating income (expense):				
Property tax revenue	24,372,996	24,002,665	—	—
Interest income	2,836,680	4,269,673	—	—
Interest and amortization expense	(12,657,037)	(13,961,219)	(44,177)	—
Investment (loss) income, net	(2,231,285)	4,516,142	—	—
Funding from affiliates	7,876,038	6,141,496	—	—
Funding to affiliates	(7,745,534)	(5,583,178)	—	—
Federal stimulus program	19,855,241	30,041,060	—	—
Other, net	(658,523)	(1,432,092)	—	—
Distributions to members	—	—	(7,090,760)	(6,715,812)
Net nonoperating income (expense)	31,648,576	47,994,547	(7,134,937)	(6,715,812)
Increase (decrease) in net position	9,759,302	6,848,851	(110,809)	(134,390)
Net position, beginning of year	276,590,189	269,741,338	1,956,715	2,091,105
Net position, end of year	$ 286,349,491	276,590,189	1,845,906	1,956,715

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	VMC		Component unit – IPV	
	2021	**2020**	**2021**	**2020**
Cash flows from operating activities:				
Receipts from and on behalf of patients	$ 684,919,961	699,335,935	643	1,272
Payments to suppliers and contractors	(260,257,292)	(244,074,469)	(1,166,997)	(1,122,675)
Payments to employees	(491,899,525)	(461,462,424)	—	—
Other cash receipts	79,709,245	71,102,752	8,075,451	8,398,592
Net cash provided by operating activities	12,472,389	64,901,794	6,909,097	7,277,189
Cash flows from noncapital financing activities:				
Cash received from tax levy	24,637,869	23,740,725	—	—
Cash received from federal stimulus program	1,966,858	47,929,442	—	—
Distribution to Valley Medical Center	—	—	(5,237,615)	(5,827,708)
Distribution to noncontrolling member of Imaging Partners at Valley, LLC	—	—	(1,309,404)	(1,456,926)
Other	380,351	397,421	—	—
Net cash provided by (used in) noncapital financing activities	26,985,078	72,067,588	(6,547,019)	(7,284,634)
Cash flows from capital and related financing activities:				
Principal payments on long-term debt and capital lease obligations	(9,764,226)	(10,352,224)	(312,901)	—
Interest paid	(13,403,331)	(14,509,297)	(44,177)	—
Purchases of capital assets	(34,998,575)	(40,708,635)	(38,998)	(2,782)
Cash paid on note payable	(240,000)	(240,000)	—	—
Proceeds from issuance of refunding bonds	—	6,680,000	—	—
Payment to refunding bond escrow agent	—	(8,978,769)	—	—
Cash paid for bond issuance	—	(76,121)	—	—
Other	(2,592,198)	4,235,018	—	—
Net cash used in capital and related financing activities	(60,998,330)	(63,950,028)	(396,076)	(2,782)
Cash flows from investing activities:				
Sale of investments and other noncurrent assets	81,589,728	97,903,746	—	—
Purchases of investments and other noncurrent assets	(25,031,853)	(95,675,503)	—	—
Investment and interest income	2,836,680	4,269,673	—	—
Net cash provided by investing activities	59,394,555	6,497,916	—	—
Net increase (decrease) in cash and cash equivalents	37,853,692	79,517,270	(33,998)	(10,227)
Cash and cash equivalents, beginning of year	113,674,321	34,157,051	1,205,500	1,215,727
Cash and cash equivalents, end of year	$ 151,528,013	113,674,321	1,171,502	1,205,500

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

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	VMC		Component unit – IPV	
	2021	**2020**	**2021**	**2020**
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ (21,889,274)	(41,145,696)	7,024,128	6,581,422
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation	31,822,216	33,147,695	496,600	218,055
Provision for uncollectible accounts	17,087,893	15,761,141	—	—
Gain on sale of capital assets	—	—	(38,520)	—
Changes in assets and liabilities:				
Accounts receivable	(19,409,227)	(18,120,198)	—	—
Due from:				
Primary government	—	—	(566,961)	530,542
Component unit	(434,993)	455,059	—	—
Supplies inventory	(2,304,311)	81,382	—	—
Prepaid expenses and other assets	242,272	(4,708,190)	3,342	(31,116)
Accounts payable	6,519,057	1,921,417	(9,492)	(21,714)
Accrued salaries, wages, and benefits	18,508,217	9,407,322	—	—
Due to:				
Component unit	566,961	(530,542)	—	—
Other accrued liabilities and estimated third-party payer settlements	(15,055,536)	(696,947)	—	—
Other liabilities	3,708,272	4,114,327	—	—
Medicare advanced payments	(6,889,158)	64,297,515	—	—
Unearned compensation plan	—	917,509	—	—
Net cash provided by operating activities	$ 12,472,389	64,901,794	6,909,097	7,277,189
Supplemental disclosure of noncash investing, capital, and financing activities:				
Increase in accrued capital included in accounts payable	$ 3,222,103	1,364,373	—	—
Net unrealized (losses) gains on investments	(2,185,113)	3,963,004	—	—

See accompanying notes to basic financial statements.

(1) Organization

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

The District, dba Valley Medical Center (VMC), and the University of Washington (the University) participate in a Strategic Alliance Agreement. Under this agreement, VMC is a discretely presented component unit of the University, subject to the oversight of a Board of Trustees.

