



**Office of the Washington State Auditor
Pat McCarthy**

May 5, 2022

Board of Commissioners
EvergreenHealth
Kirkland, Washington

**Contracted CPA Firm's Audit Report on Financial Statements and
Federal Single Audit**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of EvergreenHealth for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or EvergreenHealth's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Basic Financial Statements and
Federal Uniform Guidance Reports

Year Ended December 31, 2020

(With Independent Auditors' Reports Thereon)

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Management's Discussion and Analysis (Unaudited)	3–18
Basic Financial Statements:	
Statements of Net Position	19–20
Statements of Revenue, Expenses, and Changes in Net Position	21
Statements of Cash Flows	22–23
Notes to Basic Financial Statements	24–59
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	60–61
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	62–63
Schedule of Expenditures of Federal Awards	64
Notes to Schedule of Expenditures of Federal Awards	65
Schedule of Findings and Questioned Costs	66



KPMG LLP
Suite 2900
1918 Eighth Avenue
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Independent Auditors' Report

The Board of Commissioners
King County Public Hospital District No. 2
d/b/a EvergreenHealth:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of King County Public Hospital District No. 2, d/b/a EvergreenHealth (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Public Hospital District No. 1, Snohomish County, Washington, d/b/a EvergreenHealth Monroe, a component unit, which statements reflect total assets constituting 100% of total assets at December 31, 2019, respectively, and total revenue constituting 100% of total revenue of the discretely presented component unit for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EvergreenHealth Monroe, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of King County Public Hospital District No. 2, d/b/a EvergreenHealth, as of December 31, 2020 and 2019, and the respective changes in net position, and, where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 18 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 audits 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.

KPMG LLP

Seattle, Washington
June 3, 2021

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

This discussion and analysis of King County Public Hospital District No. 2, d/b/a EvergreenHealth (the District) provides an overview of the District's financial activities for the years ended December 31, 2020 and 2019. Please read it in conjunction with the District's financial statements, which follow this analysis.

The District is a municipal corporation of the State of Washington formed under the provisions of Chapter 70.44 of the Revised Code of Washington. The District is considered a political subdivision of the State of Washington and is allowed by law to be its own Treasurer.

The District includes the incorporated cities of Kirkland, Redmond, Woodinville, Kenmore, and Duvall, portions of Bothell, Sammamish, and Carnation, as well as adjacent unincorporated areas.

The District's primary operations include Evergreen Hospital Medical Center (the Medical Center), an acute care hospital with 318 licensed beds and a 15-bed freestanding inpatient hospice care center, representing the ninth largest provider in the Puget Sound.

Type of beds	Number of beds	License category
Critical care	20	Acute
Family maternity	36	Acute
Acute rehabilitation	14	Acute rehab
Medical/surgical	205	Acute
Neonatal intensive care unit (Level II=29 beds; Level III=14 beds)	43	Acute/newborn
Total beds for hospital acute license	318	
Hospice Care Center	15	Hospice

The Medical Center is accredited by the Joint Commission, a nonprofit organization that accredits more than 21,000 healthcare organizations and programs in the United States. The Medical Center provides clinical excellence in primary care and over 80 specialties, including, heart and vascular care, 24-hour level III trauma emergency care, cancer care, diabetes care, musculoskeletal and spine care, sleep services, oncology, surgical care, orthopedics, neurosciences, women's and children's services, and pulmonary care. Home care and hospice services cover both King and Snohomish counties as the largest provider in the Puget Sound.

The employed physician practices comprise 78 and 78 primary care providers in 2020 and 2019, respectively, and 266 and 248 specialty care providers in 2020 and 2019, respectively. Since 1972, the District's patient and family centered care philosophy, combined with its commitment to advancing medical solutions, has enabled the District to focus on providing excellent patient care.

The District is governed by a board of seven publicly elected commissioners, each elected by district residents to serve a six-year term in accordance with the laws of the State of Washington. The commissioners have delegated day-to-day operations of the District and the Medical Center to the chief executive officer/superintendent.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Utilization Statistics

Historical patient utilization data of the District's facilities is shown in the following table:

Utilization statistics	2020	2019	2018
Hospital Acute Licensed Care Beds	318	318	318
Hospice Care Center Licensed Beds	15	15	15
Acute care admissions	13,819	15,200	15,068
Acute care adjusted admissions	32,377	36,296	35,997
Acute care patient days	61,292	61,609	57,848
Acute care adjusted patient days	171,258	178,859	146,113
Acute care average length of stay	4.7	4.3	4.1
Occupancy (based on acute care licensed beds)	52.8%	53.1%	49.8%
Observation Days	2,223	2,069	2,930
Inpatient surgeries	2,239	2,944	3,301
Outpatient surgeries	11,716	12,491	12,258
Home health episodes and admissions	11,210	10,740	10,465
Home Hospice program days	184,755	184,678	183,145
Emergency room visits	47,643	59,802	57,153
Primary care work relative value units (wRVUs)	307,851	330,536	305,058
Specialty care wRVUs	874,838	959,520	943,048

Economic Factors Affecting the Current Environment and Future Direction of the District

The future direction of EvergreenHealth is guided by its vision to “create an inclusive community health system that is the most trusted source for healthcare solutions.” The District takes a long-term, strategic view on the future of healthcare in the community and responds with plans that consider that perspective. Challenges and opportunities that face the District are similar to those that face the healthcare industry across the country. Among those issues are:

COVID-19 Pandemic Implications

In December 2019, a novel coronavirus (COVID-19) was identified in China and began to spread to other geographical locations, including the United States. EvergreenHealth was the initial “epicenter” of COVID-19, having reported the first two coronavirus deaths in the nation known at that time. As the result of COVID-19, healthcare organizations were faced with adverse financial impacts, volume-related and otherwise, supply chain disruptions and difficulties with access to labor.

As a result of the first known COVID-19 deaths, the Governor of the State of Washington declared a state of emergency on February 29, 2020. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and on March 13, 2020, the President of the United States declared a national emergency.

EvergreenHealth was among the first health systems to proactively postpone elective surgeries to preserve resources and supplies for the potential COVID-19 surge, which was then mandated for all Washington

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

hospitals by Governor Jay Inslee on March 19, 2020. While mandated, EvergreenHealth temporarily suspended all nonurgent in-office visits and moved most outpatient medicine to telehealth and other alternative care options. The Governor modified the restrictions on elective procedures on May 18, 2020. However, the volumes did not resume normal levels, as patients were extremely cautious to return to healthcare environments for fear of contracting COVID-19. Many patients delayed or chose not to pursue healthcare treatment for both chronic and acute care needs. The cancellation of elective and nonurgent services during this period had a significant impact on volumes and financial performance. Additionally, the sentiment of fear impacted emergency and urgent care volumes as well, resulting in significant volume loss across the organization's urgent and emergency care locations.

In addition to the decreased revenue resulting from the mandated shut down, there was an increased cost to delivering patient care due to changes in staffing ratios, requirements for highly specialized nursing staff, Personal Protective Equipment (PPE) and labor carrying costs. With an unprecedented demand for medical supplies, including PPE, testing and other supplies draining inventory through normal supply chain channels, vendors and manufacturers placed premium pricing on some necessary items that exceeded standard costs. At the same time, use of PPE by providers increased, both due to current usage and the need to prepare for surge capacities and unknown patient volumes.

On March 27, 2020, the Coronavirus Aid Relief and Economic Security (CARES) Act was enacted. The CARES Act authorized \$100 billion in a Provider Relief Fund for hospitals and healthcare providers. Funding was intended to compensate hospitals and other healthcare providers for lost revenue and increased expenses incurred in order to respond to the COVID-19 impact. Provider Relief Fund distributions are not required to be repaid, so long as the payment can be substantiated by lost revenue and the incremental costs incurred related to responding to the pandemic and certain terms and conditions are met. The District received over \$40 million in CARES Act Provider Relief Fund distributions. Furthermore, the State of Washington distributed funds to healthcare providers through a Coronavirus Relief Fund of which the District received \$488 thousand. Accelerated patient accounts receivable collection initiatives, financial recovery plans and a reduction to capital spend were implemented in an effort to conserve cash.

In addition to direct payments to healthcare providers, the CARES Act provided opportunities to increase cash flow. The CARES Act allowed inpatient acute care hospitals to receive accelerated Medicare payments for a period of up to six months. The accelerated payments are interest free if repaid according to the terms of the advance, which extend up to 29 months from the initial date of receipt. The District received over \$41 million in Medicare advance payments. The payments are excluded from adjusted days cash calculations as a restricted source of funds and represent a deferred revenue liability on the statements of net position.

The CARES Act also provided the deferral of the employer portion of social security taxes as another source of cash flow for employers in need. The District deferred these taxes from March 27, 2020 through the end of the year. This resulted in a \$12 million liability which will be repaid 50% by December 31, 2021 and 50% by December 31, 2022 in accordance with the CARES Act.

The District also filed insurance claims related to losses sustained due to COVID-19 and is in the process of filing for Federal Emergency Management Agency (FEMA) assistance. As of December 31, 2020, the District

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

was notified that they would receive \$1 million in insurance proceeds due to business interruption resulting from COVID-19.

Moving into December of 2020, the promise of two COVID-19 vaccines established a new possibility for regaining volumes and to some extent, recouping subsequent financial losses from earlier in the year. With COVID-19 vaccinations cleared for emergency use by the FDA, hospitals and healthcare providers were tasked with establishing and operationalizing vaccine clinics with minimal upfront labor, financial and other resource support from the state and local government. The State of Washington's phased distribution rollout trickled with vaccine target volumes falling short due to a lack of supply. With so few of the population becoming vaccinated, the sentiment of fear and hesitancy to seek healthcare remained a concerned and continued to be reflected across practice and service line volumes.

Other Economic Factors

- **Financial Performance:** The District continues to implement service enhancement and growth plans, discussed below, which require significant capital outlays. The investment in new and expanded facilities may put initial financial constraints on the organization; however, management believes the District is positioned to better serve the needs of the community.
- **Competition:** The Puget Sound has experienced increased market consolidation and collaboration between healthcare providers over the past several years. In addition, competitors have opened traditional and nontraditional healthcare facilities both within and around the District boundaries with the intention of drawing patients from the service area. Competition includes not only local brick and mortar facilities, but also virtual/telehealth providers funded through venture capital or large organizations such as Amazon.
- **Operating Costs:** The volume indicators for acute care adjusted admissions, including deliveries, decreased 11% and surgery counts decreased 11% when compared to 2019. The primary factor in the decreased volumes was COVID-19 and the Governor's order to halt elective procedures. The District has continued working to manage its operating costs in line with volumes. Labor is the most significant operating cost for the District, representing over 65% of annual expenses. The District continues to implement various cost-saving initiatives, including supply chain standardization and improved labor productivity management.
- **Regulatory Environment:** Continued focus by regulatory agencies on the healthcare industry may impact the District.
- **Labor Availability:** Throughout 2020, the District continued to increase Nurse Tech roles, its New-To-Specialty programs and Registered Nurse (RN) Residency programs in order to decrease reliance on RN agency personnel and to proactively address expected RN retirements. Labor shortages continued for various positions. Due to COVID-19, the District experienced a significant RN labor shortage resulting in an increase in RN agency personnel. Approximately 48% of the District's 4,671 employees are members of one of four labor unions. The Washington State Nurses Association (WSNA), which represents approximately 1,100 registered nurses, last negotiated its labor contract in 2018 and is next scheduled to negotiate in the fall of 2021. The International Union of Operating Engineers (IUOE), which represents approximately 20 employees, last negotiated its labor contract in 2018 and is next scheduled to negotiate in 2022. The United Food and Commercial Workers (UFCW) union, which represents approximately 250 professional/technical employees, last negotiated its labor contract in 2019 and is next scheduled to

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

negotiate in 2023. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 800 service employees and almost 100 social workers/chaplains, last negotiated its labor contracts in 2020 and is next scheduled to negotiate in 2022.

- **Contracting/Risk-Sharing Arrangements:** The District has six pay-for-performance contracts in effect as of 2020 with payors; three for the Medical Center and three for the EvergreenHealth Medical Group, a physician-led, physician-designed group of more than 330 primary care doctors and specialists. Via the Eastside Health Network, EvergreenHealth participates in an additional eight value-based commercial contracts plus four Medicare Advantage contracts. All of these contracts are “layered” on top of existing fee-for-service arrangements between the District and those payors and provides for incentives based upon overall performance against specific goals related to efficiency, quality and patient satisfaction. See additional discussion under partnerships.
- **Payor Reimbursement:** Reimbursement for patient services from federal, state, and private insurance payors continues to be a concern as healthcare costs continue to rise. The District monitors reimbursement closely and works with payors in an effort to maintain payment levels and earn value-based reimbursement model revenue.
- **Partnerships:** During 2020 and 2019, the District continued to develop its strategic alliances with Seattle Cancer Care Alliance (SCCA), EvergreenHealth Monroe (EHM) and Overlake Medical Center.

