Office of the Washington State Auditor
Pat McCarthy

January 18, 2024

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, 2022 and 2021. 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, State Auditor

Olympia, WA

Americans with Disabilities

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KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Basic Financial Statements and
Federal Uniform Guidance Reports

Year Ended December 31, 2022

(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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements for the years then ended 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 the discretely presented component unit of the District, as of December 31, 2022 and 2021, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in note 1 to the financial statements, during the year ended December 31, 2022, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2023 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 24, 2023

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, 2022 and 2021. 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.

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.

The employed physician practices comprise 80 and 83 primary care providers in 2022 and 2021, respectively, and 273 and 258 specialty care providers in 2022 and 2021, 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.

Utilization Statistics

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

Utilization statistics	2022	2021	2020
Hospital Acute Licensed Care Beds	318	318	318
Hospice Care Center Licensed Beds	15	15	15
Acute care admissions	15,400	14,650	13,819
Acute care adjusted admissions*	37,120	35,449	32,377
Acute care patient days	73,661	66,833	61,292
Acute care adjusted patient days*	203,273	189,598	171,258
Acute care average length of stay	5	5	5
Occupancy (based on acute care licensed beds)	1	1	1
Observation Days	3,684	3,425	2,223
Inpatient surgeries	1,973	2,224	2,239
Outpatient surgeries	13,569	12,716	11,716
Home health episodes and admissions	11,347	11,775	11,210
Home Hospice program days	188,543	189,931	184,755
Emergency room visits	62,462	56,652	47,643
Urgent Care wRVUs	158,300	121,233	89,062
Primary care wRVUs	457,656	370,957	307,851
Specialty care wRVUs	1,284,404	1,021,184	874,838

* *The term adjusted, commonly used in industry, measures the volume of service provided to inpatients and outpatients.*

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, which expired on April 11, 2023.

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. The cancellation of elective and nonurgent services during this period had a significant impact on volumes and financial performance. The District received government funding to aid in the reimbursement of additional expenses and the recovery of lost revenues, which were presented in the financial results for fiscal years 2021 and 2022. Throughout fiscal years 2021 and 2022, there have been several surges of COVID-19 patients and episodes of cancellations of elective and nonurgent services. The District continued the efforts to treat COVID-19 patients while maintaining "normal" operations.

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.
- **Operating Costs:** The volume indicators for acute care admissions, including deliveries, increased 4.7% and surgery counts increased 4.0% when compared to 2021. 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.
- **Labor Availability:** Throughout 2022, the District continued to increase Nurse Tech roles, its New To Specialty programs and Registered Nurse (RN) Residency programs to decrease reliance on RN agency/traveler personnel and to proactively address expected RN retirements. Additionally, the District implemented several new RN recruitment and retention initiatives. Labor shortages also continued for various other positions. Similar to 2021, due to COVID-19, the District again experienced high-patient volumes in combination with a significant RN labor shortage resulting in an increase in agency RN and other clinical contracted personnel. To meet the demand in the labor market for more flexible work schedules, the District created more self-scheduling and part-time opportunities for staff. Approximately 45% of the District's 4,887 employees are members of one of four labor unions. The United Food and Commercial Workers (UFCW) union, which represents approximately 191 professional/technical

employees, last negotiated its labor contract in 2019 and is scheduled to negotiate in 2023. The Washington State Nurses Association (WSNA), which represents approximately 1,337 registered nurses, last negotiated its labor contract in 2021 and is next scheduled to negotiate in 2024. The International Union of Operating Engineers (IUOE), which represents approximately 23 employees, last negotiated its labor contract in 2022 and is next scheduled to negotiate in early 2026. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 800 service employees and about 100 social workers/chaplains, were in negotiations at December 31, 2022 related its labor contracts and completed those negotiations in April 2023. SEIU is next scheduled to negotiate in the fall of 2025.

- **Contracting/Risk Sharing Arrangements:** The District has seven pay for performance contracts in effect as of 2022 with payors; four 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 six 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 2022 and 2021, the District continued to develop its strategic alliances with Fred Hutchinson Cancer Center (formerly 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

  – 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.

Fred Hutchinson Cancer Center – The Halvorson Cancer Center, in collaboration with Fred Hutchinson Cancer Center, 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 Fred Hutchinson Cancer Center. The Halvorson Cancer Center treated 1,257 cancer cases in 2022, consistent with 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 US 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 2022 population within the District's boundaries is estimated to be 345,159. The population is projected to grow 2.2% over the next five years and reach 352,881 in 2027 according to the Environmental Systems Research Institute. The most recent version of the District's Master Campus Plan filed and approved with the City of Kirkland in February 2017 includes facility and service expansions based on projected needs.

2022 Highlights

- **Governance and Leadership**
  - Welcomed Peggy Brown as the new Chief Marketing & Communications Officer
  - Welcomed Lori Kloes as the new Chief Philanthropy Officer
  - Welcomed Mark Freeborn, MD as the new Chief Medical Officer of the Medical Group
  - Welcomed Purav Bhatt as the new Chief Operating Officer of the Medical Group

- **Initiated or Completed Projects**
  - Implemented Epic system wide, a new electronic medical records and billing system
  - Implemented the MyChart patient portal
  - Opened a Primary Care clinic in Redmond Town Center
  - Opened an Urgent Care clinic in Monroe
  - Achieved certification as a DNV Comprehensive Stroke Center
  - Launched Neonatal cooling services to decrease outbound transfers of babies
  - Launched the EHA Eastside Neuro Institute
  - Expanded Orthopedic subspecialities in Monroe
  - Submitted the updated 10-Year Master Facility Plan to the City of Kirkland
- **Recognition and Awards**
  - Received a 5-star rating from Centers for Medicare and Medicaid Services (CMS) in the 2021 and 2022 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 and 2022
  - Recognized by Healthgrades as America's 100 Best Hospitals in 2021 for Pulmonary, Gastrointestinal Care, Gastrointestinal Surgery, Stroke Care, and Critical Care
  - Recognized by Healthgrades as America's 100 Best Hospitals in 2022 for Pulmonary, Gastrointestinal Care, Gastrointestinal Surgery, Spine Surgery, and Stroke Care
  - Recognized by Healthgrades with an Excellence Award for Neurosciences, sixth & seventh consecutive year
  - Awarded an "A" rating for patient safety for Spring and Fall 2021 & 2022 by The Leapfrog Group. Sixth consecutive "A" rating
  - Ranked number one in the nation for Clinical Outcomes by The Lown Institute in 2022
  - 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 and sixth consecutive year
  - Received Primary Plus Stroke Center (PSC+) Certification from DNV Healthcare in 2021
  - Received Comprehensive Stroke Center Certification from DNV Healthcare in 2022
  - 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
- US 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 include 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, 2022 and 2021 and the results of its operations for the years ended December 31, 2022 and 2021 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)

		2022	2021	2020
Cash and cash equivalents	$	47,786	70,149	83,847
Patient accounts receivable, less allowance for uncollectible accounts		150,099	114,017	86,296
Other current assets		43,084	43,494	36,477
Total current assets		240,969	227,660	206,620
Assets limited as to use, less current portion of amounts required for current liabilities		154,380	309,361	315,140
Capital assets, net		354,455	323,062	310,158
Right-to-use leased assets		239,262	243,002	—
Other assets		66,747	69,685	28,826
Total assets		1,055,813	1,172,770	860,744
Deferred outflows of resource:				
Deferred loss on refunding		6,966	8,184	2,830
Total assets and deferred outflows of resources	$	1,062,779	1,180,954	863,574
Current portion of long-term debt	$	14,960	13,650	14,470
Current portion of lease liabilities		4,792	4,321	—
Other current liabilities		124,458	129,420	99,401
Total current liabilities		144,210	147,391	113,871
Long-term debt		255,496	267,783	265,410
Long-term portion of lease liabilities		247,770	245,461	—
Other long-term liabilities		14,134	24,800	43,605
Total liabilities		661,610	685,435	422,886