The Board of Trustees oversees the healthcare operations of the District, while a publicly elected Board of Commissioners oversees the District's tax levies and certain nonhealthcare-related functions.

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

The Board of Trustees is designed to include all of the then-current Public Hospital District Commissioners, as well as five trustees who reside within the District Service Area, at least three of whom also reside within the boundaries of the District. In addition, two current or former trustees of the UW Medicine board or a Board of another component unit within UW Medicine and the CEO of UW Medicine and Dean of the University of Washington School of Medicine or his designee also serve on the Board of Trustees. The Board of Trustees members, which included the five elected Board of Commissioners, during fiscal year 2021 were:

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

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

VMC is part of UW Medicine, which includes UW Medical Center, Harborview Medical Center (Harborview), UW Physicians Network dba UW Neighborhood Clinics (the Clinics), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

Financial Reporting Entity

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

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Accounting Standards

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

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

(b) Basis of Accounting

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

(c) Use of Estimates

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

(d) General Accounts

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

(i) Operating Account

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

(ii) Plant and Construction Accounts

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

(iii) Bond Account

Principal and interest payments on the Series 2011, 2016, 2018, and 2020 bonds are made from this account.

(iv) Restricted Accounts

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

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of purchase, excluding amounts whose use is limited by board designation or by other arrangements under trust agreements.

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the deposits may not be returned to the depositor. The Federal Deposit Insurance Corporation (FDIC) provides insurance to depositors to guard against custodial credit risk. Under FDIC insurance coverage is provided for account balances up to $250,000 per depositor, per insured bank. As of June 30, 2021 and 2020, VMC had no bank balances subject to custodial credit risk as any deposits in excess of $250,000 were covered by collateral held in a multi financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(f) Investments

VMC holds investments, as allowed by State law, in the form of bankers' acceptances, repurchase agreements, obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, and certificates of deposit with financial institutions in accordance with state guidelines. Investments are for the funding of future capital improvements, self-insurance liabilities, and operations. In addition, certain funds are restricted by bond indentures to be used solely for debt service. Long-term investments represent unrestricted and undesignated investments with greater than one year to maturity as of June 30, 2021.

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

(g) Inventories

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

(h) Capital Assets

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

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

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

Qualifying interest is capitalized on construction projects as a cost of the related project beginning with commencement of construction and ceases when the construction period ends, and the related asset is placed in service.

(i) Goodwill, Intangible Assets, and Other

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

(j) Compensated Absences

VMC employees earn annual leave at rates based on the employee's level of employment, applicable labor agreements, and length of service and sick leave based on hours worked during a biweekly pay period. Annual leave balances, which are limited to two times the annual accrual rate, can be converted to monetary compensation upon employment termination. Sick leave balances, which are unlimited, may be converted to monetary compensation upon employment termination at a percentage of the employees' normal compensation rate based on continuous years of service depending upon the employee's level of employment and the applicable labor agreement. VMC recognizes annual and sick leave liabilities when earned.

Annual leave accrued at June 30, 2021 and 2020 was $24.6 million and $22.2 million, respectively. Sick leave accrued as of June 30, 2021 and 2020 was $6.6 million and $6.0 million, respectively. The accrued annual and sick leave liabilities are included in accrued salaries, wages, and benefits in the accompanying primary government statements of net position.

(k) Third-Party Payer Settlements, Net

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

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

(l) Classification of Revenues and Expenses

VMC's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues, such as 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 or IPV to provide healthcare services to patients.

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

(m) Net Patient Service Revenue

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

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

(i) *Medicare*

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

(ii) *Medicaid*

Inpatient services rendered to Medicaid program beneficiaries are provided at prospectively determined rates per discharge. Outpatient services rendered are provided based upon the APC prospective payment system.

(iii) *Commercial*

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

(iv) *UW Medicine Accountable Care Network*

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

(n) Medicare Advanced Payments and unearned Federal Stimulus Funds

In response to the COVID-19 pandemic, VMC pursued additional sources of liquidity through various federal programs. VMC applied for and received approval for the estimated six months of Medicare payments under Centers for Medicare and Medicaid Services (CMS) Medicare Advanced Payment Program (MAPP). VMC received $64.3 million on April 7, 2020 which is reflected in Medicare advanced payments and unearned federal stimulus funds in the accompanying statements of net position as of June 30, 2020. On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which would give hospital providers one year from the date of the original advance before Medicare can begin to recover the advances and twenty-nine months from the date of the original advance to fully repay the advanced payment without interest. As Medicare recovers the funds through paid claims, VMC will recognize the earned revenue through net patient service revenue. Medicare started on April 9, 2021 to recover the advances by withholding twenty five percent of the claim payments. As of June 30, 2021, Medicare recovered and VMC recognized $6.9 million in net patient service revenue. As of June 30, 2021, VMC recorded $45.3 million in Medicare advanced payments and $12.1 million in other long-term liabilities in the accompanying statements of net position.

The federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) Provider Relief Fund (PRF) in March 2020. The PRF is distributing $175 billion to hospitals and healthcare providers to assist with the COVID-19 response. The PRF payments are to assist with additional expenses associated with COVID-19 and lost revenues associated with lower volumes, canceled procedures and services due to COVID-19. PRF payments consisted of both general and targeted distributions, of which VMC received both type of distributions for a total amount of $49.9 million. VMC received payments on April 10, April 24, May 7, June 12, and July 20, 2020. For the years ended June 30, 2021 and 2020, VMC recognized Provider Relief Funds of $19.9 million and $30.0 million, respectively, which is reflected in federal stimulus program revenue in the accompanying statements of revenues, expenses and changes in net position. As of June 30, 2020 VMC recorded $17.9 million in Medicare advanced payments and unearned federal stimulus funds in the accompanying statement of net position. All federal stimulus funds have been recognized and there are no unearned federal stimulus funds in the accompanying statements of net position as of June 30, 2021.

(o) Financial Assistance

VMC provides care without charge or at amounts less than established charges to patients who meet certain criteria under its financial assistance policy. VMC maintains records to identify and monitor the level of financial assistance it provides. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because VMC does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as net patient service revenue. The charges associated with financial assistance provided by VMC were approximately $15.8 million and $21.4 million, respectively, for the years ended June 30, 2021 and 2020.

VMC estimates the cost of financial assistance using its cost to charge ratio of 25.7% and 24.3% for the fiscal years ended June 30, 2021 and 2020, respectively. Applying VMC's cost to charge ratio of 25.7% to total financial assistance of $15.8 million results in a cost of financial assistance of approximately $4.1 million for the fiscal year ended June 30, 2021. Applying VMC's cost to charge ratio of 24.3% to total financial assistance of $21.4 million results in a cost of financial assistance of approximately $5.2 million for the fiscal year ended June 30, 2020.

(p) Federal Income Taxes

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

IPV is a limited liability company and, therefore, is not a tax-paying entity for federal income tax purposes. Accordingly, no current or deferred income tax expense has been recorded in IPV's financial statements. Income of IPV is taxed to the members on their individual tax returns, if applicable. IPV had no uncertain tax positions at June 30, 2021 or 2020.

(q) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the excess of the reacquisition price over the carrying amount of bonds refinanced in fiscal years 2017, 2019, and 2020. This balance is amortized to interest expense through 2040. The balance was $14.0 million and $15.1 million at June 30, 2021 and 2020, respectively.

Deferred inflows of resources consist of property tax revenue, a deferred gain from the sale of Valley Professional Center North (VPCN), and deferred rental income from the ground lease of Valley Medical Pavilion (VMP). Deferred property tax revenue is recorded in January and amortized to property tax revenue over the calendar year. The balance of the deferred gain on the sale of VPCN is being amortized to other nonoperating income through 2028. The balance of deferred rental income is being amortized to other nonoperating income through 2119. The following are the components of deferred inflows of resources as of June 30, 2021 and 2020:

		VMC	
		2021	**2020**
Property tax revenue	$	12,368,196	12,151,802
Deferred gain on sale of VPCN		8,785,320	10,401,998
Deferred rental income VMP		6,569,500	6,636,650
Total deferred inflows of resources	$	27,723,016	29,190,450

(r) Net Position

Net position of VMC is classified in various components. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by outstanding borrowings used to finance the purchase or construction of those assets. Restricted for debt service consists of assets restricted, by each revenue bonds' official terms for expenditures of principal and interest. Restricted and expendable for specific operating activities are noncapital net assets that must be used for a particular purpose, as specified by donors external to VMC. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

(s) *Recently Adopted and New Accounting Pronouncements*

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which was effective upon issuance. This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. As a result, VMC has postponed implementation of Statements No. 87 and No. 89.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. This Statement changes the current classification of lease arrangements as either operating or capital leases and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This Statement applies to contracts that convey the right to use a nonfinancial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. On July 1, 2021, upon adoption of the standard, VMC expects to recognized lease liabilities and right-to-use lease assets of approximately $120.5 million and $115.6 million, respectively, in the statements of net position. In addition, VMC expects to recognize lease receivables and deferred inflows of resources of approximately $25.1 million and $24.8 million, respectively, in the statements of net position.

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

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines an SBITA, establishes that an SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of an SBITA), and requires note disclosures regarding an SBITA. VMC is currently analyzing the impact of this Statement.

(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 2021 and 2020, net patient service revenue increased approximately $5.2 million and $1.1 million, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement.

The following are the components of net patient service revenue for VMC for the years ended June 30, 2021 and 2020:

	VMC	
	2021	2020
Gross patient service revenue	$ 2,417,496,136	2,233,923,974
Less adjustments to patient service revenue:		
Financial assistance	(15,770,886)	(21,427,222)
Contractual discounts	(1,677,270,303)	(1,556,766,035)
Provision for uncollectible accounts	(17,087,893)	(15,761,141)
Total adjustments to patient service revenue	(1,710,129,082)	(1,593,954,398)
Net patient service revenue	$ 707,367,054	639,969,576

VMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of gross patient service revenue and accounts receivable by primary payers as of and for the years ended June 30, 2021 and 2020 were as follows:

	2021	
	VMC	
	Patient service revenue	Accounts receivable
Medicare	40 %	34 %
Medicaid	20	19
Commercial and other	37	41
Self pay	2	5
Exchange (HIX)	1	1
Total	100 %	100 %

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

(a) *Medicaid Certified Public Expenditure Reimbursement*

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

"Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claim will be allowed federal match on the amount of the related certified public expenditures. Per CMS-approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. VMC recognized $8.0 million and $6.9 million in net patient service revenue under this program for the years ended June 30, 2021 and 2020, respectively.

