Office of the Washington State Auditor
Pat McCarthy

February 2, 2023

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, 2021 and 2020. 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,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

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KPMG

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Basic Financial Statements and
Federal Uniform Guidance Reports

Year Ended December 31, 2021

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited 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 years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District, as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

Seattle, Washington
May 25, 2022

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, 2021 and 2020. 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 83 and 78 primary care providers in 2021 and 2020, respectively, and 258 and 266 specialty care providers in 2021 and 2020, 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.

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Utilization Statistics

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

Utilization statistics	2021	2020	2019
Hospital Acute Licensed Care Beds	318	318	318
Hospice Care Center Licensed Beds	15	15	15
Acute care admissions	14,650	13,819	15,200
Acute care adjusted admissions	35,449	32,377	36,296
Acute care patient days	66,833	61,292	61,609
Acute care adjusted patient days	189,598	171,258	178,859
Acute care average length of stay	4.8	4.7	4.3
Occupancy (based on acute care licensed beds)	57.6%	52.8%	53.1%
Observation Days	3,425	2,223	2,069
Inpatient surgeries	2,224	2,239	2,944
Outpatient surgeries	12,716	11,716	12,491
Home health episodes and admissions	11,775	11,210	10,740
Home Hospice program days	189,931	184,755	184,678
Emergency room visits	56,652	47,643	59,802
Primary care work relative value units (wRVUs)	370,957	307,851	330,536
Specialty care wRVUs	1,021,184	874,838	959,520

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.

The District 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 hospitals by Governor Jay Inslee on March 19, 2020. While mandated, the District 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 in 2020 and $3.5 million in 2021. Furthermore, the State of Washington distributed funds to healthcare providers through a Coronavirus Relief Fund of which the District received $488 thousand in 2020 and $118 thousand in 2021. 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 equivalent up to six months of reimbursement. 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 in 2020. 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 was repaid 50% by December 31, 2021 and 50% will be repaid by December 31, 2022 in accordance with the CARES Act.

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The District also filed insurance claims related to losses sustained due to COVID-19 for Federal Emergency Management Agency (FEMA) assistance. The District received $1 million in insurance proceeds due to business interruption resulting from COVID-19 in 2020 and approximately $2.5 million for FEMA assistance in 2021.

The District 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 were tasked with establishing and operationalizing vaccine clinics with minimal upfront labor, financial and other resource support from the state and local government. In 2021, The District 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. The District was also 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 minimize 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. As a result, the District saw increased volumes in 2021 as compared to 2020 but still below prepandemic 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, increased 9% and surgery counts increased 7% when compared to 2020. 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 approximately 67% 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.

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- **Labor Availability:** Throughout 2021, 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. Similar to 2020, due to COVID-19, the District again experienced high patient volumes in combination with a significant RN labor shortage resulting in an increase in RN and other clinical agency personnel. Additionally, in an effort to meet the demand in the labor market for more flexible work schedules, the District created more part-time opportunities for staff. Approximately 48% of the District's 4,600 employees are members of one of four labor unions. 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 early 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 negotiate in 2023. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 780 service employees and almost 100 social workers/chaplains, last negotiated its labor contracts in 2020 and is next scheduled to negotiate in the fall of 2022. The Washington State Nurses Association (WSNA), which represents approximately 1,060 registered nurses, last negotiated its labor contract in 2021 and is next scheduled to negotiate in 2024.
- **Contracting/Risk-Sharing Arrangements:** The District has six pay-for-performance contracts in effect as of 2021 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 twelve value-based commercial contracts plus five 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 2021 and 2020, the District continued to develop its strategic alliances with Seattle Cancer Care Alliance (SCCA), EvergreenHealth Monroe (EHM) and Overlake Hospital 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

(Continued)

– Service line collaborations in cardiac services and neurosciences. Both services lines are integrated from a clinical perspective. The cardiac and neurosciences service lines have been financially integrated since 2017 and 2020, respectively.

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. The Halvorson Cancer Center treated 1,256 cancer cases in 2021, a 8% increase 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, 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 2021 population within the District's boundaries is estimated to be 337,131. The population is projected to grow 8.8% over the next five years and reach 366,860 in 2026 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.

2021 Highlights

- **Governance and Leadership**
  - Welcomed new Chief Information Officer, Jason Wood
- **Initiated or Completed Projects**
  - Commenced the implementation of Epic, a new electronic medical records and billing system
  - Commenced the renovation and construction of Women's & Children's services facilities

- Opened a new Intensive Care Unit
- Opened a Cancer Risk Reduction Clinic
- Opened a new Midwifery practice
- Implemented a Physical Therapy at Home program
- Implemented Code Lavender, a national best practice crisis intervention tool provided by an interdisciplinary group of professionals to support health care workers who are experiencing stress, trauma or challenging events at any point in time
- Implemented Schwartz Rounds®, a national best practice to bring doctors, nurses and other caregivers together to discuss the social and emotional side of caring for patients and families

• **Recognition and Awards**

- Received a 5-star rating from Centers for Medicare and Medicaid Services (CMS) in the 2021 Hospital Compare overall quality systems rankings (one of 455 hospitals nationwide and one of three within the Puget Sound region)
- Recognized by Healthgrades as America's 50 Best Hospitals in 2021
- Recognized by Healthgrades as America's 100 Best Hospitals for Pulmonary, Gastrointestinal Care, Gastrointestinal Surgery, Stroke Care, and Critical Care
- Recognized by Healthgrades with an Excellence Award for Neurosciences, sixth consecutive year
- Awarded an "A" rating for patient safety for Spring and Fall 2021 by The Leapfrog Group. Sixth consecutive "A" rating
- 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 fifth consecutive year
- Received Primary Plus Stroke Center (PSC+) Certification from DNV GL Healthcare
- Recognized by Practice Greenhealth as a Partner for Change for conservation and recycling programs in 2021. This is the 12th year out of the past 13 years for this award
- Accredited as a Comprehensive Center with Obesity Medicine Qualifications by the American College of Surgeons and the Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program in 2021
- 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 (fifth consecutive year)
  - Colon Cancer Surgery (fourth consecutive year)
  - Heart Failure (third consecutive year)

- Hip Replacement (third consecutive year)
- Urology (third consecutive year)
- Chronic Obstructive Pulmonary Disease (COPD) (second consecutive year)

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, 2021 and 2020 and the results of its operations for the years ended December 31, 2021 and 2020 are included with the District in a separate column for financial statement presentation purposes (see further discussion at note 1 to the financial statements).