(Continued)

Summary of Statements of Net Position

(In thousands)

		2022	2021	2020
Total Deferred Inflows of resources related to leases		38,945	43,821	—
Net position:				
Invested in capital assets, net of related debt		86,306	108,145	86,507
Restricted		13,181	12,851	15,760
Unrestricted		262,737	330,702	338,421
Total net position		362,224	451,698	440,688
Total liabilities and net position	$	1,062,779	1,180,954	863,574

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	2022	2021	2020
Current ratio	1.3	1.2	1.4
Days in AR (net)	65.6	50.7	38.9
Days cash on hand	73.0	134.3	168.4
Adjusted days cash on hand	71.6	117.1	125.3

Total current assets were $241.0 million as of December 31, 2022, compared to $227.6 million as of December 31, 2021.

Current assets in 2022 increased by $13.3 million compared to 2021 primarily due to an increase in net patient accounts receivable resulting from increased days in AR due to the implementation of Epic, the District's new electronic medical records system (EMR). Adjusted days cash on hand decreased to 71.6 days.

Current assets in 2021 increased by $21.0 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 117.1 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 $814.8 million as of December 31, 2022, compared to $945.1 million as of December 31, 2021.

Capital assets, net of accumulated depreciation increased approximately $31.4 million from 2021 to 2022 and increased $12.9 million from 2020 to 2021. The District continues to devote resources for capital projects and improvements, including significant components of the master facility plan. During 2022 and 2021, the District invested approximately $71.5 million and $55.1 million, respectively, in buildings, information technology, and equipment.

Right-to-use leased assets decreased approximately $3.7 million in 2022 compared to 2021. This was due to routine amortization of these assets. Due to the implementation of GASB No. 87, *Leases*, the District did not report right-to-use leased assets in 2020; therefore, 2021 is not comparable to 2020.

(Continued)

Restricted and board-designated cash and investments decreased approximately $155.0 million from 2021 to 2022. The decrease in the current year is primarily due to $24.1 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, spending of approximately $39.8 million for Epic EMR capital and $84.0 million in transfers from investments to the general cash account. Restricted and board-designated cash and investments decreased approximately $5.8 million from 2020 to 2021. The decrease 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.

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 $144.2 million as of December 31, 2022, compared to $147.4 million as of December 31, 2021.

Current liabilities decreased approximately $3.2 million from 2021 to 2022 and increased approximately $33.5 million from 2020 to 2021. Accounts payable and accrued expenses increased $29.9 million from 2021 to 2022. The change in payables and accrued expenses is primarily due to the timing of regular accounts payable cycles. The increase from 2020 to 2021 primarily relates to the implementation of GASB No. 87, *Leases*, which required 2021 to be restated to conform to the standard. Therefore, 2020 is no longer comparable to 2021.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt, lease obligations, and professional liability reserves. Total noncurrent liabilities were $517.4 million as of December 31, 2022, compared to $538.0 million as of December 31, 2021.

Noncurrent liabilities decreased approximately $20.6 million from 2021 to 2022 due to debt and lease payments in accordance with the established debt service schedules.

Noncurrent liabilities increased approximately $229.0 million from 2020 to 2021 due to the implementation of GASB No. 87, *Leases*, which required 2021 to be restated to conform to the standard. Therefore, 2020 is no longer comparable to 2021.

Net Position

The decrease in current year net position is driven by net loss and capital grants and contributions of approximately $89.5 million. The increase from 2020 to 2021 was driven by 2021 net income and capital grants and contributions of approximately $11.0 million, which are accounted for in the net investment in capital asset and restricted categories discussed below.

Investment in capital assets, net of related debt decreased approximately $21.8 million, or 20%, from 2021 to 2022 and increased approximately $21.6 million, or 25%, from 2020 to 2021. The current year decrease is primarily attributable to payment of debt obligations. The increase from 2020 to 2021 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.

Restricted net position (expendable and nonexpendable) increased approximately $0.3 million from 2021 to 2022 and decreased approximately $2.9 million from 2020 to 2021, representing resources with temporary or permanent donor restrictions.

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 $68.0 million, or 20.6%, from 2021 to 2022 and decreased approximately $7.7 million, or 2.3%, from 2020 to 2021. The decrease from 2021 to 2022 primarily relates to the net loss derived from increased operating expenses as discussed in the following pages. The 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)

	2022	2021	2020
Operating revenue:			
Net patient service revenue	$ 789,305	768,533	664,008
Other operating revenue	45,393	52,171	46,336
Total operating revenue	834,698	820,704	710,344
Operating expenses:			
Labor and employee benefits	624,968	557,211	489,301
Supplies, purchased services, and other	262,001	226,334	228,059
Depreciation and amortization	50,519	47,710	35,828
Total operating expenses	937,488	831,255	753,188
Excess (deficit) of revenue over expenses from operations	(102,790)	(10,551)	(42,844)

(Continued)

Summary of Revenue, Expenses, and Changes in Net Position

(In thousands)

		2022	2021	2020
Nonoperating income, net of expenses:				
Property taxes	$	28,609	27,968	27,872
Interest and amortization expense		(15,301)	(15,095)	(9,106)
Investment income (loss)		(5,571)	(371)	6,033
Federal funding		3,529	6,170	40,974
Other, net		(76)	(491)	62
Net nonoperating income		11,190	18,181	65,835
(Deficit) Excess of revenue over expenses		(91,600)	7,630	22,991
Capital grants and contributions		2,126	3,380	2,183
Total change in net position		(89,474)	11,010	25,174
Net position, beginning of year		451,698	440,688	415,514
Net position, end of year	$	362,224	451,698	440,688

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 2022, gross patient revenue increased by approximately $130.5 million or 6.2%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue increased $63.8 million or 7.5% and total outpatient revenue increased $66.7 million or 5.3%. Total outpatient surgery cases increased 6.7% while inpatient surgery cases decreased 11.3%. Overall total surgery cases increased 4.0%. Deliveries decreased 4.7% and patient days in the NICU decreased 10.8%. ED visits in the main hospital and in Redmond increased 7.8% and 20.3%, respectively. Total average length of stay (excluding NICU) increased to 5.0 days from 4.8 days in 2021.

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.

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, 2022, 2021, and 2020.

	2022	2021	2020
Non-Government third-party payors	45.1%	46.7%	46.2%
Medicare	44.0	42.4	42.8
Medicaid	9.8	10.0	10.1
Patient self-pay	1.1	0.9	0.9

In 2022, net patient service revenue increased by approximately $20.8 million or 2.7%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, administrative adjustments and charity. This increase was driven by increased volumes compared to the prior year. Other operating revenue decreased by approximately $6.8 million, or 13.0%, primarily due to revenue associated with joint ventures.

In 2021, net patient service revenue increased by approximately $104.5 million or 15.7%. 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.