Overlake Hospital Medical Center – In 2016, the Boards of the District and Overlake Hospital Medical Center (Overlake) approved the exploration of a joint venture called *Eastside Health Alliance*. In November 2016, a letter of intent to form the joint venture was signed by the District and Overlake. The joint venture, which is designed to advance the shared mission of improving the health of Puget Sound's Eastside community, was subsequently approved by both Boards in January 2017. Eastside Health Alliance has been focusing on three specific areas guided by a joint venture board, comprising three board members and the CEO from each organization. The three areas include:

- A coordinated quality and safety program
- An Eastside-focused clinically integrated network, Eastside Health Network, that combined the Overlake Provider Network and EvergreenHealth Partners, LLC
- Service line collaborations in cardiac services and neurosciences. Both services lines are integrated from a clinical perspective. While the cardiac service line has been financially integrated since 2017, the execution of the neurosciences joint venture in 2020 now provides financial integration for this service line as well.

SCCA – The Halvorson Cancer Center, in collaboration with SCCA, has a shared vision to provide the highest quality, patient-centered, innovative and integrated care for cancer patients at EvergreenHealth. The partnership connects patients to promising new treatments with on-site access to the innovative research programs and breakthrough clinical trials of SCCA. There were 1,164 cancer cases served by the partnership in 2020, a 7% decrease from the prior year.

EvergreenHealth Monroe (EHM) – The District's partnership with EHM continues to grow. EHM is governed by the Alliance Governance Board. Both organizations remain independently and separately governed,

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

licensed, and accredited. The purpose of the affiliation is to provide EHM the ability to better serve its community through enhanced clinical services and to adopt the District's approaches to clinical outcomes, patient safety, and patient experience. Governmental Accounting Standards Board (GASB) No. 14 establishes that financial statements of the reporting entity generally should allow the users to distinguish between the primary government and its component units. EHM is reported within the District's financial statements as a discretely presented component unit in accordance with government accounting standards.

Other substantial changes anticipated in the U.S. healthcare system include numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. Increasing patient obligations through high-deductible plans and increased premiums may increase bad debt. Management will continue evaluating its response to various healthcare reform components as they develop.

The District recognizes that providing the community with high-quality healthcare goes beyond offering outstanding programs and services. As the community continues to grow and age, the District must keep pace with the need for more types of services. The 2020 population within the District's boundaries is estimated to be 333,917. The population is projected to grow 9.1% over the next five years and reach 364,362 in 2025 according to the Environmental Systems Research Institute. The most recent version of the District's Master Campus Plan filed with the City of Kirkland in February 2017 includes facility and service expansions based on projected needs.

2020 Highlights

- **Governance and Leadership**
 - Welcomed new Board of Commissioner, David Edwards, JD
- **Initiated or Completed Projects**
 - Finalized Neurosciences Joint Venture with Overlake as part of Eastside Health Alliance
 - Opened first Eastside Perinatal Mood Disorder Clinic
 - Opened Totem Lake Urgent Care
 - Commenced construction on a new critical care unit
 - Implemented virtual health for primary care and some specialty care
 - Launched tele-psych and tele-socialwork in the emergency department
 - Completed expansion of EvergreenHealth Primary Care Clinic in Canyon Park
- **Recognition and Awards**
 - Received a 5-star rating from Centers for Medicare and Medicaid Services (CMS) in the 2020 Hospital Compare overall quality systems rankings (one of just 293 hospitals nationwide and one of two within the Puget Sound region)

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

- Recognized by Healthgrades as America's 100 Best Hospitals for the third consecutive year
- Recognized by Healthgrades as America's 100 Best Hospitals for Pulmonary, Gastrointestinal Care, General Surgery, Stroke Care and Critical Care
- Recognized by the American Heart Association and American Stroke Association for achievement in the Get With The Guidelines® Stroke Elite Gold Plus Quality Achievement for the sixth year
- Awarded an "A" rating for patient safety for Spring and Fall 2020 by The Leapfrog Group
- Received Primary Plus Stroke Center (PSC+) Certification from DNV GL Healthcare
- U.S. News recognized EvergreenHealth for high performance in eight specialty areas, placing it in the top 10% of hospitals in patient outcomes. Those specialty areas include:
 - Knee Replacement (fourth consecutive year)
 - Colon Cancer Surgery (third consecutive year)
 - Nephrology (third consecutive year)
 - Heart Failure (second consecutive year)
 - Hip Replacement (second consecutive year)
 - Urology (second consecutive year)
 - Chronic Obstructive Pulmonary Disease (COPD)
 - Gastroenterology and GI Surgery

Overview of the Financial Statements

The District's financial statements consist of three components: statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. The activities of EvergreenHealth Foundation (the Foundation) are included with the District's financial statements as a blended component unit. These financial statements and related notes provide information about the activities of the District, including resources held by the District designated for specific purposes. The statements of net position includes all of the District's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted for a specific purpose. The statements of revenue, expenses, and changes in net position report all of the revenue, expenses, and changes in net position during the time periods indicated. The statements of cash flows report the cash provided by the District's operating activities, as well as other cash sources such as investment income and issuance of new debt, and use of cash such as cash payments for capital asset additions and improvements and repayment of debt.

On March 1, 2015, the District entered into a Strategic Alliance Agreement with EHM. GASB standards require that this entity be presented as a discrete component unit; therefore, its financial position at December 31, 2020 and 2019 and the results of its operations for the years ended December 31, 2020 and 2019 are included with the District in a separate column for financial statement presentation purposes (note 1 to the financial statements).

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

The analysis presented below represents the District and its blended component unit (the Foundation), but excludes the financial position and results of operations of its discrete component unit (EHM), unless otherwise noted.

Summary of Statements of Net Position

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 83,847	57,267	52,448
Patient accounts receivable, less allowance for uncollectible accounts	86,296	95,247	92,814
Other current assets	<u>36,477</u>	<u>30,713</u>	<u>27,801</u>
Total current assets	206,620	183,227	173,063
Assets limited as to use, less current portion of amounts required for current liabilities	315,140	164,220	156,631
Capital assets, net	310,158	320,829	319,041
Other assets	<u>28,826</u>	<u>33,634</u>	<u>33,576</u>
Total assets	860,744	701,910	682,311
Deferred outflows of resource:			
Deferred loss on refunding	<u>2,830</u>	<u>2,542</u>	<u>3,070</u>
Total assets and deferred outflows of resources	\$ <u>863,574</u>	<u>704,452</u>	<u>685,381</u>
Current portion of long-term debt and capital lease obligations	\$ 14,470	14,219	13,752
Other current liabilities	<u>99,401</u>	<u>90,324</u>	<u>84,469</u>
Total current liabilities	113,871	104,543	98,221
Long-term liabilities	<u>309,015</u>	<u>184,395</u>	<u>199,750</u>
Total liabilities	<u>422,886</u>	<u>288,938</u>	<u>297,971</u>
Net position:			
Invested in capital assets, net of related debt	86,507	130,714	113,169
Restricted	15,760	8,482	10,154
Unrestricted	<u>338,421</u>	<u>276,318</u>	<u>264,087</u>
Total net position	<u>440,688</u>	<u>415,514</u>	<u>387,410</u>
Total liabilities and net position	\$ <u>863,574</u>	<u>704,452</u>	<u>685,381</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Current Assets

Current assets consist of cash and cash equivalents, current portion of board-designated and restricted assets, and other current assets that are expected to be converted to cash within one year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers. Key ratios include:

- Current ratio: This is a liquidity ratio that measures the District's ability to pay short-term obligations or debts due within one year. The current ratio is calculated by dividing current assets by current liabilities.
- Days in accounts receivable: This is the number of days it takes the District to collect outstanding invoices. The ratio is calculated by dividing the ending accounts receivable by the total operating revenue for the period and multiplying it by 365 days or the number of days in the period.
- Days cash on hand: This demonstrates how long in days the District could meet operating expenses with the amount of cash currently available. This is calculated by adding cash and cash equivalents, board-designated cash and investments, less cash for EvergreenHealth Network and EvergreenHealth Partners, and multiplying by 365 days, then dividing the amount by total operating expenses less annual depreciation.
- Adjusted days cash on hand: This demonstrates how long in days the District could meet operating expenses with the amount of cash currently available, excluding cash intended to be repaid to funding sources. This is calculated by adding cash and cash equivalents, board-designated cash and investments, less cash for EvergreenHealth Network, EvergreenHealth Partners, the Limited Tax General Obligation Bonds Series 2020 direct borrowing proceeds, the CARES Act deferred payment of the employer portion of social security liability and the CARES Act Medicare Accelerated and Advance Payment Program liability, and multiplying by 365 days, then dividing the amount by total operating expenses less annual depreciation.

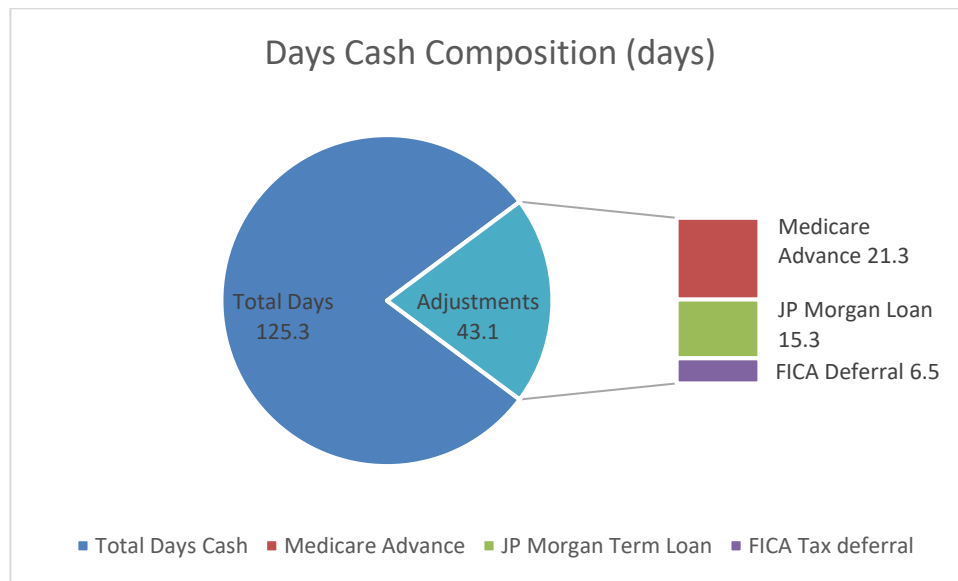
Key Ratios	2020	2019	2018
Current Ratio	1.4	1.8	1.8
Days in AR (Net)	38.9	46.9	48.0
Days Cash on Hand	168.4	108.0	109.8
Adjusted Days Cash on Hand	125.3	108.0	109.8

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)



Total current assets were \$206.6 million as of December 31, 2020, compared to \$183.2 million as of December 31, 2019.

Current assets in 2020 increased by \$23.4 million compared to 2019 primarily due to increases of \$26.6 million in cash and cash equivalents due to the CARES Act Medicare Advance Payment and the deferral of the employer portion of social security payroll taxes. Adjusted days cash on hand increased to 125 days.

Current assets in 2019 increased by \$10.1 million compared to 2018 primarily due to increases of \$2.4 million in net patient accounts receivable related to price and volume increases, \$3.8 million in other receivables and prepaid expenses and \$4.8 million in cash and cash equivalents primarily due to improved operating performance and an increase in operating revenue of \$741 million in 2019 compared to \$701 million in 2018. Days cash on hand remained consistent at 108 days.

Noncurrent Assets

Noncurrent assets consist of restricted and board-designated assets held for debt service, capital improvements, community service programs and other operations. Total noncurrent assets were \$654.1 million as of December 31, 2020, compared to \$518.7 million as of December 31, 2019.

