



**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

Financial Statements

December 31, 2024 and 2023

(With Independent Auditors' Report Thereon)

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

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## Independent Auditors' Report

The Board of Commissioners  
King County Public Hospital District No. 2, dba: 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, dba: EvergreenHealth (the District), as of and for the years ended December 31, 2024 and 2023, 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, 2024 and 2023, 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). 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.

#### *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 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, 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<sup>5</sup> of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*KPMG LLP*

Seattle, Washington  
May 21, 2025

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2024 and 2023

(Unaudited)

This discussion and analysis of King County Public Hospital District No. 2, d/b/a EvergreenHealth (the District) provides an overview of the District's financial activities and financial position for the years ended December 31, 2024 and 2023. 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 services provided to 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 354 licensed beds and a 15-bed freestanding inpatient hospice care center.

<u>Type of beds</u>	<u>Number of beds</u>	<u>License category</u>
Critical care	56	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	<u>354</u>	
Hospice Care Center	15	Hospice

The Medical Center is accredited by the Joint Commission, a nonprofit organization that accredits more than 22,000 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 86 and 76 primary care providers in 2024 and 2023, respectively, and 325 and 316 specialty care providers in 2024 and 2023, respectively. Since 1972, the District's patient and family centered care philosophy, combined with its commitment to advancing medical solutions, has enabled the District to focus on providing excellent patient care.

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

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**Utilization Statistics**

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

Utilization statistics	2024	2023	2022
Hospital Acute Licensed Care beds	354	354	318
Hospice Care Center Licensed beds	15	15	15
Acute care admissions	17,324	16,418	15,400
Acute care adjusted admissions*	43,997	40,541	37,120
Acute care patient days	76,932	78,228	73,661
Acute care adjusted patient days*	234,585	195,691	203,273
Acute care average length of stay	4.7	5.0	5.0
Occupancy (based on acute care licensed beds)	59.5 %	60.5 %	63.5 %
Observation days	1,335	1,921	3,684
Inpatient surgeries	2,448	2,662	1,973
Outpatient surgeries	14,538	15,140	13,569
Home health episodes and admissions	13,474	12,435	11,347
Home Hospice program days	187,237	191,161	188,543
Emergency room visits	61,364	60,336	62,462
Urgent care wRVUs	170,815	162,204	158,300
Primary care wRVUs	538,774	501,176	457,656
Specialty care wRVUs	1,237,990	1,487,979	1,284,404

\* *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:

- **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

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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 4.0% and surgery counts increased 4.6% when compared to 2023. The District has continued working to manage its operating costs in line with volumes. Labor, including benefits, is the most significant operating cost for the District, representing approximately 68% 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 2024, the District continued to offer Nurse Tech roles, the Registered Nurse (RN) Residency program, and expanded its New to Specialty programs. A decrease in the RN turnover rate from 12.8% in 2023 to 11.5% in 2024, along with a significant reduction in the RN vacancy rate from 8.7% in 2023 to 4.7% in 2024, led to a substantial decrease in reliance on RN agency/traveler personnel. Labor shortages persisted for various other positions, and the District continued to experience high patient volumes. To address labor market demands for more flexible work schedules, the District introduced additional self-scheduling and part-time opportunities for staff. 47.5% of the District's 5,267 employees are members of one of four labor unions. The Washington State Nursing Association (WSNA), which represents approximately 1,236 Registered Nurses, is currently in negotiations with EvergreenHealth for the contract that expired October 31, 2024. Negotiations are expected to be completed in the summer of 2025. The United Food and Commercial Workers (UFCW) union, which represents approximately 214 professional/technical employees, last negotiated its labor contract in 2024 and is scheduled to negotiate in 2026. The International Union of Operating Engineers (IUOE), which represents approximately 23 facilities/grounds 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 926 service employees and about 103 social workers/chaplains, last negotiated in 2022 and is next scheduled to negotiate in the fall of 2025.
- **Contracting/Risk Sharing Arrangements:** The District has six pay for performance contracts in effect as of 2024 with payors; three for the Medical Center and three for the EvergreenHealth Medical Group, a physician led, physician designed group of more than 350 primary care doctors and specialists. Via the Eastside Health Network, EvergreenHealth participates in an additional seven 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.

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- **Partnerships:** During 2024 and 2023, the District continued to develop its strategic alliances with Fred Hutchinson Cancer Center (formerly Seattle Cancer Care Alliance), EvergreenHealth Monroe (EHM) and Overlake Medical Center and Clinics (Overlake).

*Overlake Medical Center* – In 2016, the Boards of the District and 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 1,577 cancer cases in 2024, an increase of 174 cases over 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 provision for uncollectible accounts. Management will continue evaluating its response to various healthcare reform components as they develop.

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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 2024 population within the District's boundaries is estimated to be 348,424. The population is projected to grow 3% over the next five years and reach 358,772 in 2029 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 May 2024 includes facility and service expansions based on projected needs.

### **2024 Highlights**

#### **Governance and Leadership**

- Robin Campbell appointed to King County PHD #2 Board of Commissioners
- Suzanne Greathouse appointed to King County PHD #2 Board of Commissioners
- William Howe joins as the new Chief Financial Officer

#### **Initiated or Completed Projects**

- Ears, Nose and Throat clinic opened in Issaquah
- Ears, Nose and Throat + Head and Neck Surgery Care opened in Monroe
- Vaccination Clinic opened in Kirkland
- Launched a specialty hospitalist program, including General Surgery, Orthopedic Surgery, Neurosurgery and Urology
- Pediatric joint venture initiated with a nationally recognized pediatric health system.
- Group video visits launched for Weight Loss & Bariatrics Care
- Spring Health Employee Assistance program implemented
- New Campus Master Facility Plan approved by the City of Kirkland
- Self-registration kiosks launched in select locations with further expansion scheduled in 2025
- Paperless statements launched
- Ambient voice recognition launched reducing time providers spend charting

#### **Recognition and Awards**

- Received DNV Certification as an Orthopedic Surgery Center of Excellence (the only certification in the Puget Sound Area)
- Recognized for excellence in lactation care by the International Board of Lactation Consultant Examiners® (IBLCE®) and International Lactation Consultant Association® (ILCA®). EvergreenHealth is the only hospital in Washington state to receive this recognition

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- Recognized by Healthgrades as America's 50 Best Hospitals for the fourth year in a row, placing EvergreenHealth in the top 1% of hospitals for clinical excellence
- Recognized by Healthgrades as America's 100 Best Hospitals for Gastrointestinal Care (GI)
- Recognized by Healthgrades as ranking #1 in the State of Washington for GI Medical Care and GI Care
- Rated 5-Star Hospital for the 9th consecutive year by Centers for Medicare & Medicaid Services (CMS)
- Achieved Bronze recognition in the American Medical Association's 2024 Joy of Medicine™ Health System Recognition Program
- Achieved 12 consecutive 'A' Hospital Safety Grades from The Leapfrog Group
- Received the American Heart Association 2024 Get with the Guidelines Gold Plus Stroke Award

### 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, 2024 and 2023 and the results of its operations for the years ended December 31, 2024 and 2023 are included with the District in a separate column for financial statement presentation purposes (see further discussion at note 1 to the financial statements).