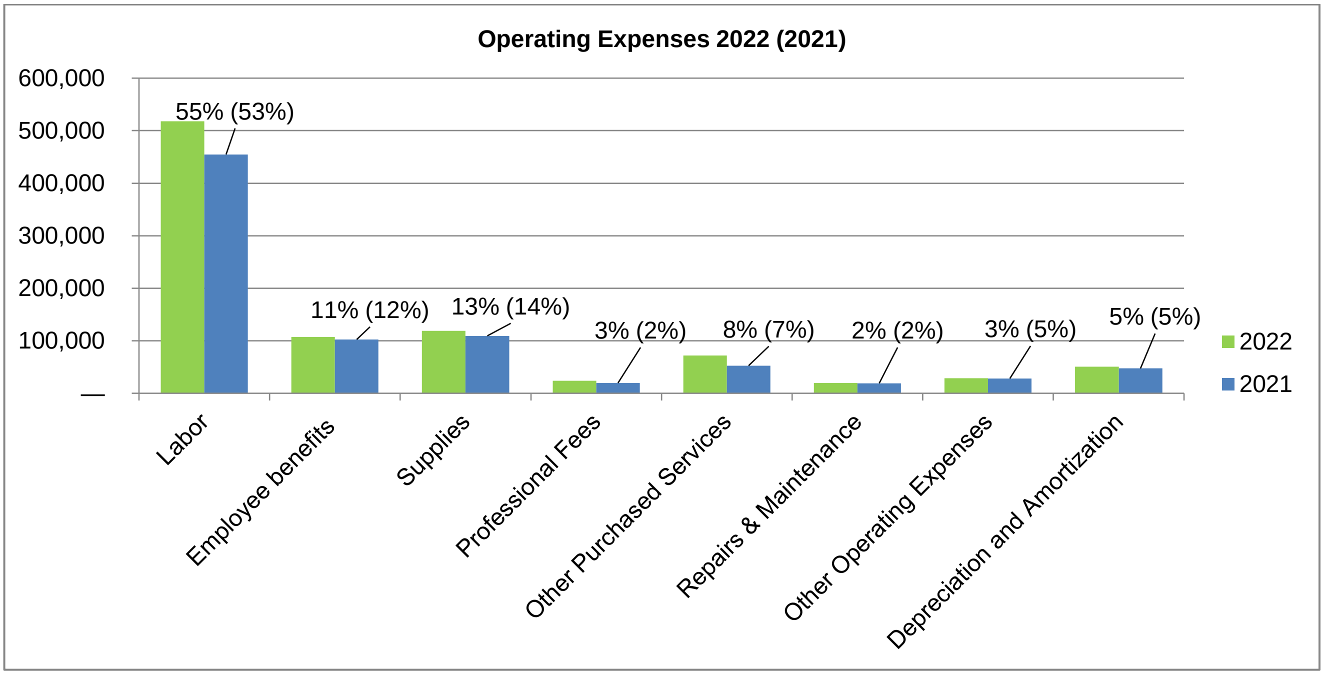
Operating Expenses

Labor, including contract labor, increased approximately $63.2 million, or 13.9%, and increased $58.0 million, or 14.6%, in 2022 and 2021, respectively. The District's average employed and contracted full-time equivalents increased 3.5% to 4,134 as of December 31, 2022, compared to 5.8% to 3,995 as of December 31, 2021. The 2022 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 $4.6 million, or 4.5%, and $9.9 million, or 10.7%, in 2022 and 2021, 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 $34.5 million, or 15.2%, and $10.2 million, or 4.5%, in 2022 and 2021, respectively. The increase is due to increased medical supply costs, purchased services, and professional fees due to the Epic EMR implementation and COVID-19 response and mitigation.

Total operating expenses in 2022 and 2021 of $937.5 million and $831.3 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 with percentages indicating each expense type as a percentage of total operating expenses.



Nonoperating Income, Net of Expenses

In 2022, nonoperating income, net of expenses decreased $7.0 million, from $18.2 million in 2021 to $11.2 million in 2022. The decrease is due to the recognition of $6.2 million of Provider Relief Funds in 2021 whereas $209 thousand was recognized in 2022 and losses on investments of $5.6 million in 2022 compared to losses of $371 thousand in 2021. There were no significant asset sales in 2022.

In 2021, nonoperating income, net of expenses decreased $47.9 million, from $65.8 million in 2020 to $18.2 million in 2021. The decrease is due to the recognition of $41.0 million of CARES Act Provider Relief Funds in 2020 whereas $6.2 million was recognized in 2021, losses on investments of $371 thousand compared to investment income of $6.2 million in 2020 and the impact of implementation of GASB No. 87, *Leases*, which required the recognition of interest expense in nonoperating expenses. Therefore, 2020 is no longer comparable to 2021. There were no significant asset sales in 2021.

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, 2022 and 2021

(In thousands)

	2022		2021	
Assets	**District**	**Component unit EHM**	**District**	**Component unit EHM**
Current assets:				
Cash and cash equivalents	$ 47,786	8,775	70,149	11,276
Current portion board-designated assets	812	743	3,043	1,954
Current portion of assets restricted as to use	470	—	1,290	—
Patient accounts receivable, less allowance for uncollectible accounts of $26,432 (District) and $1,992 (EHM) in 2022 and $17,924 (District) and $1,304 (EHM) in 2021, respectively	150,099	11,092	114,017	8,740
Inventory	7,805	935	8,096	845
Prepaid expenses and other current assets	28,644	823	26,171	1,007
Third-party payor receivable	5,353	120	4,894	284
Total current assets	240,969	22,488	227,660	24,106
Assets limited as to use, less current portion of amounts required for current liabilities:				
Board-designated cash and investments	149,904	—	304,233	—
Restricted cash and investments	4,476	—	5,128	—
	154,380	—	309,361	—
Capital assets:				
Land	4,914	1,879	4,914	1,879
Construction in progress	9,873	1,199	33,286	219
Depreciable capital assets, net of accumulated depreciation	339,668	9,012	284,862	10,885
	354,455	12,090	323,062	12,983
Right-to-use leased assets	239,262	8,773	243,002	9,340
Other assets	66,747	6,718	69,685	7,023
Total assets	1,055,813	50,069	1,172,770	53,452
Deferred outflows of resources:				
Deferred loss on refunding	6,966	—	8,184	—
Total assets and deferred outflows of resources	$ 1,062,779	50,069	1,180,954	53,452

(Continued)

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

Statements of Net Position

December 31, 2022 and 2021

(In thousands)

		2022		2021	
Liabilities and Net Position		**District**	**Component Unit EHM**	**District**	**Component Unit EHM**
Current liabilities:					
Accounts payable and accrued expenses	$	63,995	5,879	34,128	4,005
Accrued compensation and related liabilities		48,225	2,114	53,470	3,319
Accrued interest payable		651	48	731	52
Current portion of lease obligations		4,792	516	4,321	476
Current portion of long-term debt		14,960	1,459	13,650	1,421
Third-party payor payable		6,061	—	7,328	—
Estimated current portion of professional liability		1,014	—	1,351	—
Other current liabilities (including CARES Act)		4,512	457	32,412	2,522
Total current liabilities		144,210	10,473	147,391	11,795
Long-term estimated professional liability		4,919	—	5,082	—
Other noncurrent liabilities		9,215	—	19,718	845
Long-term lease obligations, net of current portion		247,770	8,709	245,461	9,095
Long-term debt, net of current portion		255,496	17,609	267,783	19,045
Total liabilities		661,610	36,791	685,435	40,780
Total deferred inflows of resources related to leases		38,945	6,620	43,821	7,093
Net position:					
Investment in capital assets, net of related debt		86,306	(6,744)	108,145	(5,840)
Restricted:					
Expendable for specific activities		10,245	473	9,485	1,664
Expendable for debt service		195	214	989	206
Nonexpendable permanent endowments		2,741	—	2,377	—
Unrestricted		262,737	12,715	330,702	9,549
Total net position		362,224	6,658	451,698	5,579
Total liabilities and net position	$	1,062,779	50,069	1,180,954	53,452