Capital assets, net of accumulated depreciation decreased approximately \$10.7 million from 2019 to 2020 and decreased \$1.8 million from 2018 to 2019. The District continues to devote resources for capital projects and improvements, including significant components of the master facility plan. During 2020 and 2019, the District invested approximately \$25.6 million and \$37.1 million, respectively, in buildings, information technology, and equipment. This District recognized \$35.8 million and \$35.4 million in depreciation expense in 2020 and 2019, respectively.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Restricted and board-designated cash and investments increased approximately \$150.9 million from 2019 to 2020 and increased approximately \$7.6 million from 2018 to 2019. The increase in the current year is primarily due the issuance of \$70 million for the 2020A and 2020B Limited Tax General Obligation (LTGO) bonds to be used for capital improvements to the District's healthcare facilities, in accordance with the long-term master facility plan. In addition, proceeds from the \$30 million 2020 Limited Tax General Obligation and Revenue Bond, issued in August 2020, and other excess cash were transferred from the general fund account to the investment account.

Current Liabilities

Current liabilities consist of accounts payable, accrued compensation and other liabilities that are expected to be paid within one year, including current portion of long-term debt and professional liabilities. Total current liabilities were \$113.9 million as of December 31, 2020, compared to \$104.5 million as of December 31, 2019.

Current liabilities increased approximately \$9.4 million from 2019 to 2020 and increased approximately \$6.3 million from 2018 to 2019. Accounts payable and accrued expenses increased \$1.2 million from 2019 to 2020. In addition, unearned revenue increased \$6.3 million, mainly related to the current portion of the accelerated Medicare advance payments received as part of the CARES Act funding. The change in payables and accrued expenses is primarily due to the timing of regular accounts payable cycles.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt, capital lease obligations, long-term portion of Medicare advance payments and professional liability reserves. Total noncurrent liabilities were \$309.0 million as of December 31, 2020, compared to \$184.4 million as of December 31, 2019.

Noncurrent liabilities increased approximately \$124.6 million from 2019 to 2020 due to the debt issuances that occurred in 2020, offset by debt payments in accordance with the established debt service schedule, and the long-term liabilities associated with the accelerated Medicare advance payments and the payroll tax deferral.

Net Position

The current year net position increase is driven by net income and capital grants and contributions of approximately \$25.2 million. The increase from 2018 to 2019 was driven by 2019 net income and capital grants and contributions of approximately \$28.1 million, which are accounted for in the net investment in capital asset and restricted categories discussed below.

Investment in capital assets, net of related debt decreased approximately \$44.2 million, or 34%, from 2019 to 2020 and increased approximately \$17.5 million, or 16.0%, from 2018 to 2019. The current year decrease is attributable to debt obligations of approximately \$100 million for the LTGO debt issuances that occurred in 2020, offset by approximately \$56 million of unspent bond proceeds.

Restricted net position (expendable and nonexpendable) increased approximately \$7.5 million from 2019 to 2020 representing resources with temporary or permanent donor restrictions.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Unrestricted net position, which includes other funds available to the District that do not meet the definition of restricted or net investment in capital assets, increased approximately \$62.1 million, or 22%, from 2019 to 2020 and increased approximately \$12.2 million, or 4.6%, from 2018 to 2019. This increase from 2019 to 2020 offset the decrease in investment in capital assets, net of related debt.

Summary of Revenue, Expenses, and Changes in Net Position

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenue:			
Net patient service revenue	\$ 664,008	698,348	664,805
Other operating revenue	<u>46,336</u>	<u>42,768</u>	<u>35,920</u>
Total operating revenue	<u>710,344</u>	<u>741,116</u>	<u>700,725</u>
Operating expenses:			
Labor and employee benefits	489,301	488,168	459,932
Supplies, purchased services, and other	228,059	218,278	201,216
Depreciation and amortization	<u>35,828</u>	<u>35,399</u>	<u>35,523</u>
Total operating expenses	<u>753,188</u>	<u>741,845</u>	<u>696,671</u>
Excess (deficit) of revenue over expenses from operations	<u>(42,844)</u>	<u>(729)</u>	<u>4,054</u>
Nonoperating income, net of expenses:			
Property taxes	27,872	26,805	26,216
Interest and amortization expense	(9,106)	(7,549)	(8,027)
Investment income	6,033	6,698	2,661
CARES Act	40,974	—	—
Other, net	<u>62</u>	<u>44</u>	<u>18,223</u>
Net nonoperating income	<u>65,835</u>	<u>25,998</u>	<u>39,073</u>
Excess of revenue over expenses	22,991	25,269	43,127
Capital grants and contributions	<u>2,183</u>	<u>2,835</u>	<u>898</u>
Total change in net position	25,174	28,104	44,025
Net position, beginning of year	<u>415,514</u>	<u>387,410</u>	<u>343,385</u>
Net position, end of year	\$ <u><u>440,688</u></u>	<u><u>415,514</u></u>	<u><u>387,410</u></u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Financial Highlights

Revenue

Sources of Patient Revenue

The District derives a substantial portion of its operating revenue from federal and state programs and insurance plans that pay for all or a portion of the healthcare services provided to its patients. As a consequence, the District's operating revenue depends to a great extent on the availability and level of reimbursement or payment under those programs and contracts.

In 2020, gross patient revenue decreased by approximately \$113.4 million or 5.6%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue decreased \$30.5 million or 3.6% and total outpatient revenue decreased \$82.9 million or 7%. The main driver of revenue declines was related to COVID-19 and the mandated suspension of elective procedures in Spring 2020. COVID-19 negatively impacted most services lines, including surgical services, deliveries, emergency department visits and overall clinic volumes. Total outpatient surgery cases decreased 6.2% while inpatient surgery cases decreased 23.9%. Overall total surgery cases decreased 9.6%. Deliveries and patient days in the NICU decreased 6.5% and 13.8%, respectively. ED visits in the main hospital and in Redmond decreased 20% and 21.8%, respectively. Total average length of stay (excluding NICU) increased to 4.7 days from 4.3 days in 2019.

In 2019, gross patient revenue increased by approximately \$152 million or 8.1%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue increased \$55.6 million or 7.1% and total outpatient revenue increased \$96.4 million or 8.9%. The main drivers of revenue growth were outpatient surgery revenue, pharmacy revenue, emergency department visits and overall clinic volumes. Total outpatient surgery cases increased 2.0% while inpatient surgery cases decreased 10.8%. Overall total surgery cases remained fairly consistent. Deliveries and patient days in the NICU increased 2.7% and 29.2%, respectively. ED visits in the main hospital and in Redmond increased 4.4% and 5.9%, respectively. Total average length of stay (excluding NICU) was 4.3 days and 4.1 days in 2019 and 2018, respectively.

The following table sets forth the percentages of the District's gross patient revenue applicable to various programs and plans for the fiscal years ended December 31, 2020, 2019, and 2018.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Non-Government third-party payors	46.2%	47.4%	47.3%
Medicare	42.8	42.4	41.1
Medicaid	10.1	9.0	10.3
Patient self-pay	0.9	1.2	1.3

In 2020, net patient service revenue decreased by approximately \$34.3 million or 4.9%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This decrease was driven by reduced volumes due to COVID-19. Other operating revenue increased by approximately \$4.2 million, or 9.9%, primarily due to revenue associated with increased research studies completed and revenue from the Eastside Health Alliance joint ventures.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

In 2019, net patient service revenue increased by approximately \$33.5 million or 5.0%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This increase was driven by growth in patients served, partially offset by higher bad debt, charity care and administrative adjustments. Other operating revenue increased by approximately \$6.8 million, or 19.1%, primarily due to revenue associated with increased research studies completed and revenue from the Eastside Health Alliance cardiac joint venture.

Operating Expenses

Labor, including contract labor, decreased approximately \$2.5 million, or 0.6%, and increased \$24.2 million, or 6.4%, in 2020 and 2019, respectively. This 2020 decrease is due to labor flexing where possible in response to reduced volumes. The District's average employed and contracted full-time equivalents decreased 1.4% to 3,777 as of December 31, 2020, compared to 3,833 as of December 31, 2019. The 2019 increase is due to employee salary increases as well as premium pay related to contract labor and employee overtime due to labor shortages.

Employee benefit expenses increased \$3.6 million, or 4.1%, and \$4.1 million, or 4.8%, in 2020 and 2019, respectively. These increases were primarily due to increased medical plan, social security, unemployment and paid time off costs.

Supplies, professional fees, purchased services, repairs and maintenance services and other operating expenses increased approximately \$10.4 million, or 4.8%, and \$17.1 million, or 8.5%, in 2020 and 2019, respectively. The increase is due to increased medical supply costs, purchased services and professional fees due to COVID-19 response and mitigation.

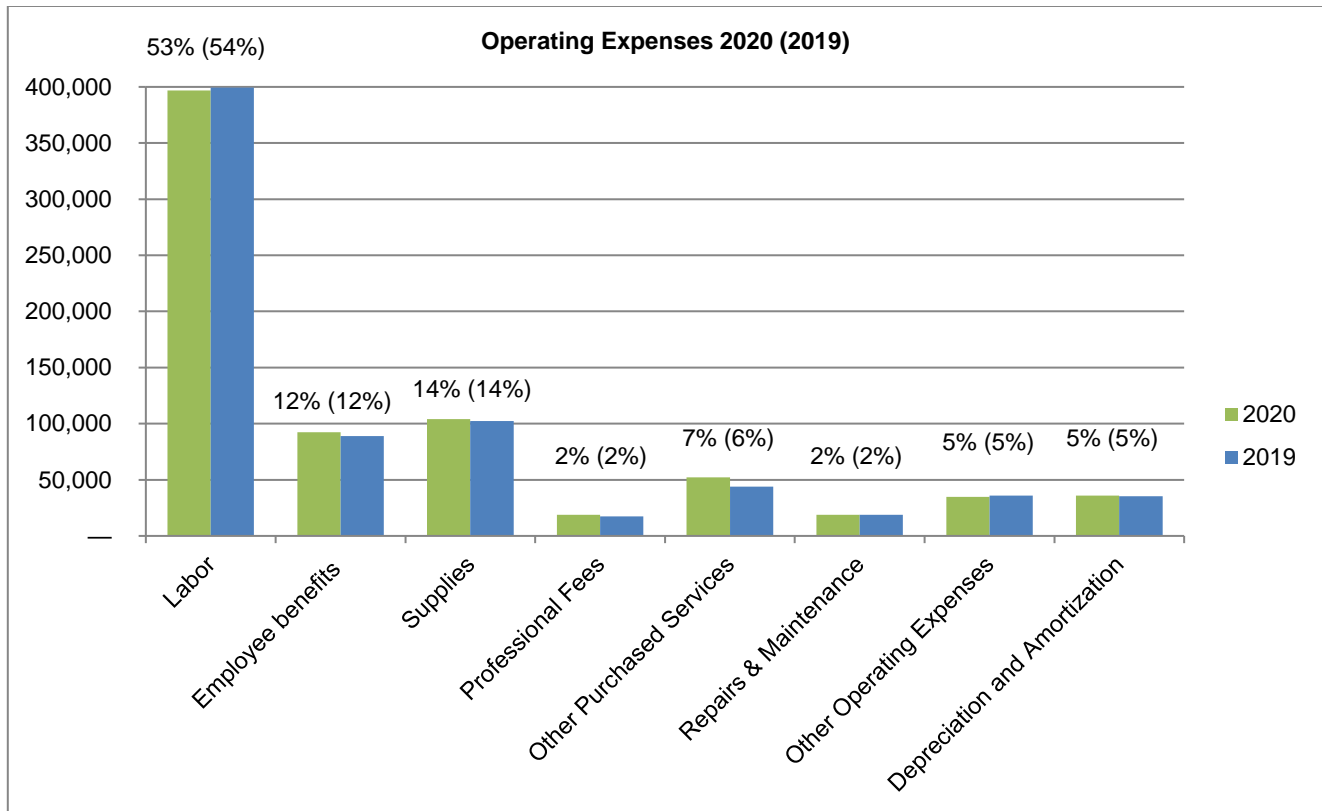
KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Total operating expenses in 2020 and 2019 of \$753.2 million and \$741.8 million, respectively, include expenses related to tax-supported community programs for which the offsetting revenue is included in nonoperating income. The table below is presented in thousands.



Nonoperating Income, Net of Expenses

In 2020, nonoperating income, net of expenses increased \$39.8 million, from \$26.0 million in 2019 to \$65.8 million in 2020. The increase is due to the recognition of \$40 million of CARES Act Provider Relief Funds. There were no significant asset sales in 2020.