In addition, VMC receives the federal match portion of Disproportionate Share Payments (DSH), which are the lesser of qualifying uncompensated care cost or the hospital's specific limit. VMC received $19.7 million and $17.8 million in DSH funding under this program in fiscal years 2021 and 2020, respectively. VMC recognized $22.7 million and $13.3 million in net patient service revenue from DSH funding for the years ended June 30, 2021 and 2020, respectively, in the statements of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once VMC's Medicare Cost Report is audited by CMS. CPE program payments are not considered final until the retrospective cost reconciliation is complete, after VMC receives its Medicare Notice of Program Reimbursements (NPR) for the corresponding cost reporting year. To date, beginning with the 2006 CPE year, State Fiscal Years 2006 to 2016 CPE program years have had a final settlement. Fiscal year 2016 final settlement was paid in June 2021. As of June 30, 2021, VMC had estimated payables of $14.7 million for fiscal years 2017 to 2021. As of June 30, 2020, VMC had estimated payables of $29.4 million for fiscal years 2014 to 2020, which are included as liabilities in other accrued liabilities, including estimated third-party payer settlements in the accompanying statements of net position.

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

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

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

VMC recognized net revenue of $0.3 million and $0.4 million from the PSSP program for the years ended June 30, 2021 and 2020, respectively. VMC recognized net revenue of $7.1 million and $3.5 million from the PAP program for the years ended June 30, 2021 and 2020, respectively. These amounts are included in net patient service revenue in the statements of revenues, expense, and changes in net position.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses local funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days. Under the HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments and CPE hospitals receive state grants. CMS approved the most recent program in 2015. The program has an expiration date of June 30, 2025.

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

VMC received grant funding of $2.1 million each year for the years ended June 30, 2021 and 2020, which is recorded in other operating revenue in the statements of revenues, expenses, and changes in net position.

(4) Property Tax Revenue

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

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

The District is permitted by law to levy up to $0.75 per $1,000 assessed valuation for general district purposes. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Greater amounts of tax, above the limit, need to be for a specific capital project and authorized by the vote of the people.

For the calendar year 2021, the District's tax levy rate was $0.39 per assessed $1,000 in property value pursuant to the District's authorized tax levy in December 2020 resulting in a tax levy of $24.7 million.

For the calendar year 2020, the District's tax levy rate was $0.40 per assessed $1,000 in property value pursuant to the District's authorized tax levy in December 2019 resulting in a tax levy of $24.4 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, 2021 and 2020 are $12.0 million, and are shown as current assets in the statements of net position. See note 2(q) for deferred inflow for deferred property tax revenue.

Revenues from taxation are $24.4 million and $24.0 million for the fiscal years 2021 and 2020, respectively, and are recorded as nonoperating revenue in the statements of revenues, expenses and changes in net position.

The District has pledged its future tax revenues, as well as operating revenues, to repay its limited tax general obligation and revenue bonds issued in 2011, 2016, 2018 and 2020 to finance construction, other capital improvements, medical equipment and technology, and information technology systems.

(5) Deposits and Investments

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

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

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

At June 30, 2021 and 2020, deposits and investments of VMC consist of the following:

	2021	2020
Unrestricted cash	$ 125,562,355	101,936,359
Unrestricted investments and cash equivalents:		
U.S. Treasury and agency securities and bonds	105,602,700	145,600,324
Corporate notes	19,629,256	25,820,558
Supranational bonds	2,382,006	2,440,796
Investment pools	24,860,735	10,923,565
Municipal bonds	100,006	200,019
	152,574,703	184,985,262
Restricted assets:		
Cash and cash equivalents	2,281,795	10,093,992
U.S. Treasury and agency securities and bonds	3,021,160	7,558,036
Investment pools	21,655,174	21,457,004
Other assets	21,363	6,913,778
	26,979,492	46,022,810
	$ 305,116,550	332,944,431

Other assets are related to an unearned compensation plan, which is self-directed by the participant of the plan that includes money market funds and other eligible investments as authorized by state law. While the investments are currently in VMC's name and available to VMC's creditors, the payment of unearned compensation to the participant will be for the resulting value of the self-directed investments. Therefore, the risk of loss has been transferred to the participant. The unearned compensation plan arrangements decreased by $6.9 million in fiscal year 2021 as the result of the former CEO retired in December 2020 and was eligible to take his deferred compensation.

(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, 2021 and 2020, VMC's investment in the Pool was not rated by a NRSRO. In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency and mortgage-backed securities, municipal securities (rated at least A by two NRSROs), commercial paper (rated at least the equivalent of A-1 by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the LGIP managed by the Washington State Treasurer's Office.