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, 2022 and 2021

(In thousands)

	2022		2021	
	District	Component Unit EHM	District	Component Unit EHM
Net patient service revenue (net of provision for bad debts of $27,655 (District) and $7,277 (EHM) in 2022 and $16,930 (District) and $4,023 (EHM) in 2021, respectively)	$ 789,305	46,944	768,533	43,538
Other operating revenue	45,393	1,442	52,171	2,083
Total operating revenue	834,698	48,386	820,704	45,621
Expenses:				
Labor	517,937	27,163	454,783	25,528
Employee benefits	107,031	4,467	102,428	5,981
Supplies	118,691	5,688	109,352	6,414
Professional fees	23,869	1,955	19,523	2,056
Other purchased services	71,862	7,253	52,559	6,630
Repairs and maintenance	19,715	1,029	19,053	820
Other operating expenses	27,864	1,407	25,847	1,207
Depreciation and amortization	50,519	2,867	47,710	3,019
Total operating expenses	937,488	51,829	831,255	51,655
Deficit of revenue over expenses from operations	(102,790)	(3,443)	(10,551)	(6,034)
Nonoperating income, net of expenses:				
Property taxes	28,609	5,115	27,968	5,048
Interest and amortization expense	(15,301)	(772)	(15,095)	(813)
Investment income (loss)	(5,571)	—	(371)	—
Federal funding	3,529	100	6,170	291
Other, net	(76)	—	(491)	6,153
Net nonoperating income	11,190	4,443	18,181	10,679
Excess (deficit) of revenue over expenses	(91,600)	1,000	7,630	4,645
Capital grants and contributions	2,126	79	3,380	51
Total change in net position	(89,474)	1,079	11,010	4,696
Net position, beginning of year	451,698	5,579	440,688	883
Net position, end of year	$ 362,224	6,658	451,698	5,579

See accompanying notes to financial statements.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Statements of Cash Flows

December 31, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Cash received from and on behalf of patients	$	753,483	747,610
Payments to suppliers and contractors		(273,189)	(224,428)
Payments to employees		(630,213)	(556,941)
Distributions received from joint ventures		(3,149)	(255)
Other cash receipts		46,851	44,937
Net payments (used in) provided by operating activities		(106,217)	10,923
Cash flows from noncapital financing activities:			
Property taxes received for community programs		6,234	6,842
Cash received from Federal funding		3,537	6,196
Net cash provided by noncapital financing activities		9,771	13,038
Cash flows from capital and related financing activities:			
Purchases of capital assets		(70,957)	(56,023)
Proceeds from sale of capital assets		—	470
Principal payments on long-term debt		(14,323)	(18,439)
Principal payments on lease obligations		(4,322)	(4,878)
Payments for interest on long-term debt		(16,704)	(15,169)
Proceeds from issuance of long-term debt		—	152,175
Payments to refunding bond escrow agent		—	(118,835)
Payment of debt issuance costs		—	(1,286)
Proceeds from property taxes related to debt service		22,375	21,126
Net cash used in capital and related financing activities		(83,931)	(40,859)
Cash flows from investing activities:			
Purchases of board-designated assets and assets restricted as to use		(13,748)	(17,185)
Proceeds from sale of board-designated assets and assets restricted as to use		175,998	20,755
Investment loss		(4,236)	(371)
Net cash provided by investing activities		158,014	3,199
Net decrease in cash, cash equivalents and restricted deposits		(22,363)	(13,699)
Cash, cash equivalents and restricted deposits, beginning of year		70,149	83,848
Cash, cash equivalents and restricted deposits, end of year	$	47,786	70,149

(Continued)

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

Statements of Cash Flows

December 31, 2022 and 2021

(In thousands)

		2022	2021
Reconciliation of deficit of revenue over expenses from operations to net cash (used in) provided by operating activities:			
Deficit of revenue over expenses from operations	$	(102,790)	(10,550)
Adjustments to reconcile deficit of revenue over expenses from operations to net cash provided by (used in) operating activities:			
Depreciation and amortization		50,519	47,710
Provision for bad debts		27,655	16,930
Other		2,513	2,471
Changes in operating assets and liabilities:			
Patient accounts receivable, less provision for bad debt		(63,737)	(44,651)
Inventory		293	824
Prepaid expenses and other assets		(2,176)	(52,982)
Accounts payable and accrued expenses, net of amounts related to construction in progress		(5,671)	75,647
Accrued compensation and related liabilities		(5,245)	269
Third-party payor settlements, net		(460)	(1,951)
Professional liability and other liabilities		(7,118)	(22,794)
Net cash (used in) provided by operating activities	$	(106,217)	10,923
Supplemental disclosures of noncash investing, capital, and financing activities:			
Change in capital asset additions included in accounts payable and accrued expenses	$	2,739	4,126
Change in capital asset additions acquired by lease		7,102	6,711
Gain on sale of capital assets		55	606
Donated capital assets		2,126	3,380

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, 2022 and 2021, the Foundation raised approximately $5.0 million and $5.5 million in contributions (included in other operating revenue) and its assets comprise 1.4% and 1.2% of total assets of the District in 2022 and 2021, 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 $5 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.

Obligations for buildings and equipment under lease that have a maximum term over 12 months are amortized on the straight-line method over the lease term in conformance with GASB No. 87, *Leases*. Such amortization is included in depreciation and amortization in the accompanying statements of revenue, expenses, and changes in net position. Leases that have a maximum term of 12 months or less will be reflected in the statements of revenue, expenses, and changes in net position as they occur in line with the provisions of the agreement.

(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, and is released 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 lease income, 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 for both 2022 and 2021. 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	
		2022	**2021**
		(In thousands)	
Amount used for tax-supported programs	$	6,234	6,842
Amounts used for debt service on general obligation bonds		22,375	21,125
	$	28,609	27,967

Of the amount used for debt service on general obligation bonds, $8.8 million and $7.3 million were used for interest payments for the years ended December 31, 2022 and 2021, 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.

(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 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 retroactively adopted on January 1, 2022 as required. The statement of net position, statement of revenue, expenses and changes in net position, and the statement of cash flows for 2021 have been restated to conform with the requirements of this statement and the current year presentation.

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 District estimates the financial implication to result in approximately $16-18 million in additional asset and liability recognition on the statements of net position.

(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 2022, the District repaid $26.6 million and reports the remaining $3.4 million as a current liability to be repaid in 2023 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% was repaid December 31, 2022 in accordance with the CARES Act.

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 continues to complete the final reconciliation of the expedited funding application to receive 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, 2022 and 2021:

		December 31	
		2022	2021
		(In thousands)	
Provider Relief Fund	$	210	3,552
Other federal and state COVID-19 relief funding		3,319	2,618
	$	3,529	6,170

The impact of COVID-19 continues to evolve as of the date of this report. Management continues to actively monitor the impact 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 2018. 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 $399 thousand and $238 thousand in 2022 and 2021, 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 $1.3 million was paid back in 2022 related to State fiscal year 2017. The District recognized interim settlements resulting in an adjustment to increase net patient service revenue by $850 thousand in 2022 and $1.3 million in 2021.

Inpatient Medicaid charges represented approximately 11.86% and 12.26% of total inpatient charges for the District in fiscal years 2022 and 2021, respectively.