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

**Summary of Statements of Net Position**

(In thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 79,983	89,012	47,786
Patient accounts receivable, less allowance for uncollectible accounts	126,452	135,084	150,099
Other current assets	<u>45,393</u>	<u>51,877</u>	<u>43,084</u>
Total current assets	251,828	275,973	240,969
Assets limited as to use, less current portion of amounts required for current liabilities	184,412	92,132	154,380
Capital assets, net	308,812	339,688	354,455
Right-to-use leased and subscription IT (SBITA) assets	238,948	253,206	264,403
Other assets	<u>50,685</u>	<u>60,369</u>	<u>66,746</u>
Total assets	1,034,685	1,021,368	1,080,953
Deferred outflows of resource:			
Deferred loss on refunding	<u>5,188</u>	<u>6,051</u>	<u>6,966</u>
Total assets and deferred outflows of resources	<u>\$ 1,039,873</u>	<u>1,027,419</u>	<u>1,087,919</u>

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(d/b/a EvergreenHealth)

Management's Discussion and Analysis

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(Unaudited)

**Summary of Statements of Net Position**

(In thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Current portion of long-term debt	\$ 6,250	5,715	14,960
Current portion of lease and SBITA liabilities	14,701	13,445	11,941
Other current liabilities	<u>153,503</u>	<u>136,891</u>	<u>129,479</u>
Total current liabilities	174,454	156,051	156,380
Long-term debt	284,771	248,776	255,496
Long-term portion of lease and SBITA liabilities	250,321	260,619	265,966
Other long-term liabilities	<u>10,649</u>	<u>34,482</u>	<u>14,134</u>
Total liabilities	<u>720,195</u>	<u>699,928</u>	<u>691,976</u>
Total deferred inflows of resources related to leases	\$ 21,284	31,928	38,945
Net position:			
Invested in capital assets, net of related debt	16,557	43,773	81,080
Restricted	10,779	11,247	12,720
Unrestricted	<u>271,058</u>	<u>240,543</u>	<u>263,198</u>
Total net position	298,394	295,563	356,998
Total liabilities, deferred inflows, and net position	<u>\$ 1,039,873</u>	<u>1,027,419</u>	<u>1,087,919</u>

*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

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Partners, and multiplying by 365 days, then dividing the amount by total operating expenses less annual depreciation.

<b>Key ratios</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>
Current ratio	1.4	1.8	1.3
Days in AR (net)	45.2	54.1	65.6
Days cash on hand	97.6	63.9	73.0

Total current assets were \$251.8 million as of December 31, 2024 compared to \$276.0 million as of December 31, 2023.

Current assets in 2024 decreased by \$24.1 million compared to 2023 primarily due to a decrease in accounts receivable and transfers to investments. Adjusted days cash on hand increased to 97.6 days.

Current assets in 2023 increased by \$35.0 million compared to 2022 primarily due to an increase in cash related to Federal Emergency Management Agency (FEMA) reimbursement and a decrease in accounts receivable. Adjusted days cash on hand decreased to 63.9 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 \$782.9 million as of December 31, 2024 compared to \$745.4 million as of December 31, 2023.

Capital assets, net of accumulated depreciation decreased approximately \$30.9 million from 2023 to 2024 and decreased \$14.8 million from 2022 to 2023. The District continues to devote resources for capital projects and improvements, including significant components of the master facility plan. During 2024 and 2023, the District invested approximately \$13.1 million and \$34.4 million, respectively, in buildings, information technology, and equipment.

Right-to-use (RTU) leased assets and Subscription Based Information Technology Arrangements (SBITAs) decreased approximately \$14.3 million in 2024 compared to 2023. This was primarily due to routine amortization of these assets. RTU leased assets decreased approximately \$11.2 million in 2023 compared to 2022. This was primarily due to routine amortization of these assets.

Restricted and board-designated cash and investments increased approximately \$92.3 million from 2023 to 2024. The increase in the current year is primarily due to \$25.0 million of the 2024 Limited Tax General Obligation (LTGO) unspent bond proceeds to be used for capital improvements to the District's healthcare facilities, in accordance with the long-term master facility plan, and \$64.5 million in transfers from investments to the general cash account. Restricted and board-designated cash and investments decreased approximately \$61.4 million from 2022 to 2023. The decrease from 2022 to 2023 is primarily due to \$6.0 million of the 2020A LTGO bonds used for capital improvements to the District's healthcare facilities, in accordance with the

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long-term master facility plan, spending of approximately \$10.2 million for Epic EMR capital and \$50.0 million in transfers from investments to the general cash account.

### *Current Liabilities*

Current liabilities consist of accounts payable, accrued compensation and other liabilities that are expected to be paid within one year, including current portion of long-term debt, leases and SBITAs, and professional liabilities. Total current liabilities were \$174.5 million as of December 31, 2024 compared to \$156.1 million as of December 31, 2023.

Current liabilities increased approximately \$18.4 million from 2023 to 2024 and increased approximately \$329 thousand from 2022 to 2023. The increase from 2023 to 2024 was primarily due to a legal judgement becoming current. Accounts payable and accrued expenses decreased \$6.1 million from 2023 to 2024. Accounts payable and accrued expenses increased \$2.6 million from 2022 to 2023.

### *Noncurrent Liabilities*

Noncurrent liabilities consist of long-term debt, lease and SBITA obligations, and professional liability reserves. Total noncurrent liabilities were \$545.7 million as of December 31, 2024 compared to \$543.9 million as of December 31, 2023.

Noncurrent liabilities increased approximately \$1.8 million from 2023 to 2024 primarily due to the issuance of the 2024 LTGO, offset by an unfavorable legal judgement becoming current and scheduled debt payments..

Noncurrent liabilities increased approximately \$8.3 million from 2022 to 2023 primarily due to a legal judgment liability, partially offset by debt and lease payments in accordance with the established debt service schedules.

### **Net Position**

The increase in net position from 2023 to 2024 was driven by 2024 net income and investments in capital assets, 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 \$27.2 million, or 62%, from 2023 to 2024 and decreased approximately \$15.4 million, or 19%, from 2022 to 2023. The current year decrease is primarily attributable to the issuance of the 2024 LTGO bond. The decrease from 2022 to 2023 was primarily attributable to scheduled debt payments.

Restricted net position (expendable and nonexpendable) increased approximately \$468 thousand from 2023 to 2024 and decreased approximately \$1.5 million from 2022 to 2023, 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, increased approximately \$30.5 million, or 13%, from 2023 to 2024 and decreased approximately \$22.6 million, or 9%, from 2022 to 2023. The increase from 2023 to 2024 primarily relates to the net gain derived from increased operating revenue as discussed in the following pages.

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The decrease from 2022 to 2023 primarily relates to the net loss derived from increased operating expenses as discussed in the following pages.

**Summary of Revenue, Expenses, and Changes in Net Position**

(In thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating revenue:			
Net patient service revenue	\$ 958,743	858,922	789,305
Other operating revenue	<u>61,727</u>	<u>52,430</u>	<u>46,216</u>
Total operating revenue	<u>1,020,470</u>	<u>911,352</u>	<u>835,521</u>
Operating expenses:			
Labor and employee benefits	711,556	681,403	625,300
Supplies, purchased services, and other	277,332	275,539	257,251
Depreciation and amortization	<u>61,695</u>	<u>62,653</u>	<u>55,795</u>
Total operating expenses	<u>1,050,583</u>	<u>1,019,595</u>	<u>938,346</u>
Deficit of revenue over expenses from operations	<u>(30,113)</u>	<u>(108,243)</u>	<u>(102,825)</u>

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2024 and 2023

(Unaudited)

**Summary of Revenue, Expenses, and Changes in Net Position**

(In thousands)

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Nonoperating income, net of expenses:			
Property taxes	\$ 21,151	29,029	28,609
Interest and amortization expense	(17,888)	(15,025)	(15,801)
Investment income (loss)	9,394	6,065	(5,571)
Federal Funding	18,662	28,861	3,529
Other, net	5	(6,125)	(76)
Total net nonoperating income, net of expenses	<u>31,324</u>	<u>42,805</u>	<u>10,690</u>
Excess (Deficit) of revenue over expenses	1,211	(65,438)	(92,135)
Capital grants and contributions	<u>1,620</u>	<u>4,003</u>	<u>2,126</u>
Total change in net position	2,831	(61,435)	(90,009)
Net position, beginning of year	295,563	356,998	451,698
Cumulative effect of accounting change	<u>—</u>	<u>—</u>	<u>(4,691)</u>
Net position, end of year	<u>\$ 298,394</u>	<u>295,563</u>	<u>356,998</u>

*Operating 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 2024, gross patient revenue increased by approximately \$295.9 million or 12.0%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue increased \$93.7 million or 9.4% and total outpatient revenue increased \$202.2 million or 13.9%. Total outpatient surgery cases decreased 4.0% and inpatient surgery cases decreased 8.0%. Overall total surgery cases decreased 4.6%. Deliveries increased 2.2% and patient days in the NICU increased 11.7%. ED visits in the main hospital and in Redmond increased 2.1% and decreased 0.1%, respectively. Total average length of stay (excluding NICU) decreased to 4.7 days in 2024 compared to 5.0 days in 2023.