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)

	2021	2020	2019
Cash and cash equivalents	$ 70,149	83,847	57,267
Patient accounts receivable, less allowance for uncollectible accounts	114,017	86,296	95,247
Other current assets	39,960	36,477	30,713
Total current assets	224,126	206,620	183,227

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Summary of Statements of Net Position

(In thousands)

		2021	2020	2019
Assets limited as to use, less current portion of amounts required for current liabilities	$	309,361	315,140	164,220
Capital assets, net		326,320	310,158	320,829
Other assets		28,332	28,826	33,634
Total assets		888,139	860,744	701,910
Deferred outflows of resource:				
Deferred loss on refunding		8,184	2,830	2,542
Total assets and deferred outflows of resources	$	896,323	863,574	704,452
Current portion of long-term debt and capital lease obligations	$	15,389	14,470	14,219
Other current liabilities		131,128	99,401	90,324
Total current liabilities		146,517	113,871	104,543
Long-term liabilities		294,087	309,015	184,395
Total liabilities		440,604	422,886	288,938
Net position:				
Invested in capital assets, net of related debt		114,924	86,507	130,714
Restricted		12,851	15,760	8,482
Unrestricted		327,944	338,421	276,318
Total net position		455,719	440,688	415,514
Total liabilities and net position	$	896,323	863,574	704,452

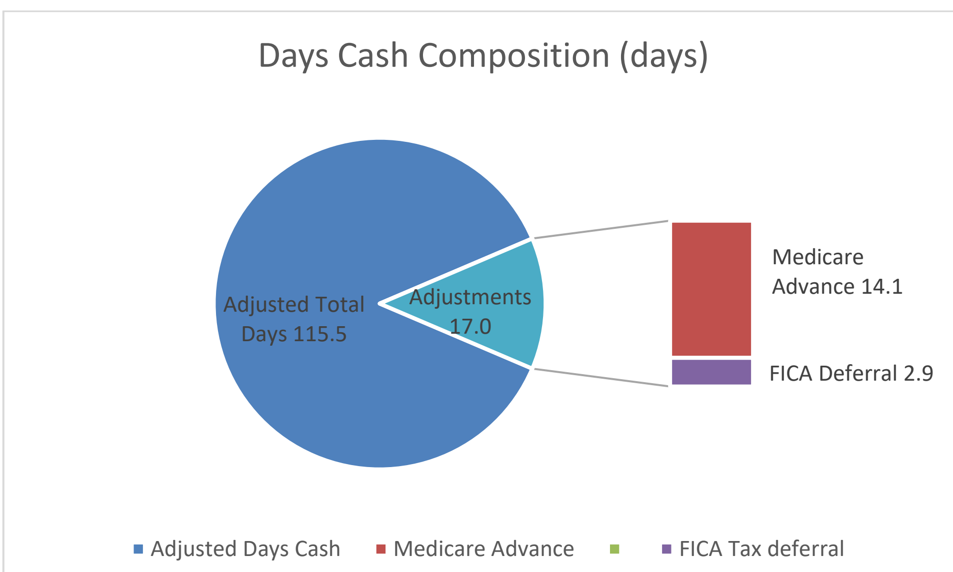
Current Assets

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 patient accounts. 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 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	2021	2020	2019
Current Ratio	1.5	1.4	1.8
Days in AR (Net)	50.7	38.9	46.9
Days Cash on Hand	132.6	168.4	108.0
Adjusted Days Cash on Hand	115.5	125.3	108.0



Total current assets were $224.1 million as of December 31, 2021, compared to $206.6 million as of December 31, 2020.

Current assets in 2021 increased by $17.5 million compared to 2020 primarily due to an increase in net patient accounts receivable resulting from increased volumes. Adjusted days cash on hand decreased to 116 days.

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 was 125 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 $664.0 million as of December 31, 2021, compared to $654.1 million as of December 31, 2020.

Capital assets, net of accumulated depreciation increased approximately $16.2 million from 2020 to 2021 and decreased $10.7 million from 2019 to 2020. The District continues to devote resources for capital projects and improvements, including significant components of the master facility plan. During 2021 and 2020, the District invested approximately $55.1 million and $25.6 million, respectively, in buildings, information technology, and equipment. This District recognized $37.8 million and $35.8 million in depreciation expense in 2021 and 2020, respectively.

Restricted and board-designated cash and investments decreased approximately $5.8 million from 2020 to 2021. The decrease in the current year is primarily due $26.1 million of the 2020A Limited Tax General Obligation (LTGO) bonds used for capital improvements to the District's healthcare facilities, in accordance with the long-term master facility plan and $30.0 million defeasance of the 2020 LTGO Series (fixed rate) – direct borrowing, offset by the issuance of new bond funds of $51.6 million related to the financing of Epic. Restricted and board-designated cash and investments increased approximately $150.9 million from 2019 to 2020. The increase from 2019 to 2020 was primarily due to the issuance of $70 million for the 2020A and 2020B 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 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 $146.5 million as of December 31, 2021, compared to $113.9 million as of December 31, 2020.

Current liabilities increased approximately $32.6 million from 2020 to 2021 and increased approximately $9.4 million from 2019 to 2020. Accounts payable and accrued expenses increased $3.9 million from 2020 to 2021. In addition, other current liabilities increased $26.2 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, and professional liability reserves. Total noncurrent liabilities were $294.1 million as of December 31, 2021, compared to $309.0 million as of December 31, 2020.

Noncurrent liabilities decreased approximately $14.9 million from 2020 to 2021 due to the debt issuances and refundings that occurred in 2021 and debt payments in accordance with the established debt service schedule and the noncurrent portion of the Medicare advance payments becoming current in 2021.

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 $15.0 million. The increase from 2019 to 2020 was driven by 2020 net income and capital grants and contributions of approximately $25.2 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 increased approximately $28.4 million, or 33%, from 2020 to 2021 and decreased approximately $44.2 million, or 34%, from 2019 to 2020. The current year increase is primarily attributable to debt obligations of approximately $152 million for the LTGO debt issuances that occurred in 2021, offset by approximately $82 million of unspent bond proceeds and $65 million of refunded bonds. The decrease from 2019 to 2020 is attributable to debt obligations of approximately $100 million for the LTGO debut issuances that occurred in 2020, offset by approximately $56 million of unspent bond proceeds.

Restricted net position (expendable and nonexpendable) decreased approximately $2.9 million from 2020 to 2021 and increased $7.5 million from 2019 to 2020, representing resources with temporary or permanent donor restrictions.

(Continued)

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, decreased approximately $10.5 million, or 3%, from 2020 to 2021 and increased approximately $62.1 million, or 22%, from 2019 to 2020. This decrease from 2020 to 2021 offset the increase in investment in capital assets, net of related debt.