The Medicaid CPE program continues through the State’s fiscal years 2022 and 2021. As of December 31, 2022 and 2021, the District has recorded a payable of $935 thousand and $1.9 million for estimated overpayments for state fiscal years 2022 and 2021, 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 $793 thousand in 2022 and $800 thousand in 2021.

(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, 2022 and 2021:

		2022	
		District	**Component unit**
		(In thousands)	
Gross patient service charges	$	2,231,521	151,687
Adjustments to patient service charges:			
Contractual adjustments		1,400,181	96,423
Provision for bad debts		27,655	7,277
Charity care		7,833	1,043
Administrative adjustments		6,547	—
		1,442,216	104,743
Net patient service revenue	$	789,305	46,944

		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

(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 the general reserve fund and community service programs. In addition, the Board has the authority to establish a regular property tax levy within statutory restrictions, with the proceeds being used for purposes designated by the Board.

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

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

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

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, 2022 and 2021:

Board-Designated Assets

December 31, 2022

Investment type	Fair value amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Ratings
		(In thousands)		
US treasuries	$ 47,968	—	47,968	AAA
US government agencies	5,634	—	5,634	AA-
Mutual fund – bonds	813	813	—	Not rated
Credit	36,214	—	36,214	A+
Taxable municipal bonds	994	—	994	AA
US government agency – mortgage backed	34,303	—	34,303	AAA
Government-related securities	3,037	—	3,037	AAA
King County Investment Pool	945	—	945	Not rated
Total investments	129,908	$ 813	129,095	
Cash and cash equivalents	18,698			
Total cash and investments	148,606			
Property tax, interest receivable, and other	2,110			
Total board-designated assets	$ 150,716			

Board-Designated Assets

December 31, 2022

Investment type		Fair value amount	Investment maturities (in years) N/A or less than 1	1–5
			(In thousands)	
US treasuries	$	47,968	25,761	22,207
US government agencies		5,634	—	5,634
Mutual fund – bonds		813	813	—
Credit		36,214	4,384	31,830
Taxable municipal bonds		994	—	994
US government agency – mortgage backed		34,303	4,866	29,437
Government-related securities		3,037	3,037	—
King County Investment Pool		945	945	—
Total investments	$	129,908	39,806	90,102

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)		
US treasuries	$	108,834	—	108,834	AAA
US 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
US government agency – mortgage backed		59,453	—	59,453	AAA

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)		
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)	
US treasuries	$	108,834	9,518	99,316
US 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
US 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

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, 2022 and 2021:

Restricted Cash and Investments

December 31, 2022

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	$	89		89	Not rated		89
Mutual fund – bonds		1,502		1,502	Not rated		1,502
Mutual fund – equity		3,113		3,113	Not rated		3,113
Total investments		4,704	$	4,704		$	4,704
Cash and cash equivalents		104					
Total cash and investments		4,808					
Property tax, interest receivable, and other		138					
Total assets restricted as to use	$	4,946					

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					

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 US government bonds or US 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, with the exception of corporate notes with maturities of no more than 5.5 years. 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 US 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 US government bonds and agencies. The US Treasury, agency, and agency mortgage backed are considered to be of high quality, and the US Treasury carry the long-term sovereign rating of the United States of America. The District's policy requires that all certificates of deposit be collateralized.

The District utilizes an investment adviser as well as the King County Investment Pool (the Pool), an external investment pool. The Pool is not registered with the Securities and Exchange Commission as an investment company. Oversight of the Pool is provided by the King County Executive Finance Committee pursuant to RCW 36.29.020. Participation in this pool is voluntary. The intent of this policy is to balance 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, 2022 and 2021:

	2022	2021
US treasuries	35%	43%
Mutual fund/US government securities	5	3
Federal National Mortgage Association	8	6
Federal Home Loan Bank	3	2
Federal Home Loan Mortgage Corporation	16	16
Government National Mortgage Association	2	2
King County Investment Pool	1	1
Credit	27	23
Taxable municipal bonds	1	1
Government-related securities	2	3
	100%	100%

(5) Capital Assets

The schedule of capital asset activity for the years ended December 31, 2022 and 2021 is as follows:

	January 1, 2022	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2022
			(In thousands)		
Assets at cost:					
Nondepreciable capital assets:					
Land	$ 4,914	—	—	—	4,914
Construction in progress	33,286	71,493	—	(94,906)	9,873
Total nondepreciable capital assets	38,200	71,493	—	(94,906)	14,787

		January 1, 2022	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2022
				(In thousands)		
Depreciable capital assets:						
Land improvements	$	13,121	(29)	—	—	13,092
Buildings		386,213	1,209	14	26,672	414,108
Equipment		426,816	(1,180)	(8,234)	68,234	485,636
Total depreciable capital assets		826,150	—	(8,220)	94,906	912,836
Less accumulated depreciation:						
Land improvements		11,661	333	—	(25)	11,969
Buildings		211,324	15,007	12	1,036	227,379
Equipment		318,303	24,707	(8,178)	(1,011)	333,821
Total accumulated depreciation		541,288	40,047	(8,166)	—	573,169
Depreciable capital assets, net		284,862	(40,047)	(54)	94,906	339,667
Capital assets, net	$	323,062	31,446	(54)	—	354,454

		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)	27,683	426,816
Total depreciable capital assets		812,878	—	(33,116)	46,388	826,150

		January 1, 2021	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2021
				(In thousands)		
Less accumulated depreciation:						
Land improvements	$	11,308	356	(3)	—	11,661
Buildings		198,516	13,648	(840)	—	211,324
Equipment		326,440	23,500	(31,637)	—	318,303
Total accumulated depreciation		536,264	37,504	(32,480)	—	541,288
Depreciable capital assets, net		276,614	(37,504)	(636)	46,388	284,862
Capital assets, net	$	306,102	17,596	(636)	—	323,062

Depreciation and amortization recognized in operating expenses were $50.5 million and $47.7 million for the years ended December 31, 2022 and 2021, respectively. Included in these amounts were $10.9 million and $10.7 million related to right to use lease asset amortization for the years ended December 31, 2022 and 2021, respectively.

The schedule of capital asset activity for EHM for the years ended December 31, 2022 and 2021 is as follows:

		Balance January 1, 2022	Additions	Transfers	Retirements	Balance December 31, 2022
Nondepreciable capital assets:						
Land	$	1,879	—	—	—	1,879
Construction in progress		219	1,100	(120)	—	1,199
Total nondepreciable capital assets		2,098	1,100	(120)	—	3,078
Depreciable capital assets:						
Land improvements		1,234	—	—	—	1,234
Buildings and improvements		30,336	—	69	—	30,405
Fixed equipment		2,731	—	—	—	2,731
Movable equipment		19,465	168	51	—	19,684
Total depreciable capital assets		53,766	168	120	—	54,054

(Continued)

	Balance January 1, 2022	Additions	Transfers	Retirements	Balance December 31, 2022
Less accumulated depreciation:					
Land improvements	$ (1,001)	(63)	—	—	(1,064)
Buildings and improvements	(22,906)	(1,130)	—	—	(24,036)
Fixed equipment	(2,512)	(33)	—	—	(2,545)
Movable equipment	(16,462)	(935)	—	—	(17,397)
Total accumulated depreciation	(42,881)	(2,161)	—	—	(45,042)
Total depreciable capital assets, net	10,885	(1,993)	120	—	9,012
Total capital assets, net	$ 12,983	(893)	—	—	12,090

	Balance January 1, 2021	Additions	Transfers	Retirements	Balance December 31, 2021
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 and improvements	30,112	—	224	—	30,336
Fixed equipment	2,731	—	—	—	2,731
Movable equipment	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 and improvements	(21,791)	(1,115)	—	—	(22,906)
Fixed equipment	(2,463)	(49)	—	—	(2,512)
Movable equipment	(15,357)	(1,105)	—	—	(16,462)
Total accumulated depreciation	(40,549)	(2,332)	—	—	(42,881)
Total depreciable capital assets, net	12,910	(2,249)	224	—	10,885
Total capital assets, net	$ 14,991	(2,008)	—	—	12,983

(Continued)

(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, 2022 and 2021, which is accounted for using the equity method of accounting. During the years ended December 31, 2022 and 2021, the District recognized its proportionate share of the Evergreen Radia, LLC's net income, as other operating revenue.