In 2023, gross patient revenue increased by approximately \$224.8 million or 10.1%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue increased \$88.2 million or 1.0% and total outpatient revenue increased \$136.6 million or 10.3%. Total outpatient surgery cases increased 11.6% and inpatient surgery cases increased 34.9%. Overall total surgery cases increased 11.6%. Deliveries decreased

## KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2024 and 2023

(Unaudited)

1.8% and patient days in the NICU decreased 7.9%. ED visits in the main hospital and in Redmond decreased 1.8% and 9.3%, respectively. Total average length of stay (excluding NICU) remained consistent at 5.0 days in 2023 and 2022.

The following table sets forth the percentage mix of the District's gross patient for the fiscal years ended December 31, 2024, 2023, and 2022.

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Non-Government third-party payors	44.6%	44.2%	45.1%
Medicare	45.2	45.2	44.0
Medicaid	9.1	9.6	9.8
Patient self-pay	1.1	1.0	1.1

In 2024, net patient service revenue increased by approximately \$99.8 million or 11.6%. Net patient revenue consists of gross patient revenue less contractual adjustments, provision for uncollectible accounts, administrative adjustments and charity care. This increase was driven by increased volumes compared to the prior year. Other operating revenue increased by approximately \$9.3 million, or 17.7%, primarily due to increases in Pharmacy revenue, research study fees, and Foundation revenues.

In 2023, net patient service revenue increased by approximately \$69.6 million or 8.8%. This increase was driven by increased volumes compared to the prior year. Other operating revenue increased by approximately \$6.2 million, or 13.4%, primarily due to revenue associated with joint ventures.

### *Operating Expenses*

Labor, including contract labor, increased approximately \$25.4 million, or 4.6%, and increased \$33.2 million, or 6.4%, in 2024 and 2023, respectively. The District's average employed and contracted full-time equivalents increased 0.7% to 4,263 as of December 31, 2024 compared to 4,235 as of December 31, 2023. The 2023 increase is primarily due to increased volumes and employee salary increases as well as premium pay related to contract labor and employee overtime primarily due to labor shortages.

Employee benefit expenses increased \$4.8 million, or 3.7%, and \$22.9 million, or 21.3%, in 2024 and 2023, respectively. These increases were primarily due to increased number of full-time equivalent employees, medical insurance plan, social security, unemployment and paid time off costs.

Supplies, professional fees, purchased services, repairs and maintenance services, and other operating expenses increased approximately \$1.8 million, or 0.7%, and \$18.3 million, or 7.1%, in 2024 and 2023, respectively. The 2024 increase is attributed to increased medical supply and purchased services costs, offset by a decrease in other operating expenses. The 2023 increase is due to increased medical supply costs and an unfavorable legal judgement.

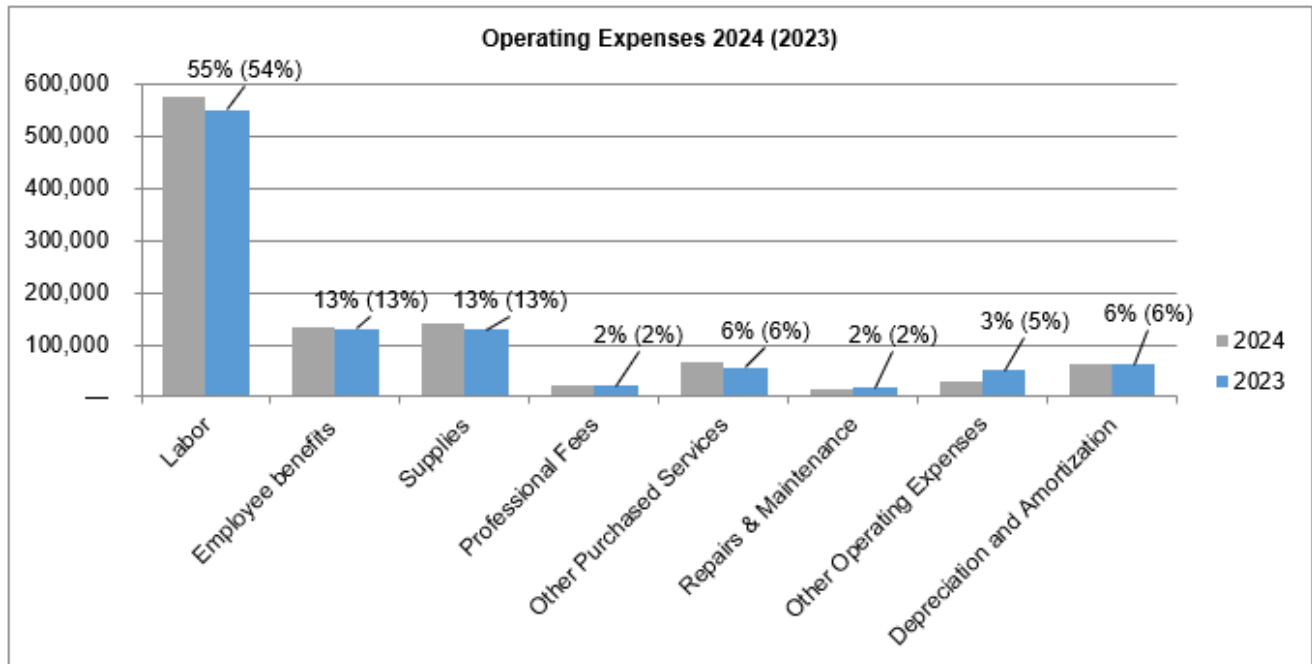
**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**  
(d/b/a EvergreenHealth)

Management's Discussion and Analysis

December 31, 2024 and 2023

(Unaudited)

Total operating expenses in years 2024 and 2023 of \$1,050.6 million and \$1,019.6 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 2024, nonoperating income, net of expenses decreased from \$42.8 million in 2023 to \$31.3 million in 2024. The decrease is primarily due to less FEMA funding received in 2024 compared to 2023.

In 2023, nonoperating income, net of expenses increased \$32.1 million, from \$10.7 million in 2022 to \$42.8 million in 2023. The increase is primarily due to the recognition of \$28 million of FEMA reimbursements, offset by a \$6.0 million disposal of a legacy EMR system in 2023.

**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, 2024 and 2023

(In thousands)

Assets	2024		2023	
	District	Discrete Component Unit EHM	District	Discrete Component Unit EHM
Current assets:				
Cash and cash equivalents	\$ 79,983	28,350	89,012	11,514
Current portion board-designated assets	730	261	1,275	277
Current portion of assets restricted as to use	781	—	892	—
Patient accounts receivable, less allowance for uncollectible accounts of \$11,663 (District) and \$2,624 (EHM) in 2024 and \$22,910 (District) and \$5,393 (EHM) in 2023, respectively	126,452	9,785	135,084	12,108
Inventory	9,202	900	8,404	911
Prepaid expenses and other current assets	28,652	670	34,542	828
Third-party payor receivable	6,028	2,001	6,764	300
Total current assets	<u>251,828</u>	<u>41,967</u>	<u>275,973</u>	<u>25,938</u>
Assets limited as to use, less current portion of amounts required for current liabilities:				
Board-designated cash and investments	180,569	—	87,572	—
Restricted cash and investments	3,843	—	4,560	—
	<u>184,412</u>	<u>—</u>	<u>92,132</u>	<u>—</u>
Capital assets:				
Land	4,914	1,879	4,914	1,879
Construction in progress	7,846	1,443	6,090	1,653
Depreciable capital assets, net of accumulated depreciation	296,052	10,908	328,684	8,609
Total capital assets, net	<u>308,812</u>	<u>14,230</u>	<u>339,688</u>	<u>12,141</u>
Right-to-use leased assets and SBITAs	238,948	7,434	253,206	8,166
Other assets	50,685	6,033	60,369	6,389
Total assets	<u>1,034,685</u>	<u>69,664</u>	<u>1,021,368</u>	<u>52,634</u>
Total deferred outflows of resources related to loss on refunding	5,188	—	6,051	—
Total assets and deferred outflows of resources	<u>\$ 1,039,873</u>	<u>69,664</u>	<u>1,027,419</u>	<u>52,634</u>

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

Statements of Net Position

December 31, 2024 and 2023

(In thousands)