Summary of Revenue, Expenses, and Changes in Net Position

(In thousands)

	2021	2020	2019
Operating revenue:			
Net patient service revenue	$ 768,533	664,008	698,348
Other operating revenue	52,195	46,336	42,768
Total operating revenue	820,728	710,344	741,116
Operating expenses:			
Labor and employee benefits	557,211	489,301	488,168
Supplies, purchased services, and other	238,230	228,059	218,278
Depreciation and amortization	37,830	35,828	35,399
Total operating expenses	833,271	753,188	741,845
Excess (deficit) of revenue over expenses from operations	(12,543)	(42,844)	(729)
Nonoperating income, net of expenses:			
Property taxes	27,968	27,872	26,805
Interest and amortization expense	(9,081)	(9,106)	(7,549)
Investment income (loss)	(371)	6,033	6,698
Federal Stimulus Funding	6,170	40,974	—
Other, net	(492)	62	44
Net nonoperating income	24,194	65,835	25,998
Excess of revenue over expenses	11,651	22,991	25,269
Capital grants and contributions	3,380	2,183	2,835
Total change in net position	15,031	25,174	28,104
Net position, beginning of year	440,688	415,514	387,410
Net position, end of year	$ 455,719	440,688	415,514

(Continued)

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 2021, gross patient revenue increased by approximately $196.5 million or 10.3%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue increased $41.1 million or 5.1% and total outpatient revenue increased $155.4 million or 14.1%. Total outpatient surgery cases increased 8.5% while inpatient surgery cases decreased 0.7%. Overall total surgery cases increased 7.1%. Deliveries increased 8.8% and patient days in the NICU decreased 1.0%. ED visits in the main hospital and in Redmond increased 15.8% and 33.8%, respectively. Total average length of stay (excluding NICU) increased to 4.8 days from 4.7 days in 2020.

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 the Redmond ED decreased 20% and 21.8%, respectively. Total average length of stay (excluding NICU) increased to 4.7 days from 4.3 days in 2019.

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, 2021, 2020, and 2019.

	2021	2020	2019
Non-Government third-party payors	46.7%	46.2%	47.4%
Medicare	42.4	42.8	42.4
Medicaid	10.0	10.1	9.0
Patient self-pay	0.9	0.9	1.2

In 2021, net patient service revenue increased by approximately $104.5 million or 15.7%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This increase was driven by increased volumes compared to the prior year. Other operating revenue increased by approximately $5.9 million, or 12.6%, primarily due to revenue associated with increased research studies completed and revenue from the Evergreen Radia joint venture.

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.

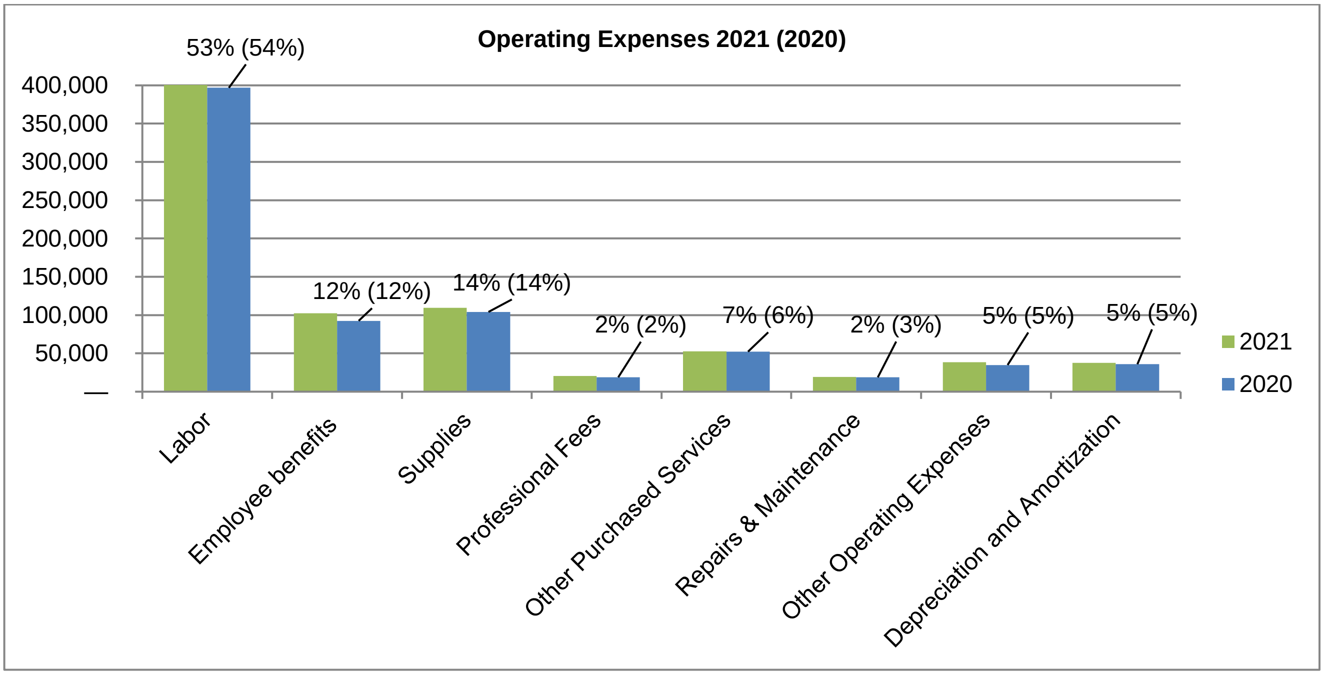
Operating Expenses

Labor, including contract labor, increased approximately $58.0 million, or 14.6%, and increased $2.5 million, or 0.6%, in 2021 and 2020, respectively. The District's average employed and contracted full-time equivalents increased 5.8% to 3,995 as of December 31, 2021, compared to 3,777 as of December 31, 2020. The 2021 increase is due to increased volumes, employee salary increases as well as premium pay related to contract labor and employee overtime due to labor shortages.

Employee benefit expenses increased $9.9 million, or 10.7%, and $3.6 million, or 4.1%, in 2021 and 2020, respectively. These increases were primarily due to increased number of full-time equivalent employees, 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 $10.2 million, or 4.5%, and $10.4 million, or 4.8%, in 2021 and 2020, respectively. The increase is due to increased medical supply costs, purchased services, and professional fees due to COVID-19 response and mitigation.

Total operating expenses in 2021 and 2020 of $833.3 million and $753.2 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 2021, nonoperating income, net of expenses decreased $41.6 million, from $65.8 million in 2020 to $24.2 million in 2021. The decrease is due to the recognition of $41.0 million of CARES Act Provider Relief Funds in 2020 whereas $6.2M was recognized in 2021 and losses on investments of $371 thousand compared to investment income of $6.2 million in 2020. There were no significant asset sales in 2021.

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.

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, 2021 and 2020

(In thousands)

		2021		2020	
Assets		**District**	**Component unit EHM**	**District**	**Component unit EHM**
Current assets:					
Cash and cash equivalents	$	70,149	11,276	83,847	11,431
Current portion board-designated assets		3,043	1,954	805	214
Current portion of assets restricted as to use		1,290	—	1,318	1,756
Patient accounts receivable, less allowance for uncollectible accounts of $17,924 (District) and $1,304 (EHM) in 2021 and $19,930 (District) and $1,170 (EHM) in 2020, respectively		114,017	8,740	86,296	7,699
Inventory		8,096	845	8,921	1,017
Prepaid expenses and other current assets		22,637	728	22,491	1,147
Third-party payor receivable		4,894	284	2,942	212
Total current assets		224,126	23,827	206,620	23,476
Assets limited as to use, less current portion of amounts required for current liabilities:					
Board-designated cash and investments		304,233	—	310,410	—
Restricted cash and investments		5,128	—	4,730	—
		309,361	—	315,140	—
Capital assets:					
Land		4,914	1,879	4,914	1,879
Construction in progress		33,286	219	24,574	202
Depreciable capital assets, net of accumulated depreciation		288,120	10,885	280,670	12,910
		326,320	12,983	310,158	14,991
Other assets		28,332	—	28,826	—
Total assets		888,139	36,810	860,744	38,467
Deferred outflows of resources:					
Deferred loss on refunding		8,184	—	2,830	—
Total assets and deferred outflows of resources	$	896,323	36,810	863,574	38,467