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

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date
>
> Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
>
> Level 3 – Unobservable inputs for an asset or liability

The composition of investments, reported at fair value by investment type and rating at June 30, 2021 and excluding unrestricted and restricted cash and cash equivalent balances of $127.8 million, and investment pools balances of $46.5 million, is as follows:

Investment type	Level 1	Level 2	Ratings	Percentage of total
U.S. Treasury securities	$ —	85,267,076	AA+/A-1+	65.2 %
U.S. agency securities	—	18,411,933	AA+	14.1
U.S. agency mortgages	—	4,944,851	AA+	3.8
Municipal bonds	—	100,006	A	0.1
Corporate notes	—	19,629,256	Various	15.0
Supranational bonds	—	2,382,006	AAA	1.8
Other assets	21,363	—	Not rated	—
Total investments by fair value level	$ 21,363	130,735,128		100.0 %

The composition of investments, reported at fair value by investment type and rating at June 30, 2020 and excluding unrestricted and restricted cash and cash equivalent balances of $112.0 million, and investment pools balances of $32.4 million, is as follows:

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

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

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

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

(b) Custodial Credit Risk

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

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

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

(c) Interest Rate Risk

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

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

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

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

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

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

2021		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	$ 85,267,076	13,625,739	21,565,574	37,008,203	13,067,560
U.S. agency securities	18,411,933	4,759,264	—	5,998,788	7,653,881
U.S. agency mortgages	4,944,851	—	21,573	403,857	4,519,421
King County investment Pool	46,515,909	—	46,515,909	—	—
Municipal bonds	100,006	—	—	—	100,006
Corporate notes	19,629,256	7,759,227	7,390,778	4,470,484	8,767
Supranational bonds	2,382,006	2,381,881	125	—	—
Other assets	21,363	—	—	—	21,363
	$ 177,272,400	28,526,111	75,493,959	47,881,332	25,370,998

2020		Remaining maturity (in months)			
Investment type	Carrying value	12 months or less	13 to 24 months	25 to 48 months	More than 48 months
U.S. Treasury securities	$ 127,203,222	70,918,669	6,437,921	36,097,144	13,749,488
U.S. agency securities	18,495,280	6,519,133	8,376,281	3,599,866	—
U.S. agency mortgages	7,459,858	131,615	—	407,929	6,920,314
King County investment Pool	32,380,569	—	32,380,569	—	—
Municipal bonds	200,019	—	—	—	200,019
Corporate notes	25,820,558	4,074,786	8,545,319	9,793,681	3,406,772
Supranational bonds	2,440,796	—	2,440,796	—	—
Other assets	6,913,778	—	—	—	6,913,778
	$ 220,914,080	81,644,203	58,180,886	49,898,620	31,190,371

(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, 2021 and 2020 is set forth below:

	Balance June 30, 2020	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2021
Nondepreciable capital assets:					
Land	$ 14,025,533	—	—	—	14,025,533
Construction in progress	37,759,466	37,330,449	(12,897,095)	—	62,192,820
Total capital assets not being depreciated	51,784,999	37,330,449	(12,897,095)	—	76,218,353
Capital assets being depreciated:					
Land improvements	18,777,721	—	—	—	18,777,721
Buildings, renovations, and furnishings	509,580,529	—	1,769,180	—	511,349,709
Fixed equipment	22,707,731	—	—	—	22,707,731
Movable equipment	198,193,259	594,654	10,608,783	(5,414,129)	203,982,567
Minor equipment	21,731,521	—	519,132	(41,824)	22,208,829
Total capital assets being depreciated	770,990,761	594,654	12,897,095	(5,455,953)	779,026,557
Total capital assets at historical cost	822,775,760	37,925,103	—	(5,455,953)	855,244,910
Less accumulated depreciation for:					
Land improvements	(12,720,554)	(221,760)	—	—	(12,942,314)
Buildings, renovations, and furnishings	(224,181,682)	(15,394,402)	—	—	(239,576,084)
Fixed equipment	(21,059,197)	(198,372)	—	—	(21,257,569)
Movable equipment	(155,211,454)	(14,489,194)	—	5,414,129	(164,286,519)
Minor equipment	(16,385,474)	(1,518,488)	—	41,824	(17,862,138)
Total accumulated depreciation	(429,558,361)	(31,822,216)	—	5,455,953	(455,924,624)
Total capital assets, net	$ 393,217,399	6,102,887	—	—	399,320,286

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

Included in movable equipment at June 30, 2021 and 2020 are $0.9 million and $4.6 million of equipment under capital lease, respectively. Accumulated amortization of the equipment under capital lease totaling $0.1 million and $4.3 million are included in accumulated depreciation at June 30, 2021 and 2020, respectively.

Depreciation expense was $31.8 million and $33.4 million for the years ended June 30, 2021 and 2020, respectively.

(b) IPV's Capital Assets

The activity in IPV's capital asset and related accumulated depreciation accounts for the years ended June 30, 2021 and 2020 is set forth below:

	Balance June 30, 2020	Additions/ adjustments	Transfers	Retirements	Balance June 30, 2021
Buildings, renovations, and furnishings	$ 267,686	—	—	—	267,686
Movable equipment	5,894,929	4,212,599	—	(685,622)	9,421,906
Total capital assets being depreciated at historical cost	6,162,615	4,212,599	—	(685,622)	9,689,592
Less accumulated depreciation for:					
Buildings, renovations, and furnishings	(143,442)	(5,544)	—	—	(148,986)
Movable equipment	(5,464,625)	(491,056)	—	678,692	(5,276,989)
Total accumulated depreciation	(5,608,067)	(496,600)	—	678,692	(5,425,975)
Total capital assets, net	$ 554,548	3,715,999	—	(6,930)	4,263,617

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

Included in movable equipment at June 30, 2021 is $4.2 million of equipment under capital lease. Accumulated amortization of the equipment under capital lease totaling $0.4 million is included in accumulated depreciation at June 30, 2021. IPV did not have any equipment under capital lease in fiscal year 2020.