Liabilities and Net Position	2024		2023	
	District	Discrete Component Unit EHM	District	Discrete Component Unit EHM
Current liabilities:				
Accounts payable and accrued expenses	\$ 60,527	2,675	66,606	3,372
Accrued compensation and related liabilities	73,646	3,644	58,651	3,083
Accrued interest payable	754	41	599	45
Current portion of lease and SBITA obligations	14,701	624	13,445	589
Current portion of long-term debt	6,250	1,637	5,715	1,563
Third-party payor payable	11,986	—	5,471	—
Estimated current portion of professional liability	2,158	—	1,635	—
Other current liabilities	4,432	1,249	3,929	886
Total current liabilities	174,454	9,870	156,051	9,538
Long-term estimated professional liability	7,342	—	6,523	—
Other noncurrent liabilities	3,307	—	27,959	—
Long-term lease and SBITA obligations, net of current portion	250,321	7,614	260,619	8,238
Long-term debt, net of current portion	284,771	14,451	248,776	16,068
Total liabilities	720,195	31,935	699,928	33,844
Total deferred inflows of resources related to leases	21,284	5,674	31,928	6,147
Net position:				
Investment in capital assets, net of related debt	16,557	(2,663)	43,773	(6,151)
Restricted:				
Expendable for specific activities	8,277	—	8,165	—
Expendable for debt service	634	222	637	214
Nonexpendable permanent endowments	1,868	—	2,445	—
Unrestricted	271,058	34,496	240,543	18,580
Total net position	298,394	32,055	295,563	12,643
Total liabilities, deferred inflows of resources, and net position	\$ 1,039,873	69,664	1,027,419	52,634

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended December 31, 2024 and 2023

(In thousands)

	2024		2023	
	District	Discrete Component Unit EHM	District	Discrete Component Unit EHM
Operating Revenue:				
Net patient service revenue (net of provision for uncollectible accounts) of \$28,960 (District) and \$8,475 (EHM) in 2024 and \$31,826 (District) and \$8,576 (EHM) in 2023, respectively	\$ 958,743	71,344	858,922	56,918
Other operating revenue	61,727	2,877	52,430	1,760
Total operating revenue	1,020,470	74,221	911,352	58,678
Expenses:				
Labor	576,513	26,150	551,154	26,280
Employee benefits	135,043	6,904	130,249	6,022
Supplies	141,511	7,444	129,523	7,639
Professional fees	23,750	1,754	20,516	2,120
Other purchased services	67,725	13,616	56,764	10,988
Repairs and maintenance	16,264	995	17,593	964
Other operating expenses	28,082	2,187	51,143	1,667
Depreciation and amortization	61,695	2,697	62,653	2,772
Total operating expenses	1,050,583	61,747	1,019,595	58,452
(Deficit) excess of revenue over expenses from operations	(30,113)	12,474	(108,243)	226
Nonoperating income, net of expenses:				
Property taxes	21,151	5,330	29,029	5,214
Interest and amortization expense	(17,888)	(704)	(15,025)	(755)
Investment income (loss)	9,394	376	6,065	—
Federal funding	18,662	1,577	28,861	1,307
Other, net	5	(4)	(6,125)	—
Total nonoperating income, net of expenses	31,324	6,575	42,805	5,766
Excess (deficit) of revenue over expenses	1,211	19,049	(65,438)	5,992
Capital grants and contributions	1,620	363	4,003	349
Total change in net position	2,831	19,412	(61,435)	6,341
Net position, beginning of year	295,563	12,643	356,998	6,302
Net position, end of year	\$ 298,394	32,055	295,563	12,643

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2024 and 2023

(In thousands)

	<b>2024</b>	<b>2023</b>
Cash flows from operating activities:		
Cash received from and on behalf of patients	\$ 969,250	884,196
Payments to suppliers and contractors	(305,627)	(257,518)
Payments to employees	(696,560)	(676,000)
Distributions received from (provided to) joint ventures	1,520	(1,985)
Other cash receipts	72,512	45,518
Net payments provided by (used in) operating activities	41,095	(5,789)
Cash flows from noncapital financing activities:		
Property taxes received for community programs	6,783	6,424
Cash received from Federal funding	18,662	28,861
Net cash provided by noncapital financing activities	25,445	35,285
Cash flows from capital and related financing activities:		
Purchases of capital assets	(13,127)	(34,445)
Proceeds from issuance of long-term debt	39,605	—
Proceeds from premium on refunding bonds	3,583	—
Payment of debt issuance costs	(593)	—
Principal payments on long-term debt	(5,715)	(14,960)
Principal payments on lease obligations and SBITAs	(14,224)	(13,736)
Payments for interest on long-term debt, lease, and SBITA	(17,294)	(16,323)
Proceeds from property taxes related to debt service	14,368	22,605
Net cash provided by (used in) capital and related financing activities	6,603	(56,859)
Cash flows from investing activities:		
Purchases of board-designated assets and assets restricted as to use	(106,819)	(108,667)
Proceeds from sale of board-designated assets and assets restricted as to use	15,195	170,035
Investment gain	9,452	7,221
Net cash (used in) provided by investing activities	(82,172)	68,589
Net (decrease) increase in cash, cash equivalents and restricted deposits	(9,029)	41,226
Cash, cash equivalents and restricted deposits, beginning of year	89,012	47,786
Cash, cash equivalents and restricted deposits, end of year	\$ 79,983	89,012

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

## Statements of Cash Flows

Years ended December 31, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Reconciliation of deficit of revenue over expenses from operations to net cash used in operating activities:		
Deficit of revenue over expenses from operations	\$ (30,113)	(108,243)
Adjustments to reconcile deficit of revenue over expenses from operations to net cash used in operating activities:		
Depreciation and amortization	61,695	62,653
Provision for bad debts	28,960	31,826
Other	(2,788)	2,396
Changes in operating assets and liabilities:		
Patient accounts receivable, less provision for bad debt	(20,328)	(16,810)
Inventory	(798)	(599)
Prepaid expenses and other assets	(6,605)	(2,535)
Accounts payable and accrued expenses, net of amounts related to construction in progress	(12,518)	7,158
Accrued compensation and related liabilities	14,997	5,403
Third-party payor settlements, net	7,251	(2,001)
Professional liability and other liabilities	1,342	14,963
Net cash used in operating activities	<u>\$ 41,095</u>	<u>(5,789)</u>
Supplemental disclosures of noncash investing, capital, and financing activities:		
Change in capital asset additions included in accounts payable and accrued expenses	\$ (2,948)	4,055
Capital asset additions acquired by lease and SBITA	6,051	8,448
Gain (loss) on disposition of capital assets	(4)	6,046
Donated capital assets	1,620	4,003

See accompanying notes to financial statements.

## KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

### (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, 2024 and 2023, the Foundation raised approximately \$7.4 million and \$3.6 million, respectively, in contributions (included in other operating revenue) and its assets comprise 2.0% and 1.3% of total assets of the District in 2024 and 2023, 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 Chief Executive Officer.

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.evergreenhealth.com/about-us/governance-and-leadership/monroe-board-commissioners/](http://www.evergreenhealth.com/about-us/governance-and-leadership/monroe-board-commissioners/)

#### (b) Basis of Accounting

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 accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by

## KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

the Governmental Accounting Standards Board (GASB). 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. The District's investments are reported at fair value with the exception of the Washington State Local Government Investment Pool (LGIP) and the King County Investment Pool, which are reported at amortized cost.

### **(f) Patients Accounts Receivable**

Receivables arising from revenue for services to patients are reduced by an allowance for contractually 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, deductibles to be made by patients, and business practices related to collection efforts. Accounts deemed uncollectible are charged against this allowance.

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

**(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 useful 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.

**(j) Leases**

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 accordance 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. Payments for 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.

## KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

### **(k) Subscription Based Information Technology Arrangements (SBITA)**

Obligations for SBITAs that have a maximum term over 12 months are amortized on the straight-line method over the subscription term in conformance with GASB No. 96, *Subscription Based Information Technology Arrangements*. Such amortization is included in depreciation and amortization in the accompanying statements of revenue, expenses, and changes in net position. SBITAs 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.