(Continued)

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

Statements of Net Position

December 31, 2021 and 2020

(In thousands)

Liabilities and Net Position		2021 District	2021 Component unit EHM	2020 District	2020 Component unit EHM
Current liabilities:					
Accounts payable and accrued expenses	$	34,128	4,005	30,257	2,967
Accrued compensation and related liabilities		53,470	3,319	53,201	3,230
Accrued interest payable		731	52	802	55
Current portion of long-term debt and capital lease obligations		15,389	1,421	14,470	2,505
Third-party payor payable		7,328	—	6,070	—
Estimated current portion of professional liability		1,351	—	1,162	—
Other current liabilities (including CARES Act)		34,120	2,522	7,909	1,322
Total current liabilities		146,517	11,319	113,871	10,079
Long-term estimated professional liability		5,082	—	5,477	—
Other noncurrent liabilities (including CARES Act)		11,290	845	38,128	4,002
Long-term debt and capital lease obligations, net of current portion		277,715	19,045	265,410	23,503
Total liabilities		440,604	31,209	422,886	37,584
Net position:					
Investment in capital assets, net of related debt		114,924	(5,818)	86,507	(5,201)
Restricted:					
Expendable for specific activities		9,485	1,664	9,368	1,664
Expendable for debt service		989	206	971	214
Nonexpendable permanent endowments		2,377	—	5,421	—
Unrestricted		327,944	9,549	338,421	4,206
Total net position		455,719	5,601	440,688	883
Total liabilities and net position	$	896,323	36,810	863,574	38,467

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

December 31, 2021 and 2020

(In thousands)

		2021		2020	
		District	Component unit EHM	District	Component unit EHM
Net patient service revenue (net of provision for bad debts of $16,930 (District) and $4,023 (EHM) in 2021 and $14,991 (District) and $4,425 (EHM) in 2020, respectively)	$	768,533	43,538	664,008	38,857
Other operating revenue		52,195	2,097	46,336	2,637
Total operating revenue		820,728	45,635	710,344	41,494
Expenses:					
Labor		454,783	25,528	396,802	24,193
Employee benefits		102,428	5,981	92,499	6,892
Supplies		109,418	6,414	104,116	6,133
Professional fees		19,523	2,056	18,768	2,144
Other purchased services		52,559	6,630	52,263	6,610
Repairs and maintenance		19,053	820	18,716	750
Other operating expenses		37,677	1,958	34,196	1,901
Depreciation and amortization		37,830	2,332	35,828	2,419
Total operating expenses		833,271	51,719	753,188	51,042
Excess (deficit) of revenue over expenses from operations		(12,543)	(6,084)	(42,844)	(9,548)
Nonoperating income, net of expenses:					
Property taxes		27,968	5,048	27,872	4,921
Interest and amortization expense		(9,081)	(741)	(9,106)	(807)
Investment income (loss)		(371)	—	6,033	—
Federal stimulus funding		6,170	291	40,974	6,198
Other, net		(492)	6,153	62	(24)
Net nonoperating income		24,194	10,751	65,835	10,288
Excess (deficit) of revenue over expenses		11,651	4,667	22,991	740
Capital grants and contributions		3,380	51	2,183	37
Total change in net position		15,031	4,718	25,174	777
Net position, beginning of year		440,688	883	415,514	106
Change in accounting principle		—	—	—	—
Net position, end of year	$	455,719	5,601	440,688	883

See accompanying notes to financial statements.

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

Statements of Cash Flows

December 31, 2021 and 2020

(In thousands)

		2021	2020
Cash flows from operating activities:			
Cash received from and on behalf of patients	$	741,785	670,877
Payments to suppliers and contractors		(235,257)	(191,840)
Payments to employees		(556,941)	(489,464)
Distributions received from / provided to joint ventures		(255)	2,726
Other cash receipts		50,784	46,035
Net payments provided by operating activities		116	38,334
Cash flows from noncapital financing activity:			
Property taxes received for community programs		6,842	5,912
Cash received for CARES Act funding		6,196	41,011
Net cash provided by noncapital financing activity		13,038	46,923
Cash flows from capital and related financing activities:			
Purchases of capital assets		(55,817)	(13,206)
Proceeds from sale of capital assets		470	30
Principal payments on long-term debt and capital lease obligations		(18,732)	(13,849)
Payments for interest on long-term debt		(9,153)	(9,573)
Proceeds from issuance of long-term debt		152,175	132,095
Proceeds from premium on refunding bonds		—	10,603
Payments to refunding bond escrow agent		(118,835)	(40,450)
Payment of debt issuance costs		(1,286)	(1,086)
Proceeds from property taxes related to debt service		21,126	21,960
Net cash (used in) provided by capital and related financing activities		(30,052)	86,524
Cash flows from investing activities:			
Purchases of board-designated assets and assets restricted as to use		(17,185)	(189,277)
Proceeds from sale of board-designated assets and assets restricted as to use		20,756	38,044
Investment income		(371)	6,032
Net cash provided by (used in) investing activities		3,200	(145,201)
Net (decrease) increase in cash, cash equivalents and restricted deposits		(13,698)	26,580
Cash, cash equivalents and restricted deposits, beginning of year		83,847	57,267
Cash, cash equivalents and restricted deposits, end of year	$	70,149	83,847

(Continued)

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

Statements of Cash Flows

December 31, 2021 and 2020

(In thousands)

		2021	2020
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	$	(12,543)	(42,844)
Adjustments to reconcile deficit of revenue over expenses from operations to net cash provided by (used in) operating activities:			
Depreciation and amortization		37,830	35,828
Provision for bad debts		16,930	14,991
Other		2,471	(2,032)
Changes in operating assets and liabilities:			
Patient accounts receivable, less provision for bad debt		(44,651)	(6,040)
Inventory		825	443
Prepaid expenses and other assets		(8,096)	1,114
Accounts payable and accrued expenses, net of amounts related to construction in progress		34,207	1,140
Accrued compensation and related liabilities		269	(162)
Third-party payor settlements, net		(1,951)	(1,049)
Professional liability and other liabilities		(25,175)	36,945
Net cash provided by operating activities	$	116	38,334
Supplemental disclosures of noncash investing, capital, and financing activities:			
Change in capital asset additions included in accounts payable and accrued expenses	$	4,126	(6,753)
Change in capital asset additions acquired by capital lease		—	(3,489)
Gain (loss) on sale of capital assets		606	—
Donated capital assets		3,380	2,183

See accompanying notes to financial statements.

(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, 2021 and 2020, the Foundation raised approximately $5.5 million and $4.9 million in contributions (included in other operating revenue) and its assets comprise 1.6% and 1.5% of total assets of the District in 2021 and 2020, 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.