(7) Long-Term Debt and Capital Lease Obligations

(a) VMC's Long-Term Debt

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

		2021	2020
Limited tax general obligation bonds:			
2020 series, 2.04%, due serially on June 15 starting in 2021, in amounts from $1,615,000 in 2021 to $1,725,000 in 2024, plus interest due semiannually	$	5,065,000	6,680,000
2018 series, 4% to 5%, due serially on December 1, in amounts from $2,795,000 in 2021 to $3,995,000 in 2044, plus interest due semiannually, including unamortized premium of $8,051,362		104,306,362	107,786,685
2016 series, 4% to 5%, due serially on December 1, in amounts from $2,190,000 in 2021 to $16,455,000 in 2038, plus interest due semiannually, including unamortized premium of $14,192,755		203,152,755	207,037,330
2011 term bond, 2.19%, due in June and December, in yearly amounts from $3,671,198 in 2021 to $2,035,517 in 2022, plus interest due semiannually, net of unamortized loss on refinance of $5,716		2,029,801	5,672,683
Capital lease obligations:			
Lab equipment capital lease stated at present value of future minimum lease payments		776,917	269,946
Notes payable:			
Pinnacle Therapy Group, LLC due serially in January, in amount of $240,000 each year from 2021 to 2023, plus 3.76% interest		480,000	720,000
Total long-term debt		315,810,835	328,166,644
Less current portion		(8,793,850)	(10,569,719)
Total long-term debt, net of current portion	$	307,016,985	317,596,925

(i) Long-Term Debt Overview

Series 2020 Bond Issue

The 2020 Limited Tax General Obligation Refunding Bond was issued for the principal amount of $6.7 million. The bond was purchased by JPMorgan Chase as a private placement. These proceeds were used to refund all series 2010A bonds. The District has pledged tax revenues to secure the bonds. The deferred amount on the refunding is being amortized over the life of the bond and is recorded in deferred outflow of resources in the statements of net position.

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 difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was $8.2 million. The economic gain was $5.4 million. 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 difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was $19.9 million. The economic gain was $13.3 million. The deferred amount on the refunding is being amortized over the life of the bond and is recorded in deferred outflow of resources in the statements of net position.

Series 2011 Bond Issue

The 2011 Limited Tax General Obligation Refunding Bond was issued for $35.6 million. The District has pledged tax revenues to secure the bonds. The bond was issued for the purpose of refunding series 2001 bonds.

(ii) Debt Compliance

Under the terms of its financing agreements, the District has agreed to meet certain covenants. Bond covenants related to the Limited Tax General Obligation (LTGO) bonds require budgeting for making annual levies of taxes, within constitutional and statutory tax limitations provided by law on all property within the District subject to taxation, together with any other money legally available, to be sufficient to pay the principal and interest of the LTGO bonds.

Because all the 2010 bond series have been legally defeased and refunded as of June 30, 2020, VMC is no longer subject to those debt covenant requirements.

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

(iii) Long-Term Debt Maturities

The following schedule shows debt service requirements for the next five years and thereafter, as of June 30, 2021, for both principal and interest. Total unamortized premiums and discounts are $22.2 million as of June 30, 2021. The table below excludes capital lease obligations.

		Principal	Interest	Total
2022	$	8,615,517	14,258,388	22,873,905
2023		11,185,000	13,866,938	25,051,938
2024		11,665,000	13,350,190	25,015,190
2025		10,675,000	12,799,625	23,474,625
2026		11,445,000	12,246,625	23,691,625
2027–2031		70,290,000	51,478,750	121,768,750
2032–2036		96,670,000	30,743,500	127,413,500
2037–2041		60,830,000	7,509,500	68,339,500
2042–2044		11,420,000	875,250	12,295,250
Total payments	$	292,795,517	157,128,766	449,924,283

(iv) Change in Total Long-Term Liabilities

Changes in total long-term liabilities during the fiscal years ended June 30, 2021 and 2020 are summarized below:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Due within one year
Limited tax general obligation bonds:					
2020 Series	$ 6,680,000	—	(1,615,000)	5,065,000	1,655,000
2018 Series	107,786,685	—	(3,480,323)	104,306,362	3,120,000
2016 Series	207,037,330	—	(3,884,575)	203,152,755	1,565,000
2011 Series	5,672,683	—	(3,642,882)	2,029,801	2,035,517
Note payable	720,000	—	(240,000)	480,000	240,000
Capital lease obligations	269,946	598,069	(91,098)	776,917	178,333
Total long-term debt	328,166,644	598,069	(12,953,878)	315,810,835	8,793,850
Other long-term liabilities	3,550,806	15,104,964	—	18,655,770	—
Unearned compensation	6,913,778	—	(6,892,415)	21,363	—
Total long-term liabilities	$ 338,631,228	15,703,033	(19,846,293)	334,487,968	8,793,850