### **(l) Compensated Absences**

The District's employees earn vacation or Paid Time Off (PTO) days and Extended Illness Bank (EIB) hours at varying rates depending on years of service. Accrued vacation or PTO and EIB is reported as a current liability and is released as employees utilize their PTO or EIB within the following year.

### **(m) 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.

### **(n) Classification of 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.

### **(o) 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

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

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.

**(p) 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 \$5.2 million and \$4.6 million for 2024 and 2023, respectively. Because the District does not pursue collection of amounts determined to qualify as charity care, associated charges are not included in net patient service revenue.

**(q) 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:

	<b>December 31</b>	
	<b>2024</b>	<b>2023</b>
	(In thousands)	
Amount used for tax-supported programs	\$ 6,783	6,255
Amounts used for debt service on general obligation bonds	<u>14,368</u>	<u>22,774</u>
	<u>\$ 21,151</u>	<u>29,029</u>

Of the amount used for debt service on general obligation bonds, \$8.8 million and \$7.8 million were used for interest payments for the years ended December 31, 2024 and 2023, 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.

Nonoperating income also includes Federal funding received for federal COVID-19 relief programs and investment income.

**(r) 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 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.

## KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

### (2) 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 2021. The District recognized interim and final cost report settlements from Centers for Medicare and Medicaid Services (CMS) resulting in a decrease in net patient service revenue of \$395 thousand in 2024 and an increase in net patient service revenue of \$349 thousand in 2023. 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

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

"Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claim will be allowed federal match on the amount related to certified public expenditure. CPE 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 2024 related to State fiscal year 2019. The District recognized interim settlements resulting in an adjustment to increase net patient service revenue by \$2.8 million in 2023. No interim settlements were recognized in 2024. The District had \$3.8 million and \$3.9 million accrued as payables for the years ended December 31, 2024 and 2023, respectively.

Effective January 1, 2024, the Washington State Medicaid Directed Payment Program (DPP) is a new program managed by the Washington State Health Care Authority benefiting public hospital districts.

Under the program, the District receives supplemental Medicaid payments for hospital services for which they bill. These supplemental payments equal the difference between the standard Medicaid Managed Care Organization reimbursement rate and the upper payment limit allowable by federal law.

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The District provides the nonfederal share of the supplemental payments that will be used to obtain the matching federal funds.

The District recorded \$4.7 million in intergovernmental transfers (IGT) as expense to the Washington Health Care Authority for the year ended December 31, 2024 related to the DPP for hospital claims with dates of services in the year.

As of December 31, 2024. The District has an estimated receivable of \$6.0 million for the DPP.

The District recognized net revenue of \$20.6 million in 2024 from the DPP, which is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

**(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, 2024 and 2023:

	<b>2024</b>	
	<b>District</b>	<b>Component unit</b>
	(In thousands)	
Gross patient service charges	\$ 2,752,197	228,974
Adjustments to patient service charges:		
Contractual adjustments	(1,737,908)	(145,559)
Provision for uncollectible accounts	(28,960)	(8,475)
Charity care	(13,726)	(1,715)
Administrative adjustments	(12,860)	(1,881)
	(1,793,454)	(157,630)
Net patient service revenue	\$ 958,743	71,344

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

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Notes to Financial Statements

December 31, 2024 and 2023

	<b>2023</b>	
	<b>District</b>	<b>Component unit</b>
	(In thousands)	
Gross patient service charges	\$ 2,456,293	196,561
Adjustments to patient service charges:		
Contractual adjustments	(1,536,548)	(128,107)
Provision for uncollectible accounts	(31,826)	(8,576)
Charity care	(10,966)	(1,399)
Administrative adjustments	(18,031)	(1,561)
	(1,597,371)	(139,643)
Net patient service revenue	\$ 858,922	56,918

**(3) 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.

Most assets limited as to use are carried at fair value with the exception of the LGIP and King County investment pools. 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

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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 District invests a portion of its funds with the LGIP managed by the State Treasurer's office. The investments in this pool comprise of repurchase agreements, government securities, and certificates of deposits. The LGIP operates in a manner consistent with the Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. As such, the LGIP uses amortized cost to approximate fair value.

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Notes to Financial Statements

December 31, 2024 and 2023

The following tables present the composition, fair value, ratings and maturity of board-designated cash and investments for the District at December 31, 2024 and 2023:

**Board-Designated Assets**

December 31, 2024

Investment type	Total investment amount	Quoted prices in active markets for identical assets (Level 1) (In thousands)	Significant other observable inputs (Level 2)	Ratings
US treasuries	\$ 71,345	—	71,345	AAA
US government agencies	6,083	—	6,083	AAA
Mutual fund – bonds	1,895	1,895	—	Not rated
Credit	29,728	—	29,728	A-
US government agency – mortgage backed	22,818	—	22,818	AAA
Total investments at fair value	131,869	1,895	129,974	
Cash and cash equivalents	5,254			
Investments carried at amortized cost				
LGIP	40,893			
King County Investment Pool	1,109			
Total investments at amortized cost	42,002			
Total cash and investments	179,125			
Property tax, interest receivable, and other	2,174			
Total board-designated assets	\$ 181,299			

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December 31, 2024 and 2023

**Board-Designated Assets**

December 31, 2024

Investment type	Total investment amount	Investment maturities (in years)	
		N/A or less than 1	1–5
		(In thousands)	
US treasuries	\$ 71,345	31,648	39,697
US government agencies	6,083	3,677	2,406
Mutual fund – bonds	1,895	1,895	—
Credit	29,728	10,740	18,988
US government agency – mortgage backed	22,818	2,936	19,882
Local Government Investment Pool	40,893	40,893	—
King County Investment Pool	1,109	1,109	—
Total investments	\$ 173,871	92,898	80,973

**Board-Designated Assets**

December 31, 2023

Investment type	Total investment amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Ratings
		(In thousands)		
US treasuries	\$ 22,955	—	22,955	AAA
US government agencies	4,994	—	4,994	AAA
Mutual fund – bonds	542	542	—	Not rated
Credit	13,399	—	13,399	A-
Taxable municipal bonds	1,032	—	1,032	AA+
US government agency – mortgage backed	24,724	—	24,724	AAA

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**Board-Designated Assets**

December 31, 2023

Investment type	Total investment amount	Quoted prices in active markets for identical assets (Level 1) (In thousands)	Significant other observable inputs (Level 2)	Ratings
Government-related securities	\$ 1,219	—	1,219	A-
Total investments at fair value	68,865	\$ 542	68,323	
Cash and cash equivalents	16,089			
King County Investment Pool at amortized cost	1,454			
Total cash and investments	86,408			
Property tax, interest receivable, and other	2,439			
Total board-designated assets	\$ 88,847			

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**Board-Designated Assets**

December 31, 2023

<b>Investment type</b>	<b>Total investment amount</b>	<b>Investment maturities (in years)</b>	
		<b>N/A or less than 1</b>	<b>1–5</b>
		(In thousands)	
US treasuries	\$ 22,955	14,724	8,231
US government agencies	4,994	1,309	3,685
Mutual fund – bonds	542	542	—
Credit	13,399	13,399	—
Taxable municipal bonds	1,032	1,032	—
US government agency – mortgage backed	24,724	3,044	21,680
Government-related securities	1,219	1,219	—
King County Investment Pool	1,454	1,454	—
<b>Total investments</b>	<b>\$ 70,319</b>	<b>36,723</b>	<b>33,596</b>

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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, 2024 and 2023:

**Restricted Cash and Investments**

December 31, 2024

<b>Investment type</b>	<b>Total investment amount</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b> <small>(In thousands)</small>	<b>Ratings</b>	<b>Investment maturities (in years)</b> <b>N/A or less than 1</b>
Mutual fund – bonds	\$ 2,821	2,821	Not rated	2,821
Mutual fund – equity	914	914	Not rated	914
Total investments at fair value	3,735	<u>3,735</u>		\$ <u>3,735</u>
Cash and cash equivalents	254			
King County investment pool at amortized cost	<u>592</u>			
Total cash and investments	4,581			
Property tax, interest receivable, and other	<u>43</u>			
Total assets restricted as to use	\$ <u>4,624</u>			

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December 31, 2024 and 2023

**Restricted Cash and Investments**

December 31, 2023

<u>Investment type</u>	<u>Total investment amount</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u> <small>(In thousands)</small>	<u>Ratings</u>	<u>Investment maturities (in years) N/A or less than 1</u>
Mutual fund – bonds	1,683	1,683	Not rated	1,683
Mutual fund – equity	2,971	2,971	Not rated	2,971
Total investments at fair value	5,140	\$ 5,140		\$ 5,140
Cash and cash equivalents	167			
King County investment pool at amortized cost	486			
Total cash and investments	5,793			
Property tax, interest receivable, and other	145			
Total assets restricted as to use	\$ 5,938			

*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 4 years. Unless matched to a specific cash flow, the District does not invest in securities maturing more than 5 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 carries the long-term sovereign rating of the United States of America. The District’s policy requires that all certificates of deposit be collateralized.