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 contractuals 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.

(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.

(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 $3.3 million and $3.2 million for 2021 and 2020, 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.

(Continued)

(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	
		2021	**2020**
		(In thousands)	
Amount used for tax-supported programs	$	6,842	5,912
Amounts used for debt service on general obligation bonds		21,126	21,960
	$	27,968	27,872

Of the amount used for debt service on general obligation bonds, $7.3 million and $9.3 million were used for interest payments for the years ended December 31, 2021 and 2020, 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 accordingly. There are no financial statement impacts or reclassifications associated with adoption of GASB 95.

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 and will retroactively adopt on January 1, 2022. The District estimates the financial implication to result in approximately $250-$275 million in additional asset and liability recognition on the statements of net position.

In June 2018, the GASB issued Statement No. 89, *Accounting for interest costs incurred before the end of a construction period (*GASB No. 89). This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset but will be reported as an expense. GASB No. 95 delayed the implementation to fiscal years beginning after December 15, 2020. The District adopted in 2021 and considered the above GASB statement noting no financial statement implications or impact upon adoption.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (*GASB No. 96). This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. This Statement will be effective for the fiscal year beginning after June 15, 2022. The effects of this Statement on the District's future financial statements have yet to be determined.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 (*GASB No. 97). Some requirements of this statement related to defined contribution postemployment benefit plans and fiduciary defined benefit postemployment benefit plans are effective immediately. The District has concluded that these requirements have no material impact on the financial statements. The remaining requirements are effective for the fiscals year beginning after June 15, 2021. This Statement provides guidance intended to increase consistency and comparability related to reporting of fiduciary component units in situations where a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform. The Statement also intends to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. Lastly, the Statement seeks to enhance the relevance, consistency, and comparability of the accounting and financial reporting for

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Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan, and for benefits provided through those plans. The District does not anticipate there will be a future financial statement impact upon adoption of this Statement.

(2) Novel Coronavirus and CARES Act

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.

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 equivalent to up to six months of reimbursement. 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. In 2021, the District repaid $11.0 million and reports the remaining $30 million as a current liability to be repaid in 2022 as reflected on the statements of net position as other current liabilities (including CARES Act).

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 2020. This resulted in a $12.8 million liability, which 50% was repaid December 31, 2021 and the remaining 50% will be repaid by December 31, 2022 in accordance with the CARES Act. The 2022 portion of the liability is reflected on the statement of net position as an other current accrued liability.

The District also filed applications and obtained reimbursement of additional expenses from the Federal Emergency Management Agency (FEMA) based on criteria due to the national emergency declaration made due to COVID-19. The District submitted an expedited application, which allows the District to recover up to 50% of the total funding applied for. The District continues to complete the final reconciliation of the expedited funding application to received the remainder of the funding and will apply for additional funding pertaining to later periods until the national disaster declaration is no longer in effect.

The following table shows the funding that has been received to prepare and respond to COVID-19 and recognized as other nonoperating income for the years ended December 31, 2021 and 2020:

		December 31	
		2021	**2020**
		(In thousands)	
Provider Relief Fund	$	3,552	40,486
Other federal and state COVID-19 relief funding		2,618	488
	$	6,170	40,974

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 an increase in net patient service revenue of $238 thousand and $117 thousand in 2021 and 2020, respectively. Most outpatient services to Medicare beneficiaries are 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 $977 thousand was paid back in 2021 related to State fiscal year 2016. The District recognized interim settlements resulting in an adjustment to increase net patient service revenue by $1.3 million in 2021 and $200 thousand in 2020.

Inpatient Medicaid charges represented approximately 12.26% and 12.68% of total inpatient charges for the District in fiscal year 2021 and 2020, respectively.

The Medicaid CPE program continues through the State's fiscal year 2021 and 2020. As of December 31, 2021 and 2020, the District has recorded a payable of $1.9 million and $900 thousand for estimated overpayments for state fiscal year 2021 and 2020, respectively, which is included in third-party payor payable in the statements of net position.

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, 2025. The District is not subject to the assessment but is a recipient of funding through the program. The District received safety net payments totaling $800 thousand in 2021 and $863 thousand in 2020.

(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, 2021 and 2020:

		2021	
		District	**Component unit**
		(In thousands)	
Gross patient service charges	$	2,101,010	134,897
Adjustments to patient service charges:			
Contractual adjustments		1,302,369	86,496
Provision for bad debts		16,930	4,023
Charity care		8,445	840
Administrative adjustments		4,733	—
		1,332,477	91,359
Net patient service revenue	$	768,533	43,538

		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	—
		1,240,517	81,616
Net patient service revenue	$	664,008	38,857

(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.

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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

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, 2021 and 2020:

Board-Designated Assets

December 31, 2021

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	$ 108,834	—	108,834	AAA
U.S. government agencies	5,199	—	5,199	AA-
Mutual fund – bonds	894	894	—	Not rated
Credit	58,603	—	58,603	A+
Taxable municipal bonds	2,726	—	2,726	AA
U.S. government agency – mortgage backed	59,453	—	59,453	AAA
Government-related securities	7,543	—	7,543	AAA
King County Investment Pool	2,446	2,446	—	Not rated
Total investments	245,698	$ 3,340	242,358	
Cash and cash equivalents	58,521			
Total cash and investments	304,219			
Property tax, interest receivable, and other	3,057			
Total board-designated assets	$ 307,276			

Board-Designated Assets

December 31, 2021

Investment type		Fair value amount	Investment maturities (in years) N/A or less than 1	1–5
			(In thousands)	
U.S. treasuries	$	108,834	9,518	99,316
U.S. government agencies		5,199	—	5,199
Mutual fund – bonds		894	894	—
Credit		58,603	5,886	52,717
Taxable municipal bonds		2,726	1,096	1,630
U.S. government agency – mortgage backed		59,453	4,359	55,094
Government-related securities		7,543	1,490	6,053
King County Investment Pool		2,446	2,446	—
Total investments	$	245,698	25,689	220,009

Board-Designated Assets

December 31, 2020

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	$	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	

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Board-Designated Assets

December 31, 2020

Investment type		Fair value amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Ratings
			(In thousands)		
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			

Board-Designated Assets

December 31, 2020

Investment type		Fair value amount	Investment maturities (in years): N/A or less than 1	Investment maturities (in years): 1–5
			(In thousands)	
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	$	293,500	33,219	260,281

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, 2021 and 2020:

Restricted Cash and Investments

December 31, 2021

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	$	921		921	Not rated		921
Mutual fund – bonds		1,812		1,812	Not rated		1,812
Mutual fund – equity		3,448		3,448	Not rated		3,448
Total investments		6,181	$	6,181		$	6,181
Cash and cash equivalents		104					
Total cash and investments		6,285					
Property tax, interest receivable, and other		133					
Total assets restricted as to use	$	6,418					

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		2,942		2,942	Not rated		2,942
Total investments		5,794	$	5,794		$	5,794
Cash and cash equivalents		104					
Total cash and investments		5,898					
Property tax, interest receivable, and other		150					
Total assets restricted as to use	$	6,048					