The following represents the summary audited financial information of Evergreen Radia, LLC as of December 31, 2022 and 2021:

		2022	2021
		(In thousands)	
Current assets	$	8,510	5,643
Noncurrent assets, net		7,374	3,096
	$	15,884	8,739
Current liabilities	$	4,086	3,066
Long-term liabilities		6,424	2,274
Equity		5,374	3,399
	$	15,884	8,739
Revenue	$	18,464	17,598
Expenses		14,442	12,976
Net income	$	4,022	4,622

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, 2022 and 2021, which is accounted for using the equity method of accounting. During the years ended December 31, 2022 and 2021, the District recognized its proportionate share of the Eastside Health Alliance, LLC's net loss, as a reduction to other operating revenue.

(Continued)

The following represents the summary unaudited financial information of Eastside Health Alliance, LLC as of December 31, 2022 and 2021:

		2022	2021
		(In thousands)	
Current assets	$	3,931	6,210
Noncurrent assets, net		—	—
	$	3,931	6,210
Current liabilities	$	1,804	5,334
Long-term liabilities		—	—
Equity		2,127	876
	$	3,931	6,210
Revenue	$	8,179	4,460
Expenses		10,824	6,845
Net loss	$	(2,645)	(2,385)

(7) Long-Term Debt and Lease Obligations

(a) Long-Term Debt

Long-term debt consists of the following:

		December 31	
		2022	2021
		(In thousands)	
Limited Tax General Obligation (LTGO) Series 2015 (fixed rate), payable annually through 2031, interest at 3.63% to 5.00%	$	6,245	9,610
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%		34,030	36,790
LTGO Series 2021 (fixed rate), payable annually through 2044, interest at 0.57% to 3.11%		152,175	152,175

(Continued)

	December 31	
	2022	**2021**
	(In thousands)	
Unlimited Tax General Obligation Refunding Bonds (UTGO), Series 2013 (fixed rate), payable semiannually through 2023, interest at 3.00% to 5.00%	$ 7,900	15,425
	260,290	273,940
Plus bond discounts and premiums	10,166	11,376
	270,456	285,316
Less current portion	(14,960)	(13,670)
	$ 255,496	271,646

Long-term debt obligations 2022 and 2021 activity summary for the District is as follows (in thousands):

	January 1, 2022	Additions	Reductions	December 31, 2022	Amounts due within one year
Limited general obligation bonds:					
2015 series	$ 9,610	—	3,365	6,245	3,595
2015 series B	—	—	—	—	—
2020 series – direct borrowing	—	—	—	—	—
2020 series A	59,940	—	—	59,940	—
2020 series B	36,790	—	2,760	34,030	3,015
2021 series	152,175	—	—	152,175	450
Unlimited general obligation bonds:					
2013 series	15,425	—	7,525	7,900	7,900
Total long-term debt	273,940	—	13,650	260,290	14,960
Bond discounts and premiums	11,376	—	1,208	10,168	1,006
Total long-term debt obligations	$ 285,316	—	14,858	270,458	15,966

	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	2,780
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	13,670
Bond discounts and premiums	18,527	—	7,151	11,376	4,045
Total long-term debt obligations	$ 270,462	152,175	137,321	285,316	17,715

A summary of the District future maturities on long-term debt for the next five years and thereafter as of December 31, 2022 for both principal and interest is presented below (in thousands):

	Bonds	
	Principal	Interest
2023	$ 14,960	7,814
2024	5,715	7,193
2025	6,250	7,014
2026	6,705	6,924
2027	7,175	6,818
Amounts due 2028–2032	43,785	31,792
Amounts due 2033–2037	59,430	25,873
Amounts due 2038–2042	74,245	15,677
Amounts due 2043–2047	42,025	2,813
	$ 260,290	111,918

Total unamortized bond discounts and premiums are $10.2 million as of December 31, 2022.

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 bonds 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) Leases

(i) Lessee

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

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

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

Certain leases require the District to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, or other payments based on performance or usage. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Variable lease payments are recognized within other expenses in the statements of revenues, expenses, and changes in net position when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $4.1 million for both years ended December 31, 2022 and 2021.

Right-to-use Leased Assets

A summary of the District's right-to-use leased assets and related accumulated amortization for the years ended December 31, 2022 and 2021 is presented below (in thousands):

	January 1, 2022	Additions	Modifications/ Renewals	Deductions	December 31, 2022
Leased assets:					
Buildings	$ 251,457	7,102	—	—	258,559
Equipment	2,223	—	—	—	2,223
Total leased assets	253,680	7,102	—	—	260,782
Less accumulated amortization:					
Buildings	10,110	10,328	—	—	20,438
Equipment	568	514	—	—	1,082
Total accumulated amortization	10,678	10,842	—	—	21,520
Leased assets, net	$ 243,002	(3,740)	—	—	239,262

	January 1, 2021	Additions	Modifications/ Renewals	Deductions	December 31, 2021
Leased assets:					
Buildings	$ 248,802	6,711	(4,056)	—	251,457
Equipment	2,223	—	—	—	2,223
Total leased assets	251,025	6,711	(4,056)	—	253,680
Less accumulated amortization:					
Buildings	—	10,908	(798)	—	10,110
Equipment	—	568	—	—	568
Total accumulated amortization	—	11,476	(798)	—	10,678
Leased assets, net	$ 251,025	(4,765)	(3,258)	—	243,002

Lease Liabilities

Changes in the District's lease liabilities for the years ended December 31, 2022 and 2021 is presented below (in thousands):

		Beginning balance	Additions	Deductions	Ending balance	Due within one year
Year ended:						
December 31, 2022	$	249,782	7,102	(4,322)	252,562	4,792
December 31, 2021		246,969	6,711	(3,898)	249,782	4,321

Lease Maturities

The following schedule shows future annual lease payments, for the next five years and thereafter, as of December 31, 2022 for both principal and interest (in thousands).

		Leases	
		Principal	Interest
2023	$	4,792	7,728
2024		5,348	7,627
2025		5,851	7,346
2026		6,179	7,059
2027		6,498	6,834
Amounts due 2028–2032		40,446	30,778
Amounts due 2033–2037		46,252	23,996
Amounts due 2038–2042		42,145	17,459
Thereafter		95,051	17,877
	$	252,562	126,704

(ii) *Lessor*

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. For leases with terms greater than 12 months, the District recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term using the District's incremental borrowing rate.

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

Certain leases require the lessee to make variable lease payments related to common area maintenance (CAM) and insurance payments based on performance or usage. Variable payments, other than those that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease receivable and recorded as other operating revenue in the statements of revenue, expenses, and changes in net position.

Revenue from leases for the years ended December 31, 2022 and 2021 are as follows:

		December 31	
		2022	**2021**
		(In thousands)	
Lease revenue	$	4,876	4,876
Interest revenue		1,304	1,414
Total	$	6,180	6,290

The following schedule shows future annual lease receipts, for the next five years and thereafter, as of December 31, 2022 for both principal and interest (in thousands).