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Due within one year
Limited tax general obligation bonds:					
2020 Series	$ —	6,680,000	—	6,680,000	1,615,000
2018 Series	111,192,680	—	(3,405,995)	107,786,685	2,795,000
2016 Series	211,470,559	—	(4,433,229)	207,037,330	2,190,000
2011 Series	8,532,004	—	(2,859,321)	5,672,683	3,671,198
Revenue bond:					
2010 Series A	10,772,715	—	(10,772,715)	—	—
Note payable	960,000	—	(240,000)	720,000	240,000
Capital lease obligations	—	311,982	(42,036)	269,946	58,521
Total long-term debt	342,927,958	6,991,982	(21,753,296)	328,166,644	10,569,719
Other long-term liabilities	—	3,550,806	—	3,550,806	—
Unearned compensation	5,996,269	917,509	—	6,913,778	—
Total long-term liabilities	$ 348,924,227	11,460,297	(21,753,296)	338,631,228	10,569,719

(b) IPV's Long-Term Debt

(i) Change in Total Long-Term Liabilities

Changes in total long-term liabilities during the fiscal year ended June 30, 2021 are summarized below:

		Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Due within one year
Capital lease obligations	$	—	4,128,152	(312,901)	3,815,251	770,570
Total long-term liabilities	$	—	4,128,152	(312,901)	3,815,251	770,570

(8) Risk Management

VMC is exposed to risk of loss related to professional and general liability; employee medical, dental, and pharmaceutical claims; and injuries to employees. VMC maintains a program of purchased insurance and excess insurance coverage for professional and general liability, as well as self-insurance liabilities. VMC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters, and no claims have exceeded such coverage. In the event a claim exceeds the amount of coverage purchased, the amount exceeding the coverage is the responsibility of the company, in this case, VMC.

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

(a) Professional and General Liability

VMC purchases insurance from a third-party insurance carrier for professional and general liability. Insurance limits are $3.0 million per claim, with a $12.0 million annual aggregate, on an occurrence basis. VMC also maintains excess commercial insurance above the first layer of $3.0 million/$12.0 million on a claims-made basis with a limit of liability of $25.0 million per occurrence and a $25.0 million annual aggregate.

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

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

The self-insurance liability of approximately $1.8 million as of June 30, 2021 and 2020 is included in the interest, patient refunds and other liabilities in the statements of net position.

(c) 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 and $2.8 million at June 30, 2021 and 2020, respectively. These liabilities are included in accrued salaries, wages, and employee benefits liabilities in the accompanying VMC statements of net position. The health benefit claims liability at June 30, 2021 and 2020 is based on undiscounted calculations.

(d) Workers' Compensation

VMC is self-insured for workers' compensation claims up to $0.5 million per claim in 2021 and 2020. Excess insurance coverage is purchased for risk above the per claim self-insured retention level. The accrued liabilities of the plan include the self-insured components of unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. VMC has recorded an actuarially determined estimated liability for workers' compensation claims of $5.1 million at June 30, 2021 and 2020, which are included in accrued salaries, wages, and benefits liabilities in the accompanying VMC statements of net position. The workers' compensation liability at June 30, 2021 and 2020 is based on undiscounted calculations.

(9) Retirement Plans

VMC offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. Employee contributions to the plans totaled $28.6 million and $24.8 million for the years ended June 30, 2021 and 2020, respectively. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

VMC contributes a 5% employer contribution into the 403(b) plan for all employee groups with a 2% employer match on a 2% employee contribution. Employer contributions into the 403(b) plan totaled $14.3 million and $18.0 million for the years ended June 30, 2021 and 2020, respectively.

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

In accordance with the Internal Revenue Service code, and accounted for in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, VMC placed the deferred compensation plan assets of the plans into a trust for the exclusive benefit of plan participants and beneficiaries.

VMC has limited administrative involvement and does not perform the investing function for either plan, as each plan has an investment adviser. VMC does not hold the assets of either plan in a trustee capacity and does not perform fiduciary accountability for the plans.

(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 $15.1 million and $9.6 million was paid and recognized by VMC to divisions of the University for the years ended June 30, 2021 and 2020, respectively, for transactions primarily related to referenced laboratory work and management assistance within various departments. The expenses are recorded as purchased services expense in the statements of revenues, expenses, and changes in net position.

(b) Intragovernmental Transactions

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

(i) Lease of Medical Office Space

IPV has several lease agreements with VMC. Office space for two different locations is leased from VMC for $0.4 million for the years ended June 30, 2021 and 2020. The leases expire in December 2024 and April 2022, respectively. IPV has $1.4 million in total outstanding minimum lease payments due to VMC.

(ii) Operational Services

During the years ended June 30, 2021 and 2020, IPV provided radiology services on behalf of VMC, which reimburses IPV for those services. VMC incurs expenses for services rendered by IPV, which is represented by $8.6 million and $7.9 million in VMC’s purchased services expense for 2021 and 2020, respectively. VMC receives members’ distributions from IPV, which is represented by $5.7 million and $5.4 million in VMC’s other operating revenue for 2021 and 2020, respectively.