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

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pursuant to RCW 36.29.020. Participation in this pool is voluntary. The intent of this policy is to balance 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, 2021 and 2020:

	2021	**2020**
U.S. treasuries	43%	60%
Mutual fund/U.S. government securities	3	7
Federal National Mortgage Association	6	3
Federal Home Loan Bank	2	1
Federal Home Loan Mortgage Corporation	16	10
Government National Mortgage Association	2	—
King County Investment Pool	1	—
Credit	23	16
Taxable municipal bonds	1	1
Government-related securities	3	2
	100%	100%

(5) Capital Assets

The schedule of capital asset activity for the years ended December 31, 2021 and 2020 is as follows:

		January 1, 2021	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2021
				(In thousands)		
Assets at cost:						
Nondepreciable capital assets:						
Land	$	4,914	—	—	—	4,914
Construction in progress		24,574	55,100	—	(46,388)	33,286
Total nondepreciable capital assets		29,488	55,100	—	(46,388)	38,200
Depreciable capital assets:						
Land improvements		13,124	—	(3)	—	13,121
Buildings		368,348	—	(840)	18,705	386,213
Equipment		431,406	—	(32,273)	23,805	422,938
Equipment and property under capital lease		11,969	—	—	3,878	15,847
Total depreciable capital assets		824,847	—	(33,116)	46,388	838,119
Less accumulated depreciation:						
Land improvements		11,308	356	(3)	—	11,661
Buildings		198,516	13,647	(840)	—	211,323
Equipment		326,440	23,502	(31,638)	—	318,304
Equipment and property under capital lease		7,913	798	—	—	8,711
Total accumulated depreciation		544,177	38,303	(32,481)	—	549,999
Depreciable capital assets, net		280,670	(38,303)	(635)	46,388	288,120
Capital assets, net	$	310,158	16,797	(635)	—	326,320

	January 1, 2020	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2020
			(In thousands)		
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	309,153	22,124	(14,653)	9,816	326,440
Equipment and property under capital lease	16,931	798	—	(9,816)	7,913
Total accumulated depreciation	523,120	36,304	(15,247)	—	544,177
Depreciable capital assets, net	290,225	(35,668)	—	26,113	280,670
Capital assets, net	$ 320,830	(10,672)	—	—	310,158

The schedule of capital asset activity for EHM for the years ended December 31, 2021 and 2020 is as follows:

		January 1, 2021	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2021
				(In thousands)		
Assets at cost:						
Nondepreciable capital assets:						
Land	$	1,879	—	—	—	1,879
Construction in progress		202	241	(224)	—	219
Total nondepreciable capital assets		2,081	241	(224)	—	2,098
Depreciable capital assets:						
Land improvements		1,234	—	—	—	1,234
Buildings		30,112	—	224	—	30,336
Equipment		2,731	—	—	—	2,731
Equipment and property under capital lease		19,382	83	—	—	19,465
Total depreciable capital assets		53,459	83	224	—	53,766
Less accumulated depreciation:						
Land improvements		938	63	—	—	1,001
Buildings		21,791	1,115	—	—	22,906
Equipment		2,462	50	—	—	2,512
Equipment under capital lease		15,358	1,104	—	—	16,462
Total accumulated depreciation		40,549	2,332	—	—	42,881
Depreciable capital assets, net		12,910	(2,249)	224	—	10,885
Capital assets, net	$	14,991	(2,008)	—	—	12,983

	January 1, 2020	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2020
			(In thousands)		
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	12	—	2,927	30,112
Equipment	19,543	718	(2,369)	1,490	19,382
Equipment and property under capital lease	2,731	21	(21)	—	2,731
Total depreciable capital assets	50,681	751	(2,390)	4,417	53,459
Less accumulated depreciation:					
Land improvements	883	55	—	—	938
Buildings	20,660	1,131	—	—	21,791
Equipment	16,433	1,162	(2,237)	—	15,358
Equipment under capital lease	2,412	70	(20)	—	2,462
Total accumulated depreciation	40,388	2,418	(2,257)	—	40,549
Depreciable capital assets, net	10,293	(1,667)	(133)	4,417	12,910
Capital assets, net	$ 16,680	(1,556)	(133)	—	14,991

(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, 2021 and 2020, which is accounted for using the equity method of accounting. During the years ended December 31, 2021 and 2020, 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, 2021 and 2020:

		2021	2020
		(In thousands)	
Current assets	$	5,643	5,627
Noncurrent assets, net		3,096	3,288
	$	8,739	8,915
Current liabilities	$	3,066	2,721
Long-term liabilities		2,274	2,416
Equity		3,399	3,778
	$	8,739	8,915
Revenue	$	17,598	15,033
Expenses		12,976	11,513
Net income	$	4,622	3,520

Eastside Health Alliance, LLC

During 2017, the District formed a limited liability company with Overlake Medical Center to create a clinically integrated network of providers to deliver value-based care on the Eastside. The District had a 50% interest in this joint venture at December 31, 2021 and 2020, which is accounted for using the equity method of accounting. During the years ended December 31, 2021 and 2020, the District recognized its proportionate share of the Eastside Health Alliance, LLC's net loss, as a reduction to other operating revenue.

The following represents the summary financial information of Eastside Health Alliance, LLC as of December 31, 2021 and 2020:

		2021	2020
		(In thousands)	
Current assets	$	6,210	4,785
Noncurrent assets, net		—	—
	$	6,210	4,785
Current liabilities	$	5,334	—
Long-term liabilities		—	—
Equity		876	4,785
	$	6,210	4,785
Revenue	$	4,460	5,106
Expenses		6,845	7,326
Net loss	$	(2,385)	(2,220)

(Continued)

(7) Long-Term Debt and Capital Lease Obligations

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

	December 31	
	2021	2020
	(In thousands)	
Limited Tax General Obligation (LTGO) Series 2015 (fixed rate), payable annually through 2031, interest at 3.63% to 5.00%	9,610	46,195
LTGO Series 2015 B (fixed rate), payable annually through 2037, interest at 4.00% to 5.00%	—	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	59,940
LTGO Series 2020 B (fixed rate), payable annually through 2035, interest at 1.30% to 2.54%	36,790	39,210
LTGO Series 2021 (fixed rate), payable annually through 2044, interest at 0.57% to 3.11%	152,175	—
Unlimited Tax General Obligation Refunding Bonds (UTGO), Series 2013 (fixed rate), payable semiannually through 2023, interest at 3.00% to 5.00%	15,425	22,590
Capital lease obligations, $8,919 (fixed rate), payable monthly including interest at 0.18% to 10.0%, collateralized by equipment	7,788	9,418
	281,728	261,353
Plus bond discounts and premiums	11,376	18,527
	293,104	279,880
Less current portion	(15,389)	(14,470)
	$ 277,715	265,410

(Continued)

Long-term debt and capital lease obligations 2021 and 2020 activity summary for the District is as follows (in thousands):