		Leases	
		Principal	**Interest**
Year ending December 31:			
2023	$	3,935	1,173
2024		3,134	843
2025		1,863	507
2026		1,521	428
2027		1,568	382
Thereafter		4,938	783
	$	16,959	4,116

(c) Component Unit – EHM

Long-term debt of EHM consist of the following:

		December 31 2022	December 31 2021
Limited Tax General Obligation Refunding Bonds (LTGO) Series 2019 (fixed rate), payable semiannually through 2034, interest at 2.95%	$	14,825	15,665
LTGO Series 2019 (fixed rate), payable semiannually through 2029, interest at 3.25%		4,397	4,949
Capital Lease Obligations (fixed rate), payable monthly including interest at 6.7%, collateralized by equipment		—	29
Total long-term debt		19,222	20,643
Plus bond discounts		(154)	(177)
Less current portion		1,459	1,421
Long-term debt, net of current portion	$	17,609	19,045

Long-term debt 2022 and 2021 activity summary of EHM is as follows (in thousands):

		January 1, 2022	Additions	Reductions	December 31, 2022	Amounts due within one year
LTGO refunding bonds, 2019	$	15,665	—	(840)	14,825	890
LTGO bonds, 2019		4,949	—	(552)	4,397	569
Capital lease obligations		29	—	(29)	—	—
		20,643	—	(1,421)	19,222	1,459
Unamortized discounts 2019 bond		(177)	—	23	(154)	—
Total long-term debt	$	20,466	—	(1,398)	19,068	1,459

(Continued)

		January 1, 2021	Additions	Reductions	December 31, 2021	Amounts due within one year
LTGO refunding bonds, 2019	$	16,460	—	(795)	15,665	840
LTGO bonds, 2019		5,483	—	(534)	4,949	552
PPP Loan Coastal Bank		4,152	—	(4,152)	—	—
Capital lease obligations		114	—	(85)	29	29
		26,209	—	(5,566)	20,643	1,421
Unamortized discounts 2019 bond		(201)	—	24	(177)	—
Total long-term debt	$	26,008	—	(5,542)	20,466	1,421

A summary of EHM's future maturities on long-term debt for the next five years and thereafter as of December 31, 2022 for both principal and interest is presented below (in thousands):

		Principal		Interest
2023	$	1,459		580
2024		1,563		535
2025		1,637		488
2026		1,707		437
2027		1,782		385
2028–2032		7,958		1,129
2033–2036		3,116		140
Total		19,222	$	3,694
Less amount representing net unamortized bond discounts		(154)		
Total	$	19,068		

Total unamortized bond discounts and premiums are $154 thousand as of December 31, 2022.

(Continued)

Right-to-use Leased Assets

Right-to-use leased assets 2022 and 2021 activity summary of EHM is as follows (in thousands):

	January 1, 2022	Additions	Modifications/ Renewals	Deductions	December 31, 2022
Leased assets:					
Buildings	$ 10,027	—	—	—	10,027
Equipment	—	139	—	—	139
Total leased assets	10,027	139	—	—	10,166
Less accumulated amortization:					
Buildings	(687)	(687)	—	—	(1,374)
Equipment	—	(19)	—	—	(19)
Total accumulated amortization	(687)	(706)	—	—	(1,393)
Leased assets, net	$ 9,340	(567)	—	—	8,773

	January 1, 2021	Additions	Modifications/ Renewals	Deductions	December 31, 2021
Leased assets:					
Buildings	$ 10,027	—	—	—	10,027
Equipment	—	—	—	—	—
Total leased assets	10,027	—	—	—	10,027
Less accumulated amortization:					
Buildings	—	(687)	—	—	(687)
Equipment	—	—	—	—	—
Total accumulated amortization	—	(687)	—	—	(687)
Leased assets, net	$ 10,027	(687)	—	—	9,340

Lease Liabilities

Changes in the EHM's lease liabilities for the years ended December 31, 2022 and 2021 is presented below (in thousands):

		Beginning balance	Additions	Deductions	Ending balance	Due within one year
Year ended:						
December 31, 2022	$	9,571	139	(485)	9,225	516
December 31, 2021		10,027	—	(456)	9,571	476

Lease Maturities

The following schedule shows future annual lease payments, for the next five years and in five-year increments thereafter, as of December 31, 2022 for both principal and interest (in thousands):

		Leases	
		Principal	Interest
2023	$	516	311
2024		585	288
2025		618	262
2026		656	231
2027		656	198
Amounts due 2028–2032		3,014	683
Amounts due 2033–2037		2,639	290
Amounts due 2038–2042		541	7
Thereafter		—	—
	$	9,225	2,270

Revenue from leases for the years ended December 31, 2022 and 2021 are as follows (in thousands):

		December 31	
		2022	2021
Lease revenue	$	279	264
Interest revenue		215	223
Total	$	494	487

The following schedule shows future annual lease receipts, for the next five years and thereafter, as of December 31, 2022 for both principal and interest (in thousands):

		Leases	
		Principal	**Interest**
Year ending December 31:			
2023	$	305	207
2024		329	197
2025		355	187
2026		383	176
2027		—	—
Thereafter		—	—
	$	1,372	767

(8) Commitment and Contingencies

(a) 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 below the retention limit 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 $1.3 million and $1.4 million at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the estimated long-term and short-term professional claims liability was $4.9 million and $1.0 million and $5.0 million and $1.4 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 $8.9 million and $7.3 million at December 31, 2022 and 2021, 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.

(b) 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.

(c) 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.

(d) 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.

(9) 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 matching 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 $22.2 million and $21.2 million in 2022 and 2021, respectively. Employee contributions to the benefit plans totaled approximately $39.7 million and $35.0 million in 2022 and 2021, 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, 2022 and 2021, the SERP balance was $1.8 million and $2.8 million, respectively.

(Continued)

(10) 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	
	2022	2021
Non-Government third-party payors	43.3%	43.4%
Medicare	37.1	35.9
Medicaid	11.1	11.5
Patient self-pay	8.5	9.2
	100.0%	100.0%

(11) 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 2022 and 2021, the District’s regular levy request was $0.18 per $1,000 and $0.20 per $1,000 on a total assessed valuation of the property within the District of $116.5 billion and $101.4 billion for a total regular levy of $20.9 million and $19.8 million, respectively. Excess levies totaled $8.3 million in both 2022 and 2021, 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.

(Continued)

(12) 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, 2022			
	Combined entities	Eliminations/ reclassifications	District	Foundation
	(In thousands)			
Assets:				
Current assets:				
Total current assets	$ 240,969	(1,044)	232,439	9,574
Noncurrent assets:				
Total other assets	221,127	—	215,925	5,202
Capital assets, net	354,455	—	354,455	—
Right-to-use leased assets	239,262	—	239,262	—
Total assets	1,055,813	(1,044)	1,042,081	14,776
Deferred outflows of resources	6,966	—	6,966	—
Total assets and deferred outflows of resources	$ 1,062,779	(1,044)	1,049,047	14,776
Liabilities:				
Total current liabilities	$ 144,210	(1,044)	144,105	1,149
Total noncurrent liabilities	517,400	—	517,400	—
Total liabilities	661,610	(1,044)	661,505	1,149
Deferred inflows of resources related to leases	38,945	—	38,945	—
Net position:				
Invested in capital assets, net of related debt	101,772	—	101,772	—
Restricted:				
Expendable	10,440	—	306	10,134
Nonexpendable	2,741	—	761	1,980
Unrestricted	247,271	—	245,758	1,513
Total net position	362,224	—	348,597	13,627
Total liabilities and net position	$ 1,062,779	(1,044)	1,049,047	14,776