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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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
US treasuries	55%	28%
Credit	23	16
Mutual fund/US government securities	1	18
Federal National Mortgage Association	8	10
Federal Home Loan Bank	4	5
Federal Home Loan Mortgage Corporation	8	17
Government National Mortgage Association	1	3
Taxable municipal bonds	—	1
Government-related securities	—	2
	<u>100%</u>	<u>100%</u>

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Notes to Financial Statements

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**(4) Capital Assets**

The schedule of capital asset activity for the years ended December 31, 2024 and 2023 is as follows:

	<u>January 1, 2024</u>	<u>Additions and adjustments</u>	<u>Sales and retirements</u> (In thousands)	<u>Account transfers</u>	<u>December 31, 2024</u>
Assets at cost:					
Nondepreciable capital assets:					
Land	\$ 4,914	—	—	—	4,914
Construction in progress	<u>6,090</u>	<u>11,806</u>	<u>—</u>	<u>(10,050)</u>	<u>7,846</u>
Total nondepreciable capital assets	<u>11,004</u>	<u>11,806</u>	<u>—</u>	<u>(10,050)</u>	<u>12,760</u>
Depreciable capital assets:					
Land improvements	12,938	—	—	69	13,007
Buildings	426,473	—	(2)	687	427,158
Equipment	<u>491,754</u>	<u>—</u>	<u>(39,338)</u>	<u>9,294</u>	<u>461,710</u>
Total depreciable capital assets	<u>931,165</u>	<u>—</u>	<u>(39,340)</u>	<u>10,050</u>	<u>901,875</u>
Less accumulated depreciation:					
Land improvements	12,093	234	—	—	12,327
Buildings	242,366	16,274	(2)	—	258,638
Equipment	<u>348,022</u>	<u>26,173</u>	<u>(39,337)</u>	<u>—</u>	<u>334,858</u>
Total accumulated depreciation	<u>602,481</u>	<u>42,681</u>	<u>(39,339)</u>	<u>—</u>	<u>605,823</u>
Depreciable capital assets, net	<u>328,684</u>	<u>(42,681)</u>	<u>(1)</u>	<u>10,050</u>	<u>296,052</u>
Capital assets, net	<u>\$ 339,688</u>	<u>(30,875)</u>	<u>(1)</u>	<u>—</u>	<u>308,812</u>

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December 31, 2024 and 2023

	<u>January 1, 2023</u>	<u>Additions and adjustments</u>	<u>Sales and retirements</u> <small>(In thousands)</small>	<u>Account transfers</u>	<u>December 31, 2023</u>
Assets at cost:					
Nondepreciable capital assets:					
Land	\$ 4,914	—	—	—	4,914
Construction in progress	9,873	34,445	—	(38,228)	6,090
Total nondepreciable capital assets	14,787	34,445	—	(38,228)	11,004
Depreciable capital assets:					
Land improvements	13,092	—	(154)	—	12,938
Buildings	414,108	—	(745)	13,110	426,473
Equipment	485,636	—	(19,000)	25,118	491,754
Total depreciable capital assets	912,836	—	(19,899)	38,228	931,165
Less accumulated depreciation:					
Land improvements	11,969	277	(153)	—	12,093
Buildings	227,379	15,732	(745)	—	242,366
Equipment	333,821	27,155	(12,954)	—	348,022
Total accumulated depreciation	573,169	43,164	(13,852)	—	602,481
Depreciable capital assets, net	339,667	(43,164)	(6,047)	38,228	328,684
Capital assets, net	\$ 354,454	(8,719)	(6,047)	—	339,688

Depreciation and amortization recognized in operating expenses were \$61.7 million and \$62.7 million for the years ended December 31, 2024 and 2023, respectively. Included in these amounts were \$19.7 million and \$20.0 million related to RTU lease and SBITA asset amortization for the years ended December 31, 2024 and 2023, respectively.

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December 31, 2024 and 2023

The schedule of capital asset activity for EHM for the years ended December 31, 2024 and 2023 is as follows:

	<b>Balance January 1, 2024</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements</b>	<b>Balance December 31, 2024</b>
Nondepreciable capital assets:					
Land	\$ 1,879	—	—	—	1,879
Construction in progress	1,653	4,159	(4,269)	(100)	1,443
<b>Total nondepreciable capital assets</b>	<b>3,532</b>	<b>4,159</b>	<b>(4,269)</b>	<b>(100)</b>	<b>3,322</b>
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings and improvements	30,415	—	3,057	—	33,472
Equipment	24,042	3	1,212	(305)	24,952
<b>Total depreciable capital assets</b>	<b>55,691</b>	<b>3</b>	<b>4,269</b>	<b>(305)</b>	<b>59,658</b>
Less accumulated depreciation:					
Land improvements	\$ (1,126)	(62)	—	—	(1,188)
Buildings and improvements	(25,133)	(951)	—	—	(26,084)
Equipment	(20,823)	(952)	—	297	(21,478)
<b>Total accumulated depreciation</b>	<b>(47,082)</b>	<b>(1,965)</b>	<b>—</b>	<b>297</b>	<b>(48,750)</b>
<b>Total depreciable capital assets, net</b>	<b>8,609</b>	<b>(1,962)</b>	<b>4,269</b>	<b>(8)</b>	<b>10,908</b>
<b>Total capital assets, net</b>	<b>\$ 12,141</b>	<b>2,197</b>	<b>—</b>	<b>(108)</b>	<b>14,230</b>

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	<b>Balance January 1, 2023</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements</b>	<b>Balance December 31, 2023</b>
Nondepreciable capital assets:					
Land	\$ 1,879	—	—	—	1,879
Construction in progress	1,199	2,483	(1,635)	(394)	1,653
Total nondepreciable capital assets	3,078	2,483	(1,635)	(394)	3,532
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings and improvements	30,405	—	10	—	30,415
Equipment	22,415	7	1,625	(5)	24,042
Total depreciable capital assets	54,054	7	1,635	(5)	55,691
Less accumulated depreciation:					
Land improvements	\$ (1,064)	(62)	—	—	(1,126)
Buildings and improvements	(24,036)	(1,097)	—	—	(25,133)
Equipment	(19,942)	(886)	—	5	(20,823)
Total accumulated depreciation	(45,042)	(2,045)	—	5	(47,082)
Total depreciable capital assets, net	9,012	(2,038)	1,635	—	8,609
Total capital assets, net	\$ 12,090	445	—	(394)	12,141

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Notes to Financial Statements

December 31, 2024 and 2023

**(5) 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, 2024 and 2023, which is accounted for using the equity method of accounting. During the years ended December 31, 2024 and 2023, the District recognized its proportionate share of the Evergreen Radia, LLC's net income as other operating revenue.

The following represents the summary financial information of Evergreen Radia, LLC as of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Current assets	\$ 8,267	6,566
Noncurrent assets, net	<u>11,649</u>	<u>12,805</u>
	\$ <u>19,916</u>	<u>19,371</u>
Current liabilities	\$ 6,515	4,798
Long-term liabilities	9,207	10,767
Equity	<u>4,194</u>	<u>3,806</u>
	\$ <u>19,916</u>	<u>19,371</u>
Revenue	\$ 23,868	19,578
Expenses	<u>20,879</u>	<u>16,401</u>
Net income	\$ <u>2,989</u>	<u>3,177</u>

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Notes to Financial Statements

December 31, 2024 and 2023

*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, 2024 and 2023, which is accounted for using the equity method of accounting. During the years ended December 31, 2024 and 2023, the District recognized its proportionate share of the Eastside Health Alliance, LLC's net loss, as a reduction to other operating revenue.