	January 1, 2021	Additions	Reductions	December 31, 2021	Amounts due within one year
Limited general obligation bonds:					
2015 series	$ 46,195	—	36,585	9,610	3,365
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	39,210	—	2,420	36,790	2,760
2021 series	—	152,175	—	152,175	—
Unlimited general obligation bonds:					
2013 series	22,590	—	7,165	15,425	7,525
Total long-term debt	251,935	152,175	130,170	273,940	13,650
Capital lease obligations	9,418	—	1,630	7,788	1,739
Total long-term debt and capital lease obligations	261,353	152,175	131,800	281,728	15,389
Bond discounts and premiums	18,527	—	7,151	11,376	4,045
Total long-term debt and capital lease obligations	$ 279,880	152,175	138,951	293,104	19,434

	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

(Continued)

		January 1, 2020	Additions	Reductions	December 31, 2020	Amounts due within one year
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

A summary of the District future maturities on long-term debt for the next five years and thereafter as of December 31, 2021 for both principal and interest is presented below (in thousands):

		Bonds	
		Principal	Interest
2022	$	13,650	8,777
2023		14,960	7,814
2024		5,715	7,193
2025		6,250	7,014
2026		6,705	6,924
Amounts due 2027–2031		41,070	32,623
Amounts due 2032–2036		55,985	27,332
Amounts due 2037–2041		71,685	18,116
Amounts due 2042–2046		57,920	4,901
	$	273,940	120,694

Total unamortized bond discounts and premiums are $11.4 million as of December 31, 2021.

(a) 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.

(b) Series 2021 Bond Issue

The 2021 LTGO bonds were issued for the principal amount of $152.2 million. The proceeds were used to retire, defease and refund the direct borrowing with JPMorgan, refund a portion of the 2015 LTGO series, and refund all of the 2015 B LGTO series; as well as fund the project for the District to implement a new electronic medical record and billing system, Epic. The difference between the cash flows required to service the new debt and complete the refunding was $2.9 million. The economic gain was $5.8 million.

The District has pledged tax revenues to secure the bonds.

(c) Component Unit – EHM

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

		December 31	
		2021	**2020**
		(In thousands)	
LTGO Refunding Bonds, 2019, payable semiannually through 2034, interest at 2.95%	$	15,665	16,460
LTGO Bonds, 2019, payable semiannually through 2029, interest at 3.25%		4,949	5,483
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		29	114
		20,643	26,209
Plus bond discounts and premiums		(177)	(201)
		20,466	26,008
Less current portion		(1,421)	(2,505)
	$	19,045	23,503

Long-term debt and capital lease obligations 2021 and 2020 activity summary of EHM is as follows (in thousands):

		January 1, 2021	Additions	Reductions	December 31, 2021	Amounts due within one year
Limited general obligation bonds:						
2019 refunding series	$	16,460	—	(795)	15,665	840
2019 series		5,483	—	(534)	4,949	552
PPP Loan (forgiven)		4,152	—	(4,152)	—	—
Total long-term debt		26,095	—	(5,481)	20,614	1,392
Capital lease obligations		114		(85)	29	29
Total long-term debt and capital lease obligations		26,209	—	(5,566)	20,643	1,421
Bond discounts and premiums		(201)	—	24	(177)	—
Total long-term debt and capital lease obligations	$	26,008	—	(5,542)	20,466	1,421

		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	$	23,202	4,152	1,346	26,008	2,505

A summary of EHM's future maturities on long-term debt for the next five years and thereafter as of December 31, 2021 for both principal and interest is presented below (in thousands):

		Principal	Interest
2022	$	1,392	623
2023		1,459	580
2024		1,563	535
2025		1,637	488
2026		1,707	437
Amounts due 2027–2031		8,290	1,379
Amounts due 2032–2035		4,566	274
	$	20,614	4,316

Total unamortized bond discounts and premiums are $177 thousand as of December 31, 2021.

(d) 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:

		Amount (In thousands)
Year(s) ending December 31:		
2022	$	2,029
2023		2,070
2024		2,112
2025		2,156
2026		117
2027–2031		—
Total minimum lease payments		8,484
Less amount representing interest		(696)
Total capital lease payments	$	7,788

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

		Amount (In thousands)
Year(s) ending December 31:		
2022	$	29
2023		—
Total minimum lease payments		29
Less amount representing interest		—
Total capital lease payments	$	29

(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, 2021 and 2020, 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:

		Owned property receipts	Leased property receipts	Total amount
			(In thousands)	
Year ending December 31:				
2022	$	2,023	4,296	6,319
2023		1,662	3,821	5,483
2024		1,353	2,679	4,032
2025		243	2,283	2,526
2026		153	2,055	2,208
Thereafter		610	8,151	8,761
	$	6,044	23,285	29,329

Rental income related to the EPC, ES&PC, and the DeYoung Pavilion leases was approximately $1.8 million for both years ended 2021 and 2020 and is included in other operating revenue. Rental income related to subleases was approximately $4.9 million and $5.0 million in 2021 and 2020, respectively.

(9) Commitment and Contingencies

(a) Leases

The District leases various equipment and facilities under operating leases. Total rental expense in 2021 and 2020 for all operating leases and various rental agreements was approximately $15.7 million and $14.6 million, respectively.

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

		Payments (In thousands)
Year ending December 31:		
2022	$	10,188
2023		10,418
2024		10,656
2025		10,651
2026		9,044
Thereafter		33,447
	$	84,404

(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 the professional liability tail and expected claims payouts 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 for both years ended December 31, 2021 and 2020. At December 31, 2021 and 2020, the estimated long-term and short-term professional claims liability was $5.0 million and $1.4 million and $5.5 million and $1.2 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 $7.3 million and $5.8 million at December 31, 2021 and 2020, 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.

(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 $21.2 million and $19.6 million in 2021 and 2020, respectively. Employee contributions to the benefit plans totaled approximately $35.0 million and $31.1 million in 2021 and 2020, 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, 2021 and 2020, the SERP balance was $2.8 million and $3.0 million, respectively.

(Continued)

(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	
	2021	**2020**
Non-Government third-party payors	43.4%	42.6%
Medicare	35.9	32.5
Patient self-pay	9.2	11.3
Medicaid	11.5	13.6
	100.0%	100.0%

(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 2021 and 2020, the District’s regular levy request was $0.20 per $1,000 and $0.19 per $1,000 on a total assessed valuation of the property within the District of $101.4 billion and $99.6 billion for a total regular levy of $19.8 million and $19.3 million, respectively. Excess levies totaled $8.3 million in both 2021 and 2020, 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.