In 2019, nonoperating income net of expenses decreased \$13.1 million, or 33.5%, from \$39.1 million in 2018 to \$26.0 million in 2019. The decrease is due to the recognition of \$19.1 million of proceeds from the sale of PacLab in 2018. There were no significant asset sales in 2019.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Future Economic Factors

Today, EvergreenHealth and health systems across the United States continue to incur significant unforeseen costs due to the on-going pandemic. With COVID-19 vaccinations now available, hospitals and healthcare providers have been tasked with establishing and operationalizing vaccine clinics with minimal upfront labor, financial and other resource support from the state and local government. In 2021, EvergreenHealth has incurred significant costs pertaining to community vaccine efforts—first, establishing a vaccine clinic on the Kirkland campus and later, partnering with Overlake Medical Center & Clinics and Microsoft to open a mass vaccination site sponsored by Microsoft on their Redmond campus. EvergreenHealth has also been tasked with creating and managing a call center to support the mass vaccination site in Redmond, fielding calls and managing patient communication—requiring substantial investment in new equipment, technology, training, and labor. Call volumes required additional staffing and a significant labor pool, including leadership oversight and third-party expertise.

To help further negate volume loss, EvergreenHealth expedited implementation of virtual visits across all 12 primary care locations and the majority of specialties. Virtual visits continue to be in demand and offer an opportunity to continue providing patient care in the safest possible environments and conducive to patient preference.

Contacting the District's Financial Management

This financial report provides the reader with a general overview of the District's finances and operations. If you have questions about this report or need additional financial information, please contact the Chief Financial Officer or Director of Financial Reporting at EvergreenHealth, 12040 NE 128th Street, Kirkland, Washington 98034.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Statements of Net Position

December 31, 2020 and 2019

(In thousands)

	2020		2019	
	District	Component unit EHM	District	Component unit EHM
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	\$ 83,847	11,431	57,267	5,573
Current portion board-designated assets	805	214	560	—
Current portion of assets restricted as to use	1,318	1,756	1,250	—
Patient accounts receivable, less allowance for uncollectible accounts of \$19,930 (District) and \$1,170 (EHM) in 2020 and \$28,269 (District) and \$725 (EHM) in 2019, respectively	86,296	7,699	95,247	7,735
Inventory	8,921	1,017	9,364	1,133
Prepaid expenses and other current assets	22,491	1,147	17,646	6,760
Third-party payor receivable	2,942	212	1,893	371
Total current assets	206,620	23,476	183,227	21,572
Assets limited as to use, less current portion of amounts required for current liabilities:				
Board-designated cash and investments	310,410	—	156,486	—
Restricted cash and investments	4,730	—	7,734	—
	315,140	—	164,220	—
Capital assets:				
Land	4,914	1,879	4,914	1,879
Construction in progress	24,574	202	25,691	4,508
Depreciable capital assets, net of accumulated depreciation	280,670	12,910	290,224	10,293
Other assets	310,158	14,991	320,829	16,680
	28,826	—	33,634	—
Total assets	860,744	38,467	701,910	38,252
Deferred outflows of resources:				
Deferred loss on refunding	2,830	—	2,542	—
Total assets and deferred outflows of resources	\$ 863,574	38,467	704,452	38,252

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Statements of Net Position

December 31, 2020 and 2019

(In thousands)

	2020		2019	
	District	Component unit EHM	District	Component unit EHM
Liabilities and Net Position				
Current liabilities:				
Accounts payable and accrued expenses	\$ 30,257	2,967	30,273	9,204
Accrued compensation and related liabilities	53,201	3,230	53,363	2,819
Accrued interest payable	802	55	680	33
Current portion of long-term debt and capital lease obligations	14,470	2,505	14,219	1,372
Third-party payor payable	6,070	—	4,678	—
Estimated current portion of professional liability	1,162	—	1,330	—
Other current liabilities (including CARES Act)	7,909	1,322	—	414
Total current liabilities	113,871	10,079	104,543	13,842
Long-term estimated professional liability	5,477	—	5,416	—
Other noncurrent liabilities (including CARES Act)	38,128	4,002	3,083	2,474
Long-term debt and capital lease obligations, net of current portion	265,410	23,503	175,896	21,830
Total liabilities	422,886	37,584	288,938	38,146
Net position:				
Investment in capital assets, net of related debt	86,507	(5,201)	130,714	(4,585)
Restricted:				
Expendable for specific activities	9,368	1,664	4,460	5,990
Expendable for debt service	971	214	915	230
Nonexpendable permanent endowments	5,421	—	3,107	—
Unrestricted	338,421	4,206	276,318	(1,529)
Total net position	440,688	883	415,514	106
Total liabilities and net position	\$ 863,574	38,467	704,452	38,252

See accompanying notes to financial statements.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended December 31, 2020 and 2019

(In thousands)

	2020		2019	
	District	Component unit EHM	District	Component unit EHM
Net patient service revenue (net of provision for bad debts of \$14,991 (District) and \$4,421 (EHM) in 2020 and \$28,869 (District) and \$5,018 (EHM) in 2019, respectively)	\$ 664,008	38,857	698,348	46,431
Other operating revenue	46,336	2,637	42,768	2,855
Total operating revenue	710,344	41,494	741,116	49,286
Expenses:				
Labor	396,802	24,193	399,310	24,387
Employee benefits	92,499	6,892	88,858	7,606
Supplies	104,116	6,133	102,263	7,013
Professional fees	18,768	2,144	17,527	1,570
Other purchased services	52,263	6,610	43,936	6,753
Repairs and maintenance	18,716	750	18,759	1,123
Other operating expenses	34,196	1,901	35,793	2,007
Depreciation and amortization	35,828	2,419	35,399	1,943
Total operating expenses	753,188	51,042	741,845	52,402
Deficit revenue over expenses from operations	(42,844)	(9,548)	(729)	(3,116)
Nonoperating income, net of expenses:				
Property taxes	27,872	4,921	26,805	4,844
Interest and amortization expense	(9,106)	(807)	(7,549)	(1,105)
Investment income	6,033	—	6,698	—
CARES Act	40,974	6,198	—	—
Other, net	62	(24)	44	(315)
Net nonoperating income	65,835	10,288	25,998	3,424
Excess of revenue over expenses	22,991	740	25,269	308
Special item: Other postemployment benefits	—	—	—	7,211
Capital grants and contributions	2,183	37	2,835	30
Total change in net position	25,174	777	28,104	7,549
Net position, beginning of year	415,514	106	387,410	(6,871)
Change in accounting principle	—	—	—	(572)
Net position, end of year	\$ 440,688	883	415,514	106

See accompanying notes to financial statements.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
Cash received from and on behalf of patients	\$ 670,877	702,687
Payments to suppliers and contractors	(191,840)	(231,233)
Payments to employees	(489,464)	(481,396)
Distributions received from joint ventures	2,726	2,470
Other cash receipts	46,035	35,406
Net payments provided by operating activities	38,334	27,934
Cash flows from noncapital financing activities:		
Property taxes received for community programs	5,912	5,423
Cash received for CARES Act funding	41,011	—
Net cash provided by noncapital financing activities	46,923	5,423
Cash flows from capital and related financing activities:		
Purchases of capital assets	(13,206)	(27,857)
Proceeds from sale of capital assets	30	52
Principal payments on long-term debt and capital lease obligations	(13,849)	(13,746)
Payments for interest on long-term debt	(9,572)	(9,100)
Proceeds from issuance of long-term debt	132,095	—
Proceeds from premium on long-term debt	10,603	—
Payments to refunding bond escrow agent	(40,451)	—
Payment of debt issuance costs	(1,086)	—
Proceeds from property taxes related to debt service	21,960	21,382
Net cash provided by (used in) capital and related financing activities	86,524	(29,269)
Cash flows from investing activities:		
Purchases of board-designated assets and assets restricted as to use	(189,277)	(40,081)
Proceeds from sale of board-designated assets and assets restricted as to use	38,044	34,114
Investment income	6,032	6,698
Net cash (used in) provided by investing activities	(145,201)	731
Net increase in cash and cash equivalents	26,580	4,819
Cash and cash equivalents beginning of year	57,267	52,448
Cash and cash equivalents end of year	\$ 83,847	\$ 57,267

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of deficit of revenue over expenses from operations to net cash provided by (used in) operating activities:		
Deficit of revenue over expenses from operations	\$ (42,844)	(729)
Adjustments to reconcile deficit of revenue over expenses from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	35,828	35,399
Provision for bad debts	14,991	28,869
Other	(2,032)	918
Changes in operating assets and liabilities:		
Patient accounts receivable, less provision for bad debt	(6,040)	(31,302)
Inventory	443	(1,245)
Prepaid expenses and other assets	1,114	(4,980)
Accounts payable and accrued expenses, net of amounts related to construction in progress	1,140	(9,007)
Accrued compensation and related liabilities	(162)	6,772
Third-party payor settlements, net	(1,049)	1,880
Professional liability and other liabilities	36,945	1,359
Net cash provided by operating activities	<u>\$ 38,334</u>	<u>27,934</u>
Supplemental disclosures of noncash investing, capital, and financing activities:		
Change in capital asset additions included in accounts payable and accrued expenses	\$ (6,753)	(6,907)
Change in capital asset additions acquired by capital lease	(3,489)	—
Donated capital assets	(2,183)	—

See accompanying notes to financial statements.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

King County Public Hospital District No. 2, King County, Washington, d/b/a EvergreenHealth (the District) is a municipal corporation established under Chapter 70.44 of the Revised Code of the State of Washington (RCW). The purpose of the District is to own and operate hospitals and other healthcare facilities and provide healthcare services to area residents. The District's primary operations include Evergreen Hospital Medical Center (the Medical Center), an acute care hospital; Evergreen Home Health Services, a home health agency; Evergreen Hospice Services, a program serving the terminally ill; EvergreenHealth Medical Group, a multispecialty practice group consisting of family practice physicians, physician assistants, and certified nurse practitioners; and EvergreenHealth Foundation (the Foundation). Affiliated organizations are evaluated for inclusion in the reporting entity as component units based on the significance of their relationship with the District.

(i) Blended Component Unit

The Foundation is a separate nonprofit foundation. The purpose of the Foundation is to (a) receive grants, bequests, donations, and contributions on behalf of; (b) provide fund-raising and other support to; and (c) make contributions to the District. Consequently, the net financial position and the results of operations of the Foundation are included in the accompanying financial statements. For the years ended December 31, 2020 and 2019, the Foundation raised approximately \$4.9 million and \$3.2 million in contributions (included in other operating revenue) and its assets comprise 1.5% and 1.6% of total assets of the District in 2020 and 2019, respectively.

(ii) Discrete Component Unit

The District and EvergreenHealth Monroe (EHM), a 72-bed semirural community hospital (together with a 40-bed residential treatment facility license), entered into a Strategic Alliance Agreement effective March 1, 2015. EHM is located in Monroe, Washington and is a separate legal entity governed by the Alliance Governance Board (AGB). The AGB comprises five directors, consisting of two commissioners of the District, two commissioners of EHM, and the District CEO.

The audited financial statements of EHM are available by contacting EHM at 14701 179th Avenue SE, Monroe, Washington 98272 or online at the following address:

www.evergreenhealthmonroe.com/governance-and-leadership-monroe

(b) Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

The District prepares and presents its financial information in accordance with Government Accounting Standards Board (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.

(c) Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the District, the primary government, and its component units, the Foundation and EHM.

Component units are legally separate organizations for which the District is financially accountable. These entities may be reported in the financial statements of the primary government in one of two ways: the component units' amounts may be blended with the amounts reported by the primary government, or they may be shown in a separate column, depending on the application of the criteria of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Foundation meets the criteria of a blended component unit and has been included in the financial statements. EHM does not meet the criteria of a blended component unit and has been reported as a discretely presented component unit in a separate column of the financial statements.

(d) Use of Estimates

The preparation of financial statements in conformity with 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the District's financial statements include patient accounts receivable allowances, third-party payor settlements, professional liabilities, and the fair value of investments.

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less, excluding assets restricted as to use and board-designated assets. Deposits of up to \$250 thousand are covered by the Federal Deposit Insurance Corporation and any deposits in excess of \$250 thousand are covered by collateral held in a multifinancial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(f) Patients Accounts Receivable

Receivables arising from revenue for services to patients are reduced by an allowance for contractals and estimated uncollectible accounts based on recent collection experience and other circumstances, which may affect the ability of patients to meet their obligations. There are various factors that can impact the collection trends and the estimation process, such as changes in the economy, the increased burden of copays, and deductibles to be made by patients and business practices related to collection efforts. Accounts deemed uncollectible are charged against this allowance.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(g) Assets Limited as to Use

Assets limited as to use include assets designated by the Board of Commissioners (the Board) for capital improvements and community service programs. The Board retains control of the assets and may, at its discretion, subsequently change the use for other purposes. Assets limited as to use include certain assets of the Foundation that are restricted by donor stipulations. Assets limited as to use also include unexpended proceeds and income generated from certain outstanding bond series restricted for the payment of principal, interest, and expenditures for construction and equipment costs. The assets of the Supplemental Executive Retirement Plan (SERP) are also recorded as assets limited as to use. The SERP is a postretirement plan covering the executive management team. Amounts required to meet related current liabilities have been classified as current assets in the accompanying statements of net position. These assets are carried at fair value with changes in fair value reported as investment income.