(c) *State of Washington*

The State of Washington Medicaid Transformation Demonstration (MTD) program, which commenced in fiscal year 2018, is a five-year contract between the state and CMS, authorizing up to $1.5 billion federal matching funds to promote innovative, sustainable, and systemic changes that improve the overall health of the state. WSHCA requested intergovernmental transfers from other state and local public entities to finance a portion of the nonfederal share. VMC recorded $7.2 million and $5.6 million for the years ended June 30, 2021 and 2020, respectively, in intergovernmental transfers to the state, which is included in funding to affiliates in the statement of revenues, expenses, and changes in net position.

The state of Washington submitted and received approval for incentive payments under the MTD program, of which VMC received $7.9 million and $6.1 million for the years ended June 30, 2021 and 2020, respectively, which is included in funding from affiliates in the statement of revenues, expenses, and changes in net position.

(11) Commitments and Contingencies

(a) *Operating Leases*

VMC leases certain medical office space and equipment under operating lease arrangements with IPV and third parties. Similarly, IPV leases certain medical office space and equipment under operating leases with VMC and third parties. Total rental expense in the year ended June 30, 2021 was $19.2 million and $0.4 million for VMC and IPV, respectively. Total rental expense in the year ended June 30, 2020 was $15.4 million and $0.4 million for VMC and IPV, respectively. Rental expense is included in purchased services expense and nonoperating expense in the statements of revenues, expenses, and changes in net position.

The following schedule shows future minimum lease payments by fiscal year for VMC and IPV as of June 30, 2021:

	VMC	IPV
2022	$ 20,256,663	408,437
2023	19,672,578	402,275
2024	18,350,787	414,343
2025	17,590,124	185,032
2026	16,635,319	—
Thereafter	67,563,493	—
Total minimum lease payments	$ 160,068,964	1,410,087

(b) *Construction Commitments*

VMC has current commitments at June 30, 2021 of $10.8 million related to various construction projects, equipment purchases and information technology implementations. VMC intends to use capital funds for these commitments.

(c) Capital Commitments by IPV

IPV has no current commitments at June 30, 2021 related to equipment purchases.

(d) Regulatory Environment

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

(e) Litigation

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

(f) Collective Bargaining Agreements

VMC has a total of approximately 3,800 employees. Of this total, approximately 66% are covered under collective bargaining agreements as of June 30, 2021. Nurses are represented by Service Employees International Union (SEIU) 1199 and other healthcare and support workers are represented by Office and Professional Employees International Union (OPEIU), United Food and Commercial Workers (UFCW), and International Union of Operating Engineers (IUOE) Operating Engineers. The collective bargaining agreements with SEIU 1199 expire on June 30, 2023. OPEIU, UFCW, and IUOE Operating Engineers expire on October 31, 2024, March 31, 2022, and October 31, 2024, respectively.

(12) COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) to be a pandemic. The COVID-19 pandemic has had widespread, rapidly evolving, and unpredictable impacts on societal and economic conditions at a local, national, and global level and has had a significant impact on VMC's operations.

In February 2020, Governor Inslee declared a state of emergency to ensure the swift deployment of resources necessary to address COVID-19 and in March 2020, mandated the postponement of all non-emergent and elective medical procedures. Elective and non-urgent medical procedures were later resumed in May 2020. Both the national state of emergency and the Washington state of emergency continued throughout fiscal year 2021.

On the same day the Governor declared the statewide emergency, VMC activated our Incident Command Center, and it remains in place as of today. The Incident Command Center develops plans and deploys necessary actions to address the need to care for high volume of COVID-19 patients with several surges in fiscal year 2021 and continues today. VMC proactively implemented safety measures, and operations have continued with non-essential staff working remotely. The length of time these measures will be in place and the full extent of the financial impact on VMC is unknown at this time.

In response to the financial pressures brought on by the pandemic, the Federal Government and the state of Washington have provided additional resources of liquidity to healthcare providers. VMC received Provider Relief Funds as part of the federal CARES Act in April, May, June and July 2020 to help offset lost revenues and additional expenses in response to COVID-19. In November and December 2021, VMC received additional Provider Relief Funds. VMC, along with University of Washington, applied for Federal Emergency Management Agency (FEMA) Public Assistant Program and received funding in December 2021. VMC will continue to explore all available resources to ensure financial stability.

King County Public Hospital District No. 1
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Washington State Health Care Authority (HCA))	COVID 19 - Coronavirus Relief Fund	21.019	COVID-19	625,359	-	625,359	-	
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C17123	851,244	-	851,244	-	Note 3
HEALTH RESOURCES AND SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF	COVID 19 - HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	COVID-19	-	672,743	672,743	-	
HEALTH RESOURCES AND SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Department of Health and Human Services)	COVID 19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	COVID-19	47,929,442	-	47,929,442	-	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Health Care Authority)	Opioid STR	93.788	1H79TI081705-01	74,500	-	74,500	-	
			Total Federal Awards Expended:	**49,480,545**	**672,743**	**50,153,288**	**-**	

The accompanying notes are an integral part of this schedule.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The District reports its financial information in a form which complies with the pronouncements of the Governmental Accounting Standards Board and the "Audit and Accounting Guide for Healthcare Organizations" of the American Institute of Certified Public Accountants.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, may be more than shown.

NOTE 3 – NONCASH AWARDS - VACCINATIONS

The amount of vaccine reported on the schedule is the value of vaccines received by the District during the current year and priced as prescribed by the Washington State Department of Health.

NOTE 4 – INDIRECT (F&A) COSTS

The District elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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