(Continued)

	Statement of net position – December 31, 2021			
	Combined entities	**Eliminations/ reclassifications**	**District**	**Foundation**
		(In thousands)		
Assets:				
Current assets:				
Total current assets	$ 227,660	(1,501)	219,634	9,527
Noncurrent assets:				
Total other assets	379,046	—	374,214	4,832
Capital assets, net	323,062	—	323,062	—
Right-to-use leased assets	243,002	—	243,002	—
Total assets	1,172,770	(1,501)	1,159,912	14,359
Deferred outflows of resources	8,184	—	8,184	—
Total assets and deferred outflows of resources	$ 1,180,954	(1,501)	1,168,096	14,359
Liabilities:				
Total current liabilities	$ 147,391	(1,501)	147,338	1,554
Total noncurrent liabilities	538,044	—	538,044	—
Total liabilities	685,435	(1,501)	685,382	1,554
Deferred inflows of resources related to leases	43,821	—	43,821	—
Net position:				
Invested in capital assets, net of related debt	108,145	—	108,145	—
Restricted:				
Expendable	10,473	—	1,054	9,419
Nonexpendable	2,377	—	403	1,974
Unrestricted	330,703	—	329,291	1,412
Total net position	451,698	—	438,893	12,805
Total liabilities and net position	$ 1,180,954	(1,501)	1,168,096	14,359

	Statement of revenue, expenses, and changes in net position – year ended December 31, 2022		
	Combined entities	District	Foundation
		(In thousands)	
Revenue:			
Operating revenue:			
Net patient service revenue	$ 789,305	789,305	—
Other operating revenue	45,393	40,563	4,830
Total operating revenue	834,698	829,868	4,830
Expenses:			
Operating expenses:			
Other operating expenses	886,969	882,110	4,859
Depreciation and amortization	50,519	50,519	—
Total operating expenses	937,488	932,629	4,859
Excess (deficit) of revenue over expenses from operations	(102,790)	(102,761)	(29)
Nonoperating income, net of expenses:			
Property taxes	28,609	28,609	—
Interest and amortization expense	(15,301)	(15,301)	—
Other nonoperating revenue	(2,118)	(1,585)	(533)
Net nonoperating income	11,190	11,723	(533)
Excess of revenue over expenses	(91,600)	(91,038)	(562)
Capital grants and contributions	2,126	742	1,384
Total change in net position	(89,474)	(90,296)	822
Net position, beginning of year	451,698	438,893	12,805
Net position, end of year	$ 362,224	348,597	13,627

(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	52,171	46,819	5,352
Total operating revenue	820,704	815,352	5,352
Expenses:			
Operating expenses:			
Other operating expenses	783,545	776,846	6,699
Depreciation and amortization	47,710	47,710	—
Total operating expenses	831,255	824,556	6,699
Excess (deficit) of revenue over expenses from operations	(10,551)	(9,204)	(1,347)
Nonoperating income, net of expenses:			
Property taxes	27,968	27,968	—
Interest and amortization expense	(15,095)	(15,095)	—
Other nonoperating revenue	5,308	4,550	758
Net nonoperating income	18,181	17,423	758
Excess of revenue over expenses	7,630	8,219	(589)
Capital grants and contributions	3,380	1,986	1,394
Total change in net position	11,010	10,205	805
Net position, beginning of year	440,688	428,688	12,000
Net position, end of year	$ 451,698	438,893	12,805

(Continued)

	Statement of cash flows – year ended December 31, 2022		
	Combined entities	District	Foundation
		(In thousands)	
Net cash provided by (used in):			
Operating activities	$ (106,217)	(106,679)	462
Noncapital financing activities	9,771	9,763	8
Capital and related financing activities	(83,931)	(83,931)	—
Investing activities	158,014	160,247	(2,233)
Net increase in cash and cash equivalents	(22,363)	(20,600)	(1,763)
Cash and cash equivalents, beginning of year	70,149	63,921	6,228
Cash and cash equivalents, end of year	$ 47,786	43,321	4,465

	Statement of cash flows – year ended December 31, 2021		
	Combined entities	District	Foundation
		(In thousands)	
Net cash provided by (used in):			
Operating activities	$ 10,923	10,517	406
Noncapital financing activities	13,038	13,031	7
Capital and related financing activities	(40,859)	(40,859)	—
Investing activities	3,199	2,418	781
Net increase in cash and cash equivalents	(13,699)	(14,893)	1,194
Cash and cash equivalents, beginning of year	83,848	78,814	5,034
Cash and cash equivalents, end of year	$ 70,149	63,921	6,228

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

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

The Board of Commissioners
King County Public Hospital 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, 2022, 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 24, 2023.

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 24, 2023

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

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

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

Report on Compliance for Each Major Federal Program

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, 2022. 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, 2022.

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.

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 of the District and its discretely presented component unit as of and for the year ended December 31, 2022 and have issued our report thereon dated May 24, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Seattle, Washington
August 16, 2023

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

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal AL, grant, or contract number	Subaward numbers	Federal grantor/pass-through grantor/program title		Passed through to subrecipients	2022 Federal expenditures
		U.S. Department of Health and Human Services:			
		Direct award:			
93.498		COVID-19 Provider Relief Funds	$	—	3,551,871
93.498		COVID-19 Provider Relief Funds – EvergreenHealth Monroe (EHM)		—	291,272
				—	3,843,143
		Pass through from the University of California Los Angeles:			
93.855	2UM1AI068636-15	Allergy and Infectious Disease Research		—	192,702
		Total U.S. Department of Health and Human Services		—	4,035,845
		Federal Emergency Management Agency:			
		Direct award:			
97.036		COVID-19 Disaster Grants – Public Assistance (presidentially declared disasters)		—	5,819,147
		U.S. Department of Treasury:			
		Pass through from Washington State Health Care Authority:			
21.027		COVID-19 State and Local Fiscal Recovery Funds		—	209,946
21.027		COVID-19 State and Local Fiscal Recovery Funds – EHM		—	99,724
		Total U.S. Department of Treasury		—	309,670
		Total expenditures of federal awards	$	—	10,164,662

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, 2022

(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, 2022. 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, 2022, the District did not receive donated personal protective equipment from various governmental entities.

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

Schedule of Findings and Questioned Costs

Year ended December 31, 2022

(1) Summary of Auditors' Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major Programs:

- COVID-19 Provider Relief Funds – 93.498
- COVID-19 Disaster Grants – Public Assistance (Presidentially Declared Disasters) – 97.036

(h) Dollar threshold used to distinguish between Type A and Type B Programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **Yes**

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

None

(3) Federal Award Findings and Questioned Costs

None

EvergreenHealth
Schedule of Prior Audit Findings
Year ended December 31, 2022
Contact: Daria Heimerman, Director of Financial Reporting
dtheimerman@evergreenhealthcare.org

Finding 2021-001

AL #: 93.498 – Provider Relief Fund

Statement of Condition: For the 2021 reporting period, EvergreenHealth filed under Option II – 2020 Budgeted when calculating lost revenues to apply the Provider Relief Funds. EvergreenHealth should have filed under Option III – Alternative Method for Calculating Lost Revenues Attributable to Coronavirus.

Actions Taken: Per the Corrective Action Plan submitted and approved by HRSA, EvergreenHealth submits reports under Option III.

Status: Fully Corrected

evergreenhealth.com

12040 NE 128th Street
Kirkland, WA 98034-3098

Phone
425 . 899 . 1000