(h) Inventory

Inventory consists of pharmaceutical, medical-surgical, and other supplies used in the operation of the District. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

(i) Capital Assets

Capital assets are recorded at cost. In accordance with governmental accounting standards, the District has established a capitalization threshold of \$3 thousand and a life of three years or more, above which asset acquisitions are added to the capital asset accounts. Donated items are recorded at fair value at the date of the contribution. Depreciation expense is computed using the straight-line method based on the following estimated useful lives of the assets:

Land improvements	10–20 Years
Buildings	25–40 Years
Equipment	3–20 Years

Maintenance and repairs are expensed as incurred. Expenditures that materially increase values, change capacities, or extend useful lives of plant and equipment are capitalized.

Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying statements of revenue, expenses, and changes in net position.

(j) Compensated Absences

The District's employees earn vacation days at varying rates depending on years of service. Accrued vacation is reported as a current liability as employees utilize their vacation days within the following year.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(k) Net Position

Net position of the District is classified in five components. Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes expendable for specific activities and expendable for debt service and must be used for a particular purpose, as specified by grantors or contributors external to the District. Restricted nonexpendable net position equals the principal portion of permanent endowments. Unrestricted net position does not meet the definition of investment in capital, net of related debt or restricted. The District will first apply restricted resources when an expense is incurred for purposes for which both unrestricted and restricted net position are available.

(l) Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services — the District's principal activity. Nonoperating income includes property taxes received or grants and contributions received for purposes other than capital asset acquisition. Operating expenses are all expenses incurred to provide healthcare services.

Other operating revenue includes tenant lease receipts, distributions from joint ventures, outreach laboratory service revenue, retail revenue such as gift shop and pharmacy, educational offerings, grant funds to support specific programs, restricted donations, research activities, and other services.

(m) Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(n) Charity Care

The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to an established policy of the District. The estimated cost of charity care is determined by calculating the ratio of operating costs to charges, and then applying this ratio to total charity care charges. The estimated costs of charity care provided by the District were \$3.2 million and \$2.8 million for 2020 and 2019, respectively. Because the District does not pursue collection of amounts determined to qualify as charity care, associated charges are not included in net patient service revenue.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(o) Nonoperating Income, Net of Expenses

The District received property taxes from regular levy proceeds and voter approved excess levies. These funds were used as follows:

	December 31	
	2020	2019
	(In thousands)	
Amount used for tax-supported programs	\$ 5,912	5,423
Amounts used for debt service on general obligation bonds	<u>21,960</u>	<u>21,382</u>
	<u>\$ 27,872</u>	<u>26,805</u>

Of the amount used for debt service on general obligation bonds, \$9.3 million and \$8.8 million were used for interest payments for the years ended December 31, 2020 and 2019, respectively. The property taxes received are reflected in nonoperating income. Interest expense related to long-term debt is included in nonoperating expenses. All other expenses related to tax supported programs are included in operating expenses.

Investment income includes interest income and realized and unrealized gains and losses on board-designated assets and earnings on cash deposits.

Coronavirus Aid Relief and Economic Security (CARES) Act income includes distributions from both the Federal and State level related to COVID-19 relief programs.

(p) Federal Income Taxes

No provisions have been made for federal income taxes, as the District and EHM are municipal corporations exempt from federal tax, under Section 115 of the Internal Revenue Code.

The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(q) Recently Issued Accounting Standards

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB No. 95). This Statement extends the effective dates of certain accounting and financial reporting provisions to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements are effective for certain Statements originally effective for reporting periods beginning after June 15, 2018. The District adopted the above GASB statement on January 1, 2019 and delayed the implementation of certain applicable statements

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

accordingly. There are no financial statement impacts or reclassifications associated with adoption of GASB 95.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Duties* (GASB No. 84). This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The District adopted in 2019 and considered the above GASB statement noting no financial statement implications or impact upon adoption.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB No. 88). This Statement clarifies which liabilities governments should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. The District adopted in 2019 and considered the above GASB statement noting no financial statement implications or impact upon adoption.

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB No. 87). This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Therefore, it establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB No. 95 delays the implementation of this Statement to fiscal years beginning after June 15, 2021. The district has started implementation work but will adopt on January 1, 2022. The qualitative effects on the District's future financial statements of these changes and related retrospective adjustments have not yet been determined.

(2) Novel Coronavirus and CARES Act

In December 2019, a novel coronavirus (COVID-19) was identified in China and began to spread to other geographical locations, including the United States. The Governor of the State of Washington declared a state of emergency on February 29, 2020. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and on March 13, 2020, the President of the United States declared a national emergency.

On March 27, 2020 the Coronavirus Aid Relief and Economic Security (CARES) Act was enacted. The CARES Act authorized \$100 billion in a Provider Relief Fund for hospitals and healthcare providers.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Funding was intended to compensate hospitals and other healthcare providers for lost revenue and increased expenses incurred in order to respond to the COVID-19 impact. Provider Relief Fund distributions are not required to be repaid, so long as the payment can be substantiated by lost revenue and the incremental costs incurred related to responding to the pandemic and certain terms and conditions are met. The District received \$40.5 million in CARES Act distributions recorded to nonoperating income. Furthermore, the State of Washington distributed funds to healthcare providers through a Coronavirus Relief Fund of which the District received \$488 thousand.

In addition to direct payments to healthcare providers, the CARES Act provided opportunities to increase cash flow. The CARES Act allowed inpatient acute care hospitals to receive accelerated Medicare payments for a period of up to six months. The accelerated payments are interest free if repaid according to the terms of the advance. The District received \$41.7 million in Medicare advance payments between June and September 2020 and recorded as \$6.3 million unearned revenue within other current liabilities and \$35.4 million unearned revenue within other noncurrent liabilities.

The CARES Act also provided the deferral of the employer portion of social security taxes as another source of cash flow for employers in need. The District deferred these taxes from March 27, 2020 through the end of the year. This resulted in a \$12.8 million liability which will be repaid 50% by December 31, 2021 and 50% by December 31, 2022 in accordance with the CARES Act. The 2021 portion of the liability is reflected on the statement of net position as an other accrued liability and the portion to be repaid by 2022 is reflected as an other noncurrent.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the District's financial condition, liquidity and future operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce.

(3) Net Patient Service Revenue

The District has arrangements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis-related groups (DRGs). Each DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that DRG. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2016. The District recognized interim and final cost report settlements and a Net Payment Reconciliation Award payment from Centers for Medicare and Medicaid Services (CMS) resulting in a decrease in net patient service revenue of \$117 thousand and \$339 thousand in 2020 and 2019, respectively. Most outpatient services to Medicare beneficiaries are

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

paid prospectively based on ambulatory payment classifications (APCs). CMS assigns individual services (Healthcare Common Procedure Coding System codes) to APCs based on similar clinical characteristics and similar costs.

(b) Medicaid

In the spring of 2005, the Washington State Legislature and CMS approved a Medicaid Certified Public Expenditures (CPE) program for inpatient reimbursement. The CPE program uses public expenditures by certain public hospitals to earn federal matching funds. Certified public expenditures are qualifying expenditures made by the hospital to serve Medicaid eligible or uninsured patients. The program was designed to preserve a significant amount of federal match funding for the State of Washington (the State) and maintain the same level of reimbursement to the affected hospitals that they would have received prior to the implementation of the program.

The CPE program uses three payment mechanisms to reimburse hospitals for inpatient care: inpatient hospital claims payments, disproportionate share (DSH) payments, and state grants. Under the program, hospitals are paid an interim payment based on an estimate of the cost to provide services to Medicaid recipients. For each payment to a hospital in the program, only the federal matching portion of the payment is remitted to the hospital; the state portion is funded through DSH payments and state grants.

The intent of the legislature is that hospitals in the program receive no less in combined federal and state payments than the hospital would have received under the methodology that was in place during fiscal year 2005. Any differences between the federal matching and state DSH components on the CPE program payments and this baseline amount are to be paid to the hospitals with state grant funds. Additional legislative appropriations may be required if state grant funds allocated at the start of the year are insufficient to meet the program's hold harmless provision.

Interim state payments based on prospectively estimated experience are retrospectively reconciled to "hold harmless" after actual claims are repriced using the applicable methods. This process takes place at least six months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid program. State inpatient claim and DSH payments are subject to retrospective determination of actual costs once the District's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete. Final settlement of \$452 thousand was paid back in 2020 related to State fiscal year 2015. The District recognized interim settlements resulting in an adjustment to increase net patient service revenue by \$200 thousand in each year ended 2020 and 2019.

Inpatient Medicaid charges represented approximately 12.68% and 10.57% of total inpatient charges for the District in fiscal year 2020 and 2019, respectively.

The Medicaid CPE program continues through the State's fiscal year 2020 and 2019. As of December 31, 2020 and 2019, the District has recorded a payable of \$900 thousand and \$300 thousand for estimated overpayments for state fiscal year 2020 and 2019, respectively, which is included in third-party payor payable in the statements of net position.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District's allowable operating expenses to total allowable revenue.

In the July 2009 legislative session, the Washington State legislature enacted the Hospital Safety Net Assessment to help mitigate an estimated \$400 million reduction in hospital Medicaid payments. Under this law, nongovernmental Washington hospitals are assessed a fee on all non-Medicare patient days. The fees are used to obtain new federal Medicaid matching funds.

The safety net assessment was subject to approval by CMS before it took effect. In 2010, CMS approved the two amendments required to fully enact the safety net assessment program. The initial safety net program expired in June 2013 and the State passed a new safety net assessment program that was approved by CMS in April 2014. The new law is retroactive to July 1, 2013 and will sunset on July 1, 2021. The District is not subject to the assessment but is a recipient of funding through the program. The District received safety net payments totaling \$900 thousand in each year ended 2020 and 2019.

(c) Other Third-Party Reimbursement

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

The following are the components of net patient service revenue for the years ended December 31, 2020 and 2019:

	2020	
	District	Component unit
	(In thousands)	
Gross patient service charges	\$ 1,904,525	120,473
Adjustments to patient service charges:		
Contractual adjustments	1,212,050	76,286
Provision for bad debts	14,991	4,421
Charity care	8,243	909
Administrative adjustments	5,233	—
	<u>1,240,517</u>	<u>81,616</u>
Net patient service revenue	<u>\$ 664,008</u>	<u>38,857</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

	2019	
	District	Component unit
	(In thousands)	
Gross patient service charges	\$ 2,017,928	139,542
Adjustments to patient service charges:		
Contractual adjustments	1,278,436	87,183
Provision for bad debts	28,869	5,018
Charity care	7,850	910
Administrative adjustments	4,425	—
	<u>1,319,580</u>	<u>93,111</u>
Net patient service revenue	<u>\$ 698,348</u>	<u>46,431</u>

(4) Assets Limited as to Use

Assets limited as to use include board-designated cash and investments and restricted cash and investments.

Board-designated cash and investments represent unrestricted resources that have been designated by the Board for funded depreciation and community service programs. In addition, the Board has the authority to establish a regular property tax levy within statutory restrictions, with the proceeds being used for purposes designated by the Board.

Restricted cash and investments include certain assets of the Foundation that are restricted by donor stipulations, assets related to the postretirement plan covering the executive management team, and other restricted cash and investments.

Assets limited as to use are carried at fair value. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy under GASB Statement No. 72, *Fair Value Measurement and Application*, are described below:

- 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

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- (a) Cash and Cash Equivalents – The carrying value approximates fair value because of the short maturity of those instruments.
- (b) Assets Limited as to Use – Fair values are estimated based on quoted market prices for those or similar investments. Maturities for securities are based on the weighted average maturity date, or reset date for adjustable rate mortgages.