(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, 2021			
		Combined entities	Eliminations/ reclassifications	District	Foundation
		(In thousands)			
Assets:					
Current assets:					
Total current assets	$	224,126	(1,501)	216,100	9,527
Noncurrent assets:					
Total other assets		337,693	—	332,861	4,832
Capital assets, net		326,320	—	326,320	—
Total assets		888,139	(1,501)	875,281	14,359
Deferred outflows of resources		8,184	—	8,184	—
Total assets and deferred outflows of resources	$	896,323	(1,501)	883,465	14,359
Liabilities:					
Total current liabilities	$	146,517	(1,501)	146,464	1,554
Total noncurrent liabilities		294,087	—	294,087	—
Total liabilities		440,604	(1,501)	440,551	1,554
Net position:					
Invested in capital assets, net of related debt		114,924	—	114,924	—
Restricted:					
Expendable		2,377	—	403	1,974
Nonexpendable		10,474	—	1,055	9,419
Unrestricted		327,944	—	326,532	1,412
Total net position		455,719	—	442,914	12,805
Total liabilities and net position	$	896,323	(1,501)	883,465	14,359

		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

(Continued)

	Statement of revenue, expenses, and changes in net position – year ended December 31, 2021		
	Combined entities	District	Foundation
		(In thousands)	
Revenue:			
Operating revenue:			
Net patient service revenue	$ 768,533	768,533	—
Other operating revenue	52,195	46,843	5,352
Total operating revenue	820,728	815,376	5,352
Expenses:			
Operating expenses:			
Other operating expenses	795,441	788,742	6,699
Depreciation and amortization	37,830	37,830	—
Total operating expenses	833,271	826,572	6,699
Excess (deficit) of revenue over expenses from operations	(12,543)	(11,196)	(1,347)
Nonoperating income, net of expenses:			
Property taxes	27,968	27,968	—
Interest and amortization expense	(9,081)	(9,081)	—
Other nonoperating revenue	5,307	4,549	758
Net nonoperating income	24,194	23,436	758
Excess of revenue over expenses	11,651	12,240	(589)
Capital grants and contributions	3,380	1,986	1,394
Total change in net position	15,031	14,226	805
Net position, beginning of year	440,688	428,688	12,000
Net position, end of year	$ 455,719	442,914	12,805

(Continued)

	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

(Continued)

	Statement of cash flows – year ended December 31, 2021		
	Combined entities	District	Foundation
		(In thousands)	
Net cash provided by (used in):			
Operating activities	$ 116	(290)	406
Noncapital financing activities	13,038	13,031	7
Capital and related financing activities	(30,052)	(30,052)	—
Investing activities	3,200	2,419	781
Net increase in cash and cash equivalents	(13,698)	(14,892)	1,194
Cash and cash equivalents, beginning of year	83,847	78,813	5,034
Cash and cash equivalents, end of year	$ 70,149	63,921	6,228

	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

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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 No. 2 d/b/a EvergreenHealth (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 25, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of This Report

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

KPMG LLP

Seattle, Washington
May 25, 2022

KPMG LLP
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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

Opinion on 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 identified as subject to audit 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, 2021. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The District's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 business-type activities and the discretely presented component unit of the District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated May 25, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
September 27, 2022

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

Schedule of Expenditures of Federal Awards

Year ended December 31, 2021

Federal AL, grant, or contract number	Subaward numbers	Federal grantor/pass-through grantor/program title	Passed through to subrecipients	2021 Federal expenditures
		U.S. Department of Health and Human Services:		
		Direct award:		
93.498		COVID-19 Provider Relief Funds	$ —	40,485,922
93.498		COVID-19 Provider Relief Funds – EvergreenHealth Monroe (EHM)	—	5,921,068
			—	46,406,990
		Direct award:		
93.461		HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	—	450,484
93.461		HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund – EHM	—	419,486
			—	869,970
		Direct award:		
93.301		Small Rural Hospital Improvement Grant Program – EHM	—	10,878
		Pass through from Washington State Hospital Association:		
93.155		Rural Health Research Centers – EHM	—	252,684
		Pass through from the University of California Los Angeles:		
93.855	2UM1AI068636-15	Allergy and Infectious Disease Research	—	29,924
		Total U.S. Department of Health and Human Services	—	47,570,446
		U.S. Department of Treasury:		
		Pass through from Washington State Health Care Authority:		
21.019		Coronavirus Relief Fund	—	117,716
		Total U.S. Department of Treasury	—	117,716
		Total other federal awards	—	47,688,162
		Total expenditures of federal awards	$ —	47,688,162

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, 2021

(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, 2021. 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 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)

During the year ended December 31, 2021, the District did not receive donated personal protective equipment from various governmental entities.

(5) Provider Relief Funds

During the year ended December 31, 2021, the District was the recipient of funds under the American Rescue Plan Provider Relief Fund program. In accordance with guidance provided in the OMB 2 CFR Part 200 Compliance Supplement, recognition in the Schedule is based on HRSA guidance rather than date of receipt of the funds.

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

Schedule of Findings and Questioned Costs

Year ended December 31, 2021

(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): **Yes**

(g) Major Programs:

- COVID-19 Provider Relief Funds – 93.498

(h) Dollar threshold used to distinguish between Type A and Type B Programs: $1,435,001

(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

Finding: 2021-001	Provider Relief Fund Portal Submission
Federal Agency:	U.S. Department of Health and Human Services
Program Name:	COVID-19 Provider Relief Funds
AL # and Program Name:	93.498, Provider Relief Funds
Federal Award Numbers:	N/A
Federal Award Year:	January 1, 2021 – December 31, 2021
Questioned Costs:	Known: None; Likely: None

Compliance Requirement: Reporting

Criteria

For eligible healthcare providers, entities are responsible for reporting, through the Health Resources and Services Administration (HRSA) Reporting Portal website, the calculation of 'Lost Revenues Attributable to Coronavirus' using one of three options – Option (I) – 2019 Actuals, Option (II) – 2020 Budgeted, or Option (III) Alternative Method of Calculating Lost Revenues Attributable to Coronavirus. When using the different options, different requirements are established by HRSA to quantify the available lost revenues that can support the recognition of provider relief funds received by the entity. Specifically, for Option II, the HRSA FAQ dated August 30, 2021 notes that, "Reporting Entities may use budgeted revenues if the budget(s) and associated documents covering the Period of Availability were established and approved prior to March 27, 2020."

Condition Found

During our inspection of the key line items within the District's HRSA portal submission reports for Period 1 and Period 2, we noted the District did not have the 2021 budgets approved by management prior to March 27, 2020; however, amounts were reported for these periods in the Option II submission.

Cause and Effect

The District did not select the correct reporting option, given that not all budgets were approved prior to March 27, 2020, as prescribed in HRSA Option II for reporting lost revenues.

Repeat Finding

This finding is not a repeat finding in the immediately prior audit.

Statistical Sampling

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

We recommend the District utilize Option III if all budget periods are not approved prior to March 27, 2020 for future portal submissions.

Views of Responsible Officials

The District agrees with the condition reported. Although the 2021 budget for EvergreenHealth was not approved by management prior to March 27, 2020, the lost revenues required to support the proper receipt of Provider Relief Funds would have been met solely based on the 2020 budget to actual calculations, which were approved prior to March 27, 2020. Further, the 2021 budget to actual calculations would have been an appropriate methodology for calculation of qualifying amounts if Option III had been selected. The District will ensure future HRSA Portal submissions will consider these requirements when determining its annual lost revenue amounts and the method used for calculated lost revenues.