The following represents the summary financial information of Eastside Health Alliance, LLC as of December 31, 2024 and 2023:

	<b>2024</b>	<b>2023</b>
	(In thousands)	
Current assets	\$ 10,725	6,964
Noncurrent assets, net	—	—
	<b>\$ 10,725</b>	<b>6,964</b>
Current liabilities	\$ 4,046	3,538
Long-term liabilities	—	—
Equity	6,679	3,426
	<b>\$ 10,725</b>	<b>6,964</b>
Revenue	\$ 12,228	10,100
Expenses	13,388	12,642
Net loss	\$ (1,160)	(2,542)

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Notes to Financial Statements

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**(6) Long-Term Debt Obligations**

**(a) Long-Term Debt**

Long-term debt consists of the following:

	<b>December 31</b>	
	<b>2024</b>	<b>2023</b>
	(In thousands)	
Limited Tax General Obligation (LTGO) Series 2015 (fixed rate), payable annually through 2031, interest at 3.63% to 5.00%	\$ —	2,650
LTGO Series 2020 A (fixed rate), payable annually through 2045, interest at 4.00%	59,940	59,940
LTGO Series 2020 B (fixed rate), payable annually through 2035, interest at 1.30% to 2.54%	27,950	31,015
LTGO Series 2021 (fixed rate), payable annually through 2044, interest at 0.57% to 3.11%	151,725	151,725
LTGO Series 2024 (fixed rate), payable annually through 2045, interest at 5.00 to 5.25%	39,605	—
	279,220	245,330
Plus unamortized bond premiums	11,801	9,161
	291,021	254,491
Less current portion	(6,250)	(5,715)
	\$ 284,771	248,776

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The schedule of long-term debt activity for the years ended December 31, 2024 and 2023 are as follows (in thousands):

	<u>January 1, 2024</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2024</u>	<u>Amounts due within one year</u>
Limited general obligation bonds:					
2015 series	\$ 2,650	—	2,650	—	—
2020 series A	59,940	—	—	59,940	—
2020 series B	31,015	—	3,065	27,950	3,105
2021 series	151,725	—	—	151,725	3,145
2024 series	—	39,605	—	39,605	—
Total long-term debt	245,330	39,605	5,715	279,220	6,250
Unamortized bond premiums	9,161	3,583	943	11,801	—
Total long-term debt obligations	\$ 254,491	43,188	6,658	291,021	6,250
	<u>January 1, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2023</u>	<u>Amounts due within one year</u>
Limited general obligation bonds:					
2015 series	\$ 6,245	—	3,595	2,650	2,650
2020 series A	59,940	—	—	59,940	—
2020 series B	34,030	—	3,015	31,015	3,065
2021 series	152,175	—	450	151,725	—
Unlimited general obligation bonds:					
2013 series	7,900	—	7,900	—	—
Total long-term debt	260,290	—	14,960	245,330	5,715
Unamortized bond premiums	10,166	—	1,005	9,161	—
Total long-term debt obligations	\$ 270,456	—	15,965	254,491	5,715

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A summary of the District debt service for the next five years and thereafter as of December 31, 2024 for both principal and interest is presented below (in thousands):

	<b>Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2025	\$ 6,250	9,053
2026	6,705	8,963
2027	7,200	8,856
2028	7,730	8,729
2029	8,295	8,578
2030–2034	51,065	39,846
2035–2039	71,025	31,847
2040–2044	99,140	17,261
2045–2049	21,810	1,038
	\$ 279,220	134,171

The total unamortized premiums are \$11.8 million as of December 31, 2024. Amounts related to bond refunding losses are amortized over the life of the bonds, which is reported as a deferred outflow of resources in the statements of net position. The total unamortized amount of deferred outflow related to bond refunding losses is \$5.2 million as of December 31, 2024.

*Overview of Bonds*

Unlimited Tax General Obligation (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.

**(7) Leases**

**(a) 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 RTU 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 RTU asset is initially measured as the

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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 RTU 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 RTU 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 operating 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 \$4.7 million and \$4.5 million for years ended December 31, 2024 and 2023, respectively.

The District enters into SBITAs primarily for information technology software subscriptions. For subscriptions with a maximum possible term of 12 months or less at commencement, the District recognizes expense based on the terms of the subscription. For all other leases, the District recognizes a software RTU liability, which is recorded within other current liabilities and other noncurrent liabilities in the statements of net position and an intangible RTU asset, net of accumulated amortization at the present value of payments expected to be made throughout the subscription term. The District uses its incremental borrowing rate based on information available at the commencement date of the subscription in determining the present value of subscription payments.

Subsequently, the software RTU liability is reduced by the principal portion of subscription payments made. Interest expense is ratably recognized over the term of the contract. The software RTU asset is initially measured as the initial amount of the software RTU liability, plus subscription payments made at or before the contract commencement date, plus any initial direct costs ancillary to placing the underlying asset into service. Subsequently, the RTU 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.

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*RTU Leased Assets*

A summary of the District's RTU leased assets and related accumulated amortization for the years ended December 31, 2024 and 2023 is presented below (in thousands):

	<u>January 1, 2024</u>	<u>Additions</u>	<u>Modifications/ Renewals</u>	<u>Deductions</u>	<u>December 31, 2024</u>
Leased assets:					
Buildings	\$ 259,120	—	—	—	259,120
Equipment	2,223	—	(579)	—	1,644
Software subscriptions	38,214	6,051	(382)	—	43,883
Total leased assets	<u>299,557</u>	<u>6,051</u>	<u>(961)</u>	<u>—</u>	<u>304,647</u>
Less accumulated amortization:					
Buildings	31,068	10,873	—	—	41,941
Equipment	1,464	336	(579)	—	1,221
Software subscriptions	14,019	8,518	—	—	22,537
Total accumulated amortization	<u>46,551</u>	<u>19,727</u>	<u>(579)</u>	<u>—</u>	<u>65,699</u>
Leased assets, net	<u>\$ 253,006</u>	<u>(13,676)</u>	<u>(382)</u>	<u>—</u>	<u>238,948</u>
	<u>January 1, 2023</u>	<u>Additions</u>	<u>Modifications/ Renewals</u>	<u>Deductions</u>	<u>December 31, 2023</u>
Leased assets:					
Buildings	\$ 258,559	—	561	—	259,120
Equipment	2,223	—	—	—	2,223
Software subscriptions	30,420	7,794	—	—	38,214
Total leased assets	<u>291,202</u>	<u>7,794</u>	<u>561</u>	<u>—</u>	<u>299,557</u>
Less accumulated amortization:					
Buildings	20,438	10,630	—	—	31,068
Equipment	1,082	382	—	—	1,464
Software subscriptions	5,279	8,740	—	—	14,019
Total accumulated amortization	<u>26,799</u>	<u>19,752</u>	<u>—</u>	<u>—</u>	<u>46,551</u>
Leased assets, net	<u>\$ 264,403</u>	<u>(11,958)</u>	<u>561</u>	<u>—</u>	<u>253,006</u>

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*Lease Liabilities*

Changes in the District's lease liabilities for the years ended December 31, 2024 and 2023 is presented below (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Year ended:					
December 31, 2024	\$ 274,064	6,051	(15,093)	265,022	14,701
December 31, 2023	277,939	8,871	(12,746)	274,064	13,445

*Lease Maturities*

The following schedule shows future annual lease payments, for the next five years and thereafter, as of December 31, 2024 for both principal and interest (in thousands):

	<u>Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2025	\$ 14,701	7,944
2026	13,418	7,427
2027	10,663	7,028
2028	8,191	6,669
2029	8,169	6,415
2030–2034	44,873	28,202
2035–2039	44,168	21,274
2040–2044	40,371	15,007
Thereafter	<u>80,468</u>	<u>12,592</u>
	\$ <u>265,022</u>	<u>112,558</u>

**(b) 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

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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, 2024 and 2023 are as follows:

	<b>December 31</b>	
	<b>2024</b>	<b>2023</b>
	(In thousands)	
Lease revenue	\$ 4,277	4,711
Interest revenue	74	1,155
Total	<u>\$ 4,351</u>	<u>5,866</u>