The following tables present the composition, fair value, ratings and maturity of board-designated cash and investments for the District at December 31, 2020 and 2019:

Board-Designated Assets

December 31, 2020

Investment type	Fair value amount	Quoted prices in active markets for identical assets (Level 1) (In thousands)	Significant other observable inputs (Level 2)	Ratings
U.S. treasuries	\$ 190,354	—	190,354	AAA
U.S. government agencies	13,802	—	13,802	AA-
Mutual fund – bonds	680	680	—	Not rated
Credit	49,525	—	49,525	A+
Taxable municipal bonds	4,169	—	4,169	AA
U.S. government agency – mortgage backed	26,923	—	26,923	AAA
Government related securities	7,895	—	7,895	AAA
King County Investment Pool	152	152	—	Not rated
Total investments	293,500	\$ 832	292,668	
Cash and cash equivalents	14,347			
Total cash and investments	307,847			
Property tax, interest receivable, and other	3,368			
Total board-designated assets	\$ 311,215			

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Board-Designated Assets

December 31, 2020

Investment type	Fair value amount	Investment maturities (in years)	
		N/A or less than 1 (In thousands)	1–5
U.S. treasuries	\$ 190,354	8,968	181,386
U.S. government agencies	13,802	277	13,525
Mutual fund – bonds	680	680	—
Credit	49,525	16,889	32,636
Taxable municipal bonds	4,169	1,140	3,029
U.S. government agency – mortgage backed	26,923	1,726	25,197
Government related securities	7,895	3,387	4,508
King County Investment Pool	152	152	—
Total investments	\$ <u>293,500</u>	<u>33,219</u>	<u>260,281</u>

Board-Designated Assets

December 31, 2019

Investment type	Fair value amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Ratings
		(In thousands)		
U.S. treasuries	\$ 84,830	—	84,830	AAA
U.S. government agencies	9,427	—	9,427	AA-
Mutual fund – bonds	3,546	3,546	—	Not rated
Credit	34,811	—	34,811	A+
Taxable municipal bonds	3,525	—	3,525	AA
U.S. government agency – mortgage backed	11,578	—	11,578	AAA
Government related securities	3,888	—	3,888	AAA
King County Investment Pool	97	97	—	Not rated
Total investments	151,702	\$ <u>3,643</u>	<u>148,059</u>	

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Board-Designated Assets

December 31, 2019

<u>Investment type</u>	<u>Fair value amount</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u> (In thousands)	<u>Significant other observable inputs (Level 2)</u>	<u>Ratings</u>
Cash and cash equivalents	\$ 2,030			
Total cash and investments	153,732			
Property tax, interest receivable, and other	<u>3,314</u>			
Total board-designated assets	\$ <u>157,046</u>			

Board-Designated Assets

December 31, 2019

<u>Investment type</u>	<u>Fair value amount</u>	<u>Investment maturities (in years)</u>	
		<u>N/A or less than 1</u> (In thousands)	<u>1–5</u>
U.S. treasuries	\$ 84,830	870	83,960
U.S. government agencies	9,427	1,337	8,090
Mutual fund – bonds	3,546	3,546	—
Credit	34,811	12,313	22,498
Taxable municipal bonds	3,525	242	3,283
U.S. government agency – mortgage backed	11,578	—	11,578
Government related securities	3,888	—	3,888
King County Investment Pool	<u>97</u>	<u>97</u>	<u>—</u>
Total investments	\$ <u>151,702</u>	<u>18,405</u>	<u>133,297</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

The following tables present the composition, fair value, ratings and maturity of restricted cash and investments of the District for the years ended December 31, 2020 and 2019:

Restricted Cash and Investments

December 31, 2020

Investment type	Fair value amount	Quoted prices in active markets for identical assets (Level 1)	Ratings	Investment maturities (in years) N/A or less than 1
		(In thousands)		
King County Investment Pool	\$ 916	916	Not Rated	916
Mutual fund – bonds	1,936	1,936	Not Rated	1,936
Mutual fund – equity	<u>2,942</u>	<u>2,942</u>	Not Rated	<u>2,942</u>
Total investments	5,794	<u>\$ 5,794</u>		<u>\$ 5,794</u>
Cash and cash equivalents	<u>104</u>			
Total cash and investments	5,898			
Property tax, interest receivable, and other	<u>150</u>			
Total assets restricted as to use	<u>\$ 6,048</u>			

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Restricted Cash and Investments

December 31, 2019

Investment type	Fair value amount	Quoted prices in active markets for identical assets (Level 1)	Ratings	Investment maturities (in years) N/A or less than 1
		(In thousands)		
King County Investment Pool	\$ 922	922	Not Rated	922
Mutual fund – bonds	1,871	1,871	Not Rated	1,871
Mutual fund – equity	3,022	3,022	Not Rated	3,022
Total investments	5,815	\$ 5,815		\$ 5,815
Cash and cash equivalents	104			
Total cash and investments	5,919			
Property tax, interest receivable, and other	3,065			
Total assets restricted as to use	\$ 8,984			

Interest Rate Risk – The District’s investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Shares of mutual funds with portfolios consisting of only U.S. government bonds or U.S. government bonds issued by federal agencies must have average maturities of less than four years. Unless matched to a specific cash flow, the District does not invest in securities maturing more than five years from the date of purchase. However, assets whose use is limited may be invested in securities exceeding 10 years if the maturity of such investments is timed to coincide with the expected use of funds.

Credit Risk – Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, public funds investment accounts, state, or local government bonds with one of the three highest credit ratings of a nationally recognized agency, money markets with investments in authorized securities, and mutual funds of only U.S. government bonds and agencies. The U.S. Treasury, agency, and agency mortgage backed are considered to be of high quality; and the U.S. Treasury carry the long-term sovereign rating of the United States of America. The District’s policy requires that all certificates of deposit be collateralized.

The District utilizes an investment adviser as well as the King County Investment Pool (the Pool), an external investment pool. The Pool is not registered with the Securities and Exchange Commission as an investment company. Oversight of the Pool is provided by the King County Executive Finance Committee pursuant to RCW 36.29.020. Participation in this pool is voluntary. The intent of this policy is to balance

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

reasonable security with reasonable investment return, seeking to maximize both while meeting the daily cash flow requirements of the District and conforming to all applicable laws and regulations governing the investment of public funds.

Concentration of Credit Risk – In October 2017, the District's Board of Commissioners adopted a revised investment policy, which includes the ability to invest in Commercial Paper and Corporate Notes in accordance with RCW 39.59.040 and Washington State Investment Board policy number 2.05.500.

The following table sets forth the percentages by investment type of the District's total investment portfolio as of December 31, 2020 and 2019:

	2020	2019
U.S. treasuries	60%	56%
Mutual fund/U.S. government securities	7	1
Federal National Mortgage Association	3	3
Federal Home Loan Bank	1	2
Federal Home Loan Mortgage Corporation	10	7
Government National Mortgage Association	—	1
King County Investment Pool	—	1
Credit	16	23
Taxable municipal bonds	1	2
Agencies other	—	1
Government related securities	2	3
	<u>100%</u>	<u>100%</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(5) Capital Assets

The schedule of capital asset activity for the years ended December 31, 2020 and 2019 is as follows:

	<u>January 1, 2020</u>	<u>Additions and adjustments</u>	<u>Sales and retirements</u> (In thousands)	<u>Account transfers</u>	<u>December 31, 2020</u>
Assets at cost:					
Nondepreciable capital assets:					
Land	\$ 4,914	—	—	—	4,914
Construction in progress	25,691	24,996	—	(26,113)	24,574
Total nondepreciable capital assets	30,605	24,996	—	(26,113)	29,488
Depreciable capital assets:					
Land improvements	13,718	—	(594)	—	13,124
Buildings	362,282	—	—	6,066	368,348
Equipment	422,214	636	(14,653)	23,209	431,406
Equipment and property under capital lease	15,131	—	—	(3,162)	11,969
Total depreciable capital assets	813,345	636	(15,247)	26,113	824,847
Less accumulated depreciation:					
Land improvements	11,543	359	(594)	—	11,308
Buildings	185,493	13,023	—	—	198,516
Equipment	316,068	22,921	(14,653)	10,017	334,353
Equipment under capital lease	10,017	—	—	(10,017)	—
Total accumulated depreciation	523,121	36,303	(15,247)	—	544,177
Depreciable capital assets, net	290,224	(35,667)	—	26,113	280,670
Capital assets, net	\$ 320,829	(10,671)	—	—	310,158

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

	<u>January 1, 2019</u>	<u>Additions and adjustments</u>	<u>Sales and retirements</u> (In thousands)	<u>Account transfers</u>	<u>December 31, 2019</u>
Assets at cost:					
Nondepreciable capital assets:					
Land	\$ 4,914	—	—	—	4,914
Construction in progress	14,280	37,091	—	(25,680)	25,691
Total nondepreciable capital assets	19,194	37,091	—	(25,680)	30,605
Depreciable capital assets:					
Land improvements	14,329	—	(611)	—	13,718
Buildings	360,257	—	(3,220)	5,245	362,282
Equipment	414,046	553	(12,820)	20,435	422,214
Equipment and property under capital lease	15,131	—	—	—	15,131
Total depreciable capital assets	803,763	553	(16,651)	25,680	813,345
Less accumulated depreciation:					
Land improvements	11,774	380	(611)	—	11,543
Buildings	176,000	12,713	(3,220)	—	185,493
Equipment	306,285	22,567	(12,784)	—	316,068
Equipment under capital lease	9,857	160	—	—	10,017
Total accumulated depreciation	503,916	35,820	(16,615)	—	523,121
Depreciable capital assets, net	299,847	(35,267)	(36)	25,680	290,224
Capital assets, net	\$ 319,041	1,824	(36)	—	320,829

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

The schedule of capital asset activity for EHM for the years ended December 31, 2020 and 2019 is as follows:

	<u>January 1, 2020</u>	<u>Additions and adjustments</u>	<u>Sales and retirements</u> (In thousands)	<u>Account transfers</u>	<u>December 31, 2020</u>
Assets at cost:					
Nondepreciable capital assets:					
Land	\$ 1,879	—	—	—	1,879
Construction in progress	4,508	111	—	(4,417)	202
Total nondepreciable capital assets	6,387	111	—	(4,417)	2,081
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings	27,173	11	—	2,927	30,111
Equipment	19,543	719	(2,369)	1,490	19,383
Equipment and property under capital lease	2,731	22	(21)	—	2,732
Total depreciable capital assets	50,681	752	(2,390)	4,417	53,460
Less accumulated depreciation:					
Land improvements	883	55	—	—	938
Buildings	20,660	1,131	—	—	21,791
Equipment	16,433	1,163	(2,237)	—	15,359
Equipment under capital lease	2,412	70	(20)	—	2,462
Total accumulated depreciation	40,388	2,419	(2,257)	—	40,550
Depreciable capital assets, net	10,293	(1,667)	(133)	4,417	12,910
Capital assets, net	\$ 16,680	(1,556)	(133)	—	14,991

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

	<u>January 1, 2019</u>	<u>Additions and adjustments</u>	<u>Sales and retirements</u> (In thousands)	<u>Account transfers</u>	<u>December 31, 2019</u>
Assets at cost:					
Nondepreciable capital assets:					
Land	\$ 1,879	—	—	—	1,879
Construction in progress	414	5,049	—	(955)	4,508
Total nondepreciable capital assets	<u>2,293</u>	<u>5,049</u>	<u>—</u>	<u>(955)</u>	<u>6,387</u>
Depreciable capital assets:					
Land improvements	1,146	—	—	88	1,234
Buildings	26,879	—	—	294	27,173
Equipment	18,603	490	—	450	19,543
Equipment and property under capital lease	<u>2,602</u>	<u>6</u>	<u>—</u>	<u>123</u>	<u>2,731</u>
Total depreciable capital assets	<u>49,230</u>	<u>496</u>	<u>—</u>	<u>955</u>	<u>50,681</u>
Less accumulated depreciation:					
Land improvements	821	62	—	—	883
Buildings	19,766	894	—	—	20,660
Equipment	15,522	911	—	—	16,433
Equipment under capital lease	<u>2,336</u>	<u>76</u>	<u>—</u>	<u>—</u>	<u>2,412</u>
Total accumulated depreciation	<u>38,445</u>	<u>1,943</u>	<u>—</u>	<u>—</u>	<u>40,388</u>
Depreciable capital assets, net	<u>10,785</u>	<u>(1,447)</u>	<u>—</u>	<u>955</u>	<u>10,293</u>
Capital assets, net	\$ <u>13,078</u>	<u>3,602</u>	<u>—</u>	<u>—</u>	<u>16,680</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(6) Other Assets

Evergreen Radia, LLC

During 2003, the District formed a limited liability company with a local radiology group for the purpose of providing outpatient diagnostic imaging services to individuals within the community. The District had a 50% interest in this joint venture at December 31, 2020 and 2019, which is accounted for using the equity method of accounting. During the years ended December 31, 2020 and 2019, the District recognized its proportionate share of the Evergreen Radia, LLC's net income, as other operating revenue.

The following represents the summary financial information of Evergreen Radia, LLC as of December 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Current assets	\$ 5,627	6,423
Noncurrent assets, net	<u>3,288</u>	<u>3,806</u>
	<u>\$ 8,915</u>	<u>10,229</u>
Current liabilities	\$ 2,721	2,413
Long-term liabilities	2,416	2,858
Equity	<u>3,778</u>	<u>4,958</u>
	<u>\$ 8,915</u>	<u>10,229</u>
Revenue	\$ 15,033	15,276
Expenses	<u>11,513</u>	<u>10,920</u>
Net income	<u>\$ 3,520</u>	<u>4,356</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(7) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations of the District consist of the following:

	December 31	
	2020	2019
	(In thousands)	
Limited Tax General Obligation Bonds (LTGO)		
Series 2010 (fixed rate), payable annually through 2028, interest at 2.00% to 5.25%	\$ —	20,835
LTGO Series 2011 (fixed rate), payable annually through 2030, interest at 2.00% to 5.00%	—	18,910
LTGO Series 2015 (fixed rate), payable annually through 2031, interest at 3.63% to 5.00%	46,195	49,295
LTGO Series 2015 B (fixed rate), payable annually through 2037, interest at 4.00% to 5.00%	54,000	54,000
LTGO Series 2020 (fixed rate) – direct borrowing, payable annually through 2030, interest at 1.87% to 2.16%	30,000	—
LTGO Series 2020 A (fixed rate), payable annually through 2045, interest at 4.00% to 4.00%	59,940	—
LTGO Series 2020 B (fixed rate), payable annually through 2035, interest at 1.30% to 2.54%	39,210	—
Unlimited Tax General Obligation Refunding Bonds (UTGO), Series 2013 (fixed rate), payable semiannually through 2023, interest at 3.00% to 5.00%	22,590	29,455
Capital lease obligations, \$8,919 (fixed rate), payable monthly including interest at 0.18% to 10.0%, collateralized by equipment	9,418	6,868
	261,353	179,363
Plus bond discounts and premiums	18,527	10,752
	279,880	190,115
Less current portion	(14,470)	(14,219)
	<u>\$ 265,410</u>	<u>175,896</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Long-term debt and capital lease obligations 2020 and 2019 activity summary for the District is as follows (in thousands):

	January 1, 2020	Additions	Reductions	December 31, 2020	Amounts due within one year
Limited general obligation bonds:					
2010 series	\$ 20,835	—	20,835	—	—
2011 series	18,910	—	18,910	—	—
2015 series	49,295	—	3,100	46,195	3,255
2015 series B	54,000	—	—	54,000	—
2020 series - direct borrowing	—	30,000	—	30,000	—
2020 series A	—	59,940	—	59,940	—
2020 series B	—	42,155	2,945	39,210	2,420
Unlimited general obligation bonds:					
2013 series	29,455	—	6,865	22,590	7,165
Total long-term debt	172,495	132,095	52,655	251,935	12,840
Capital lease obligations	6,868	3,489	939	9,418	1,630
Total long-term debt and capital lease obligations	179,363	135,584	53,594	261,353	14,470
Bond discounts and premiums	10,752	10,604	2,829	18,527	1,925
Total long-term debt and capital lease obligations	\$ 190,115	146,188	56,423	279,880	16,395
	January 1, 2019	Additions	Reductions	December 31, 2019	Amounts due within one year
Limited general obligation bonds:					
2010 series	\$ 22,635	—	1,800	20,835	1,885
2011 series	20,270	—	1,360	18,910	1,430
2015 series	52,250	—	2,955	49,295	3,100
2015 series B	54,000	—	—	54,000	—
Unlimited general obligation bonds:					
2013 series	36,035	—	6,580	29,455	6,865
Total long-term debt	185,190	—	12,695	172,495	13,280

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

	<u>January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2019</u>	<u>Amounts due within one year</u>
Capital lease obligations	\$ 7,913	—	1,045	6,868	939
Total long-term debt and capital lease obligations	193,103	—	13,740	179,363	14,219
Bond discounts and premiums	12,769	—	2,017	10,752	—
Total long-term debt and capital lease obligations	\$ <u>205,872</u>	<u>—</u>	<u>15,757</u>	<u>190,115</u>	<u>14,219</u>

A summary of the District future maturities on long-term debt for the next five years and thereafter as of December 31, 2020 for both principal and interest is presented below (in thousands):

	<u>Bonds</u>		<u>Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 12,840	9,026	—	600
2022	13,705	8,472	3,333	567
2023	14,510	7,888	3,333	500
2024	6,830	7,270	3,333	433
2025	7,065	7,035	3,333	367
Amounts due 2026–2030	39,295	31,195	16,668	833
Amounts due 2031–2035	47,765	22,723	—	—
Amounts due 2036–2040	40,425	12,378	—	—
Amounts due 2041–2045	39,500	4,864	—	—
	\$ <u>221,935</u>	<u>110,851</u>	<u>30,000</u>	<u>3,300</u>

Total unamortized bond discounts and premiums are \$18.5 million as of December 31, 2020.

Overview of Bonds

UTGO bonds are secured by the irrevocable pledge of the District to levy taxes annually, without limitation as to rate or amount based on a vote of the electors, on all taxable property within the District. LTGO are secured by the irrevocable pledge of the District to levy taxes annually, within the constitutional and statutory limitations provided by law without a vote of the electors, upon property in the District, as well as the net revenue of the District for amounts that exceed that available through the levy.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Series 2020 Bond Issues

The 2020 LTGO bonds were issued for the principal amount of \$30 million. The bonds were purchased by JPMorgan Chase as a private placement. These proceeds were used for cash flow management. The District has pledged tax revenues to secure the bonds.

The 2020A LTGO bonds were issued for the principal amount of \$59.9 million and designated to carry out capital improvements to the Silver Tower, Critical Care Unit, and the Obstetrics and Family Maternity Center renovation.

The 2020B LTGO bonds were issued for the principal amount of \$42.2 million. The proceeds were used to retire, defease and refund all of the District's outstanding 2010 and 2011 bonds. The difference between the cash flows required to service the new debt and complete the refunding was \$1.8 million. The economic gain was \$3.4 million.

The District has pledged tax revenues to secure the bonds.

Component Unit – EHM

Long-term debt and capital lease obligations of EHM consist of the following:

	December 31	
	2020	2019
	(In thousands)	
LTGO Refunding Bonds, 2019, payable semiannually through 2034, interest at 2.95%	\$ 16,460	17,235
LTGO Bonds, 2019, payable semiannually through 2029, interest at 3.25%	5,483	6,000
Paycheck Protection Program (PPP) Loan Coastal Bank any amounts not forgiven convert to term loan payable monthly beginning August 2021 through 2022, interest at 1%	4,152	—
Capital lease obligations, payable monthly, including interest at 6.70%, collateralized by equipment	114	194
	26,209	23,429
Plus bond discounts and premiums	(201)	(227)
	26,008	23,202
Less current portion	(2,505)	(1,372)
	<u>\$ 23,503</u>	<u>21,830</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Long-term debt and capital lease obligations 2020 and 2019 activity summary of EHM is as follows
(in thousands):

	January 1, 2020	Additions	Reductions	December 31, 2020	Amounts due within one year
Limited general obligation bonds:					
2019 refunding series	\$ 17,235	—	775	16,460	795
2019 series	6,000	—	517	5,483	534
PPP Loan	—	4,152	—	4,152	1,091
Total long-term debt	23,235	4,152	1,292	26,095	2,420
Capital lease obligations	194	—	80	114	85
Total long-term debt and capital lease obligations	23,429	4,152	1,372	26,209	2,505
Bond discounts and premiums	(227)	—	(26)	(201)	—
Total long-term debt and capital lease obligations	<u>\$ 23,202</u>	<u>4,152</u>	<u>1,346</u>	<u>26,008</u>	<u>2,505</u>
	January 1, 2019	Additions	Reductions	December 31, 2019	Amounts due within one year
Limited general obligation bonds:					
2009 series	\$ 17,510	—	17,510	—	—
2019 refunding series	—	17,235	—	17,235	775
2019 series	—	6,000	—	6,000	517
Total long-term debt	17,510	23,235	17,510	23,235	1,292
Capital lease obligations	293	—	99	194	80
Total long-term debt and capital lease obligations	17,803	23,235	17,609	23,429	1,372
Bond discounts and premiums	(190)	190	227	(227)	—
Total long-term debt and capital lease obligations	<u>\$ 17,613</u>	<u>23,425</u>	<u>17,836</u>	<u>23,202</u>	<u>1,372</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

A summary of EHM's future maturities on long-term debt for the next five years and thereafter as of December 31, 2020 for both principal and interest is presented below (in thousands):

	<u>Principal</u>	<u>Interest</u>
2021	\$ 2,420	679
2022	4,029	641
2023	1,884	581
2024	1,563	535
2025	1,637	488
Amounts due 2026–2030	8,617	1,642
Amounts due 2031–2034	<u>5,945</u>	<u>449</u>
	<u>\$ 26,095</u>	<u>5,015</u>

Total unamortized bond discounts and premiums are \$201 thousand as of December 31, 2020.

Capital Leases

The District acquired certain equipment under capital lease obligations. The leases are collateralized by the related equipment. Future minimum lease payments are as follows:

	<u>Amount</u>
	(In thousands)
Year(s) ending December 31:	
2021	\$ 1,630
2022	1,739
2023	1,854
2024	1,975
2025	2,220
2026–2030	<u>—</u>
Total minimum lease payments	9,418
Less amount representing interest	<u>(1,054)</u>
Total capital lease payments	<u>\$ 8,364</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

EHM acquired certain equipment under capital lease obligations. The leases are collateralized by the related equipment. Future minimum lease payments are as follows:

	<u>Amount</u> (In thousands)
Year(s) ending December 31:	
2021	\$ 89
2022	29
2023	<u>—</u>
Total minimum lease payments	118
Less amount representing interest	<u>(4)</u>
Total capital lease payments	\$ <u><u>114</u></u>

(8) Tenant Lease Receipts

The District owns and operates the Evergreen Professional Center (EPC), the Evergreen Surgical and Physicians Center (ES&PC), and the DeYoung Pavilion, which contain approximately 52,000 total square feet of space for physician offices and other healthcare services available for lease. As of December 31, 2020 and 2019, the District had space under operating lease terms from 5 to 15 years.

Future minimum rent receipts and sublease receipts on noncancelable operating leases are as follows:

	<u>Owned property receipts</u>	<u>Leased property receipts</u>	<u>Total amount</u>
		(In thousands)	
Year ending December 31:			
2021	\$ 2,007	4,776	6,783
2022	1,919	4,303	6,222
2023	1,484	3,858	5,342
2024	1,186	2,695	3,881
2025	147	2,256	2,403
Thereafter	<u>101</u>	<u>9,879</u>	<u>9,980</u>
	\$ <u><u>6,844</u></u>	<u><u>27,767</u></u>	<u><u>34,611</u></u>

Rental income related to the EPC, ES&PC, and the DeYoung Pavilion leases was approximately \$1.8 million and \$1.9 million in 2020 and 2019, respectively, and is included in other operating revenue. Rental income related to subleases was approximately \$5.0 million and \$4.9 million in 2020 and 2019, respectively.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(9) Commitment and Contingencies

(a) Leases

The District leases various equipment and facilities under operating leases. Total rental expense in 2020 and 2019 for all operating leases and various rental agreements was approximately \$14.6 million and \$14.8 million, respectively.

The future minimum lease payments under noncancelable operating leases that have initial lease terms in excess of one year are as follows:

	<u>Payments</u>
	(In thousands)
Year ending December 31:	
2021	\$ 9,870
2022	9,856
2023	10,052
2024	10,280
2025	10,265
Thereafter	<u>42,610</u>
	<u>\$ 92,933</u>

(b) Insurance Coverage

The District holds professional liability insurance coverage through an independent insurance company. The insurance coverage is based on a claims-made policy. The District is self-insured for professional liability tail and expected claims payout on this coverage. The policy's self-insured retention limit is \$1.0 million per claim and \$4.0 million per aggregate.

The District records its actuarial estimate for professional claims liability at its best estimate of the ultimate losses and costs associated with settling claims. The professional liability expense was \$1.4 million and \$2.9 million for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the estimated long-term and short-term professional claims liability was \$5.5 million and \$1.2 million and \$5.4 million and \$1.3 million, respectively.

The District is self-insured for various programs, including employee medical benefits and workers' compensation. The estimated ultimate costs of claims under these programs are accrued when the incidents occur that give rise to the claims. Accrued amounts for these programs of approximately \$5.8 million and \$6.1 million at December 31, 2020 and 2019, respectively, are reported as part of accrued compensation and related liabilities in the accompanying statements of net position. The accrued amounts include known liabilities of the programs and estimated incurred but not reported claims.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(c) *Litigation*

The District is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

(d) *Compliance with Laws and Regulations*

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government 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 by healthcare providers, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District 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 known or unasserted at this time.

(e) *Risk Management*

The District 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. The District maintains commercial insurance coverage designed to provide for claims arising from such matters.

(10) Retirement Plans

The District has a defined-contribution retirement plan covering substantially all eligible employees. The District makes a matching contribution of up to a maximum of 8% of the employee's eligible compensation. All contributions vest over a five-year schedule.

In addition to the retirement plan, the District maintains a voluntary employee deferred compensation program under the provision of Section 457 of the Internal Revenue Service Code. Under this program, the District employees can defer a portion of their income until withdrawn in future years. All assets are required to be held in trust for the exclusive benefit of participants and their beneficiaries. The District also contributes up to 4% of compensation as base pension depending on years of service.

Retirement plan expense, incurred and reflected in employee benefits, was approximately \$19.6 million and \$19.4 million in 2020 and 2019, respectively. Employee contributions to the benefit plans totaled approximately \$31.1 million and \$29.7 million in 2020 and 2019, respectively. Both plans are administered by the District under recordkeeping and trust agreements with third parties.

The District has a postemployment benefit plan covering the executive management team. The District makes annual contributions to the SERP. The SERP is recorded under assets limited as to use and under noncurrent liabilities on the statements of net position. At December 31, 2020 and 2019, the SERP balance was \$3.0 million and \$3.1 million, respectively.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(11) Concentration of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of hospital receivables at December 31 was as follows:

	Receivables	
	2020	2019
Non-Government third-party payors	42.6%	44.2%
Medicare	32.5	31.5
Patient self-pay	11.3	14.7
Medicaid	13.6	9.6
	<u>100.0%</u>	<u>100.0%</u>

(12) Property Taxes

The King County treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31. Assessed values are established by the King 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. Collections are distributed monthly by the county treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes. The Washington State Constitution and Washington State Law, RCW 84.55.100, limit the rate. The District may also levy taxes at a lower rate. Additional amounts of tax need to be authorized by a vote of the residents of the District.

For 2020 and 2019, the District's regular levy request was \$0.19 per \$1,000 and \$0.20 per \$1,000 on a total assessed valuation of the property within the District of \$99.6 billion and \$92.6 billion for a total regular levy of \$19.3 million and \$18.6 million, respectively. Excess levies totaled \$8.3 million in both 2020 and 2019, and related to debt service, mainly due to the hospital-based emergency department and patient facility, which opened in 2007.

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

(13) Blended Component Unit

Condensed combining statements for the District and its blended component unit, the Foundation, are shown below:

Statement of net position – December 31, 2020				
	Combined entities	Eliminations/ reclassifications	District	Foundation
	(In thousands)			
Assets:				
Current assets:				
Total current assets	\$ 206,620	(1,227)	198,593	9,254
Noncurrent assets:				—
Total other assets	343,966	—	339,922	4,044
Capital assets, net	310,158	—	310,158	—
Total assets	860,744	(1,227)	848,673	13,298
Deferred outflows of resources	2,830	—	2,830	—
Total assets and deferred outflows of resources	\$ 863,574	(1,227)	851,503	13,298
Liabilities:				
Total current liabilities	\$ 113,871	(1,227)	113,800	1,298
Total noncurrent liabilities	309,015	—	309,015	—
Total liabilities	422,886	(1,227)	422,815	1,298
Net position:				
Invested in capital assets, net of related debt	86,507	—	86,507	—
Restricted:				
Expendable	10,339	—	1,556	8,783
Nonexpendable	5,421	—	3,454	1,967
Unrestricted	338,421	—	337,171	1,250
Total net position	440,688	—	428,688	12,000
Total liabilities and net position	\$ 863,574	(1,227)	851,503	13,298

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Statement of net position – December 31, 2019				
	Combined entities	Eliminations/ reclassifications	District	Foundation
	(In thousands)			
Assets:				
Current assets:				
Total current assets	\$ 183,227	(582)	178,723	5,086
Noncurrent assets:				
Total other assets	197,854	287	191,714	5,853
Capital assets, net	<u>320,829</u>	<u>—</u>	<u>320,829</u>	<u>—</u>
Total assets	701,910	(295)	691,266	10,939
Deferred outflows of resources	<u>2,542</u>	<u>—</u>	<u>2,542</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>\$ 704,452</u>	<u>(295)</u>	<u>693,808</u>	<u>10,939</u>
Liabilities:				
Total current liabilities	\$ 104,543	(295)	104,543	295
Total noncurrent liabilities	<u>184,395</u>	<u>—</u>	<u>184,395</u>	<u>—</u>
Total liabilities	<u>288,938</u>	<u>(295)</u>	<u>288,938</u>	<u>295</u>
Net position:				
Invested in capital assets, net of related debt	130,714	—	130,714	—
Restricted:				
Expendable	5,375	—	(1,855)	7,230
Nonexpendable	3,107	—	1,147	1,960
Unrestricted	<u>276,318</u>	<u>—</u>	<u>274,864</u>	<u>1,454</u>
Total net position	<u>415,514</u>	<u>—</u>	<u>404,870</u>	<u>10,644</u>
Total liabilities and net position	<u>\$ 704,452</u>	<u>(295)</u>	<u>693,808</u>	<u>10,939</u>

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Statement of revenue, expenses, and changes in net position – year ended December 31, 2020			
	Combined entities	District	Foundation
		(In thousands)	
Revenue:			
Operating revenue:			
Net patient service revenue	\$ 664,008	664,008	—
Other operating revenue	46,336	41,406	4,930
Total operating revenue	710,344	705,414	4,930
Expenses:			
Operating expenses:			
Other operating expenses	717,360	712,139	5,221
Depreciation and amortization	35,828	35,828	—
Total operating expenses	753,188	747,967	5,221
Excess (deficit) of revenue over expenses from operations	(42,844)	(42,553)	(291)
Nonoperating income, net of expenses:			
Property taxes	27,872	27,872	—
Interest and amortization expense	(9,106)	(9,106)	—
Other nonoperating revenue	47,069	46,879	190
Net nonoperating income	65,835	65,645	190
Excess of revenue over expenses	22,991	23,092	(101)
Capital grants and contributions	2,183	726	1,457
Total change in net position	25,174	23,818	1,356
Net position, beginning of year	415,514	404,870	10,644
Net position, end of year	\$ 440,688	428,688	12,000

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

Statement of revenue, expenses, and changes in net position – year ended December 31, 2019			
	Combined entities	District	Foundation
		(In thousands)	
Revenue:			
Operating revenue:			
Net patient service revenue	\$ 698,348	698,348	—
Other operating revenue	42,768	39,556	3,212
Total operating revenue	741,116	737,904	3,212
Expenses:			
Operating expenses:			
Other operating expenses	706,446	700,443	6,003
Depreciation and amortization	35,399	35,399	—
Total operating expenses	741,845	735,842	6,003
Excess (deficit) of revenue over expenses from operations	(729)	2,062	(2,791)
Nonoperating income, net of expenses:			
Property taxes	26,805	26,805	—
Interest and amortization expense	(7,549)	(7,549)	—
Other nonoperating revenue	6,742	5,774	968
Net nonoperating income	25,998	25,030	968
Excess of revenue over expenses	25,269	27,092	(1,823)
Capital grants and contributions	2,835	1,596	1,239
Total change in net position	28,104	28,688	(584)
Net position, beginning of year	387,410	376,182	11,228
Net position, end of year	\$ 415,514	404,870	10,644

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2020 and 2019

**Statement of cash flows – year ended
December 31, 2020**

	Combined entities	District	Foundation
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ 38,334	35,741	2,593
Noncapital financing activities	46,923	46,916	7
Capital and related financing activities	86,524	86,524	—
Investing activities	(145,201)	(143,185)	(2,016)
Net increase in cash and cash equivalents	26,580	25,996	584
Cash and cash equivalents, beginning of year	57,267	52,817	4,450
Cash and cash equivalents, end of year	\$ 83,847	78,813	5,034

**Statement of cash flows – year ended
December 31, 2019**

	Combined entities	District	Foundation
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ 27,934	30,025	(2,091)
Noncapital financing activities	5,423	5,413	10
Capital and related financing activities	(29,269)	(29,269)	—
Investing activities	731	566	165
Net increase in cash and cash equivalents	4,819	6,735	(1,916)
Cash and cash equivalents, beginning of year	52,448	46,080	6,368
Cash and cash equivalents, end of year	\$ 57,267	52,815	4,452

The blended component unit, the Foundation, reclassified certain amounts relating to its prior period results to conform to its current period presentation within the combining statements. These reclassifications have not changed the results of operations of prior periods.



KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

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

The Board of Commissioners
King County Public Hospital District No. 2 d/b/a EvergreenHealth:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of King County Public Hospital District No. 2 d/b/a EvergreenHealth (the District), as of and for the year ended December 31, 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 June 3, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

KPMG LLP

Seattle, Washington
June 3, 2021



KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Commissioners
King County Public Hospital District No. 2 d/b/a EvergreenHealth:

Report on Compliance for Each Major Federal Program

We have audited King County Public Hospital District No. 2 d/b/a EvergreenHealth's (the District's) and its discretely presented component unit's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2020. The District's major federal programs are identified in the summary of auditors' results section of 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.

Auditors' 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. However, our audit does not provide a legal determination of 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 December 31, 2020.

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 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 a 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 over compliance 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.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended December 31, 2020, and have issued our report thereon dated June 3, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Seattle, Washington
March 29, 2022

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2020

Federal CFDA, grant, or contract number	Subaward numbers	Federal grantor/pass-through grantor/program title	Passed through to subrecipients	2020 Federal expenditures
		U.S. Department of Health and Human Services:		
		Direct award:		
93.461		COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	\$ —	458,782
93.889	U3REP200635	Pass through from Washington State Hospital Association COVID-19 Assistant Secretary for Preparedness and Response (ASPR) Program – EvergreenHealth Monroe	—	21,860
		Total U.S. Department of Health and Human Services	—	480,642
		U.S. Department of Treasury:		
21.019		Pass through from Washington State Health Care Authority:		
		Coronavirus Relief Fund	—	488,359
21.019		Coronavirus Relief Fund – EvergreenHealth Monroe	—	255,258
		Total U.S. Department of Treasury	—	743,617
		Total other federal awards	—	1,224,259
		Total expenditures of federal awards	\$ —	1,224,259

See accompanying notes to schedules of expenditures of federal awards.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2020

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of King County Public Hospital District No. 2 d/b/a EvergreenHealth (the District) under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The District's organizational structure is defined in note 1 of the notes to the District's financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through from other government agencies or organizations, have been included in the accompanying Schedule. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the net position, changes in net position, or cash flows of the District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized as applicable, following either the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District does not provide funding to subrecipients.

(3) Indirect Cost Rates

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Personal Protective Equipment Receipts (Unaudited)

The District has received donated personal protective equipment (PPE) from various governmental entities. Such donations of PPE are valued using estimated values and totaled \$2,183,125 for the year ended December 31, 2020. Such donations are not included in the Schedule unless the donor indicated compliance with 2 CFR Part 200, Subpart F was required.

(5) Provider Relief Funds

During the year ended December 31, 2020, the District was the recipient of funds under the CARES Act Provider Relief Fund program. In accordance with guidance provided in the OMB 2 CFR Part 200 Compliance Supplement, such amounts will be reflected, to the extent utilized, in the Schedule in future years.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(d/b/a EvergreenHealth)

Schedule of Findings and Questioned Costs

Year ended December 31, 2020

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major Programs:
 - Coronavirus Relief Fund – 21.019
 - COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured – 93.461
- (h) Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000
- (i) Auditee qualified as a low-risk auditee: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with Governmental Auditing Standards

None

(3) Federal Award Findings and Questioned Costs

None