The following schedule shows future annual lease receipts, for the next five years and thereafter, as of December 31, 2024 for both principal and interest (in thousands):

	<b>Leases</b>	
	<b>Principal</b>	<b>Interest</b>
Year ending December 31:		
2025	\$ 3,078	680
2026	3,068	586
2027	3,217	489
2028	3,079	390
2029	2,818	299
Thereafter	<u>8,503</u>	<u>799</u>
	<u>\$ 23,763</u>	<u>3,243</u>

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**(c) Discrete Component Unit – EHM**

Long-term debt of EHM consist of the following:

	<b>December 31</b>	
	<b>2024</b>	<b>2023</b>
Limited Tax General Obligation Refunding Bonds (LTGO) Series 2019 (fixed rate), payable semiannually through 2034, interest at 2.95%	\$ 12,960	13,935
LTGO Series 2019 (fixed rate), payable semiannually through 2029, interest at 3.25%	3,239	3,828
Total long-term debt	16,199	17,763
Plus unamortized bond discounts	(111)	(132)
Less current portion	1,637	1,563
Long-term debt, net of current portion	<u>\$ 14,451</u>	<u>16,068</u>

Long-term debt 2024 and 2023 activity summary of EHM is as follows (in thousands):

	<b>January 1, 2024</b>	<b>Additions</b>	<b>Reductions</b>	<b>December 31, 2024</b>	<b>Amounts due within one year</b>
LTGO refunding bonds, 2019	\$ 13,935	—	(975)	12,960	1,030
LTGO bonds, 2019	3,828	—	(589)	3,239	607
	17,763	—	(1,564)	16,199	1,637
Unamortized discounts 2019 bond	(132)	—	21	(111)	—
Total long-term debt	<u>\$ 17,631</u>	<u>—</u>	<u>(1,543)</u>	<u>16,088</u>	<u>1,637</u>

	<b>January 1, 2023</b>	<b>Additions</b>	<b>Reductions</b>	<b>December 31, 2023</b>	<b>Amounts due within one year</b>
LTGO refunding bonds, 2019	\$ 14,825	—	(890)	13,935	975
LTGO bonds, 2019	4,397	—	(569)	3,828	588
	19,222	—	(1,459)	17,763	1,563
Unamortized discounts 2019 bond	(154)	—	22	(132)	—
Total long-term debt	<u>\$ 19,068</u>	<u>—</u>	<u>(1,437)</u>	<u>17,631</u>	<u>1,563</u>

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A summary of EHM's future maturities on long-term debt for the next five years and thereafter as of December 31, 2024 for both principal and interest is presented below (in thousands):

	<u>Principal</u>	<u>Interest</u>
2025	\$ 1,637	488
2026	1,707	437
2027	1,782	385
2028	1,863	331
2029–2033	7,615	890
2034–2038	<u>1,595</u>	<u>47</u>
Total	<u>16,199</u>	\$ <u>2,578</u>
Less amount representing net unamortized bond discounts	<u>(111)</u>	
Total	\$ <u>16,088</u>	

Total unamortized bond discounts are \$111 thousand as of December 31, 2024.

*RTU Leased Assets*

RTU leased assets 2024 and 2023 activity summary of EHM is as follows (in thousands):

	<u>January 1, 2024</u>	<u>Additions</u>	<u>Modifications/ Renewals</u>	<u>Deductions</u>	<u>December 31, 2024</u>
Leased assets:					
Buildings	\$ 10,027	—	—	—	10,027
Equipment	<u>258</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>258</u>
Total leased assets	<u>10,285</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,285</u>
Less accumulated amortization:					
Buildings	(2,061)	(687)	—	—	(2,748)
Equipment	<u>(58)</u>	<u>(45)</u>	<u>—</u>	<u>—</u>	<u>(103)</u>
Total accumulated amortization	<u>(2,119)</u>	<u>(732)</u>	<u>—</u>	<u>—</u>	<u>(2,851)</u>
Leased assets, net \$	\$ <u>8,166</u>	<u>(732)</u>	<u>—</u>	<u>—</u>	<u>7,434</u>

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	<u>January 1, 2023</u>	<u>Additions</u>	<u>Modifications/ Renewals</u>	<u>Deductions</u>	<u>December 31, 2023</u>
Leased assets:					
Buildings	\$ 10,027	—	—	—	10,027
Equipment	139	119	—	—	258
Total leased assets	<u>10,166</u>	<u>119</u>	<u>—</u>	<u>—</u>	<u>10,285</u>
Less accumulated amortization:					
Buildings	(1,374)	(687)	—	—	(2,061)
Equipment	(19)	(39)	—	—	(58)
Total accumulated amortization	<u>(1,393)</u>	<u>(726)</u>	<u>—</u>	<u>—</u>	<u>(2,119)</u>
Leased assets, net \$	<u>8,773</u>	<u>(607)</u>	<u>—</u>	<u>—</u>	<u>8,166</u>

*Lease Liabilities*

Changes in the EHM's lease liabilities for the years ended December 31, 2024 and 2023 is presented below (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Year ended:					
December 31, 2024	\$ 8,827	—	(589)	8,238	624
December 31, 2023	9,225	119	(517)	8,827	589

*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, 2024 for both principal and interest (in thousands):

	<u>Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2025	\$ 624	320
2026	666	285
2027	671	246
2028	693	215
2029–2033	2,864	620
2034–2038	<u>2,720</u>	<u>209</u>
	\$ <u>8,238</u>	<u>1,895</u>

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Revenue from leases for the years ended December 31, 2024 and 2023 are as follows (in thousands):

	December 31	
	2024	2023
Lease revenue	\$ 329	305
Interest revenue	197	206
Total	\$ 526	511

The following schedule shows future annual lease receipts, for the next five years and thereafter, as of December 31, 2024 for both principal and interest (in thousands):

	Leases	
	Principal	Interest
Year ending December 31:		
2025	\$ 355	187
2026	383	176
2027	411	164
2028	441	151
2029	473	137
Thereafter	4,325	492
	\$ 6,388	1,307

**(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 \$3.7 million and \$4.4 million at December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, the estimated long-term and short-term professional claims liability was \$7.3 million and \$2.2 million and \$6.5 million and \$1.6 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 \$13.9 million and \$11.2 million at December 31, 2024 and 2023, respectively, are reported as part of accrued compensation and related liabilities in the accompanying statements of net position. The

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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 \$25.6 million and \$23.7 million in 2024 and 2023, respectively. Employee contributions to the benefit plans totaled approximately \$45.2 million and \$42.2 million in 2024 and 2023, 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

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noncurrent liabilities on the statements of net position. At December 31, 2024 and 2023, the SERP balance was \$1.9 million and \$2.1 million, respectively.

**(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:

	<b>Receivables</b>	
	<b>2024</b>	<b>2023</b>
Blue Cross Blue Shield	34.5%	28.9%
Other Non-Government third-party payors	35.1	28.9
Medicare	24.1	33.5
Medicaid	3.3	6.1
Patient self-pay	3.0	2.6
	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 2024 and 2023, the District's regular levy request was \$0.15 per \$1,000 and \$0.14 per \$1,000 on a total assessed valuation of the property within the District of \$137.0 billion and \$154.6 billion for a total regular levy of \$21.2 million and \$20.7 million, respectively. Excess levies totaled \$8.3 million in 2023 related to debt service, mainly due to the hospital-based emergency department and patient facility, which opened in 2007. There were no excess levies in 2024.

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.

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**(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, 2024				
	Combined entities	Eliminations/ reclassifications	District	Foundation
	(In thousands)			
Assets:				
Current assets:				
Total current assets	\$ 251,828	(1,592)	237,542	15,878
Noncurrent assets:				
Total other assets	235,097	—	230,532	4,565
Capital assets, net	308,812	—	308,812	—
Right-to-use leased and SBITA assets	238,948	—	238,948	—
Total assets	1,034,685	(1,592)	1,015,834	20,443
Deferred outflows of resources	5,188	—	5,188	—
Total assets and deferred outflows of resources	\$ 1,039,873	(1,592)	1,021,022	20,443
Liabilities:				
Total current liabilities	\$ 174,454	(1,592)	174,386	1,660
Total noncurrent liabilities	545,741	—	545,741	—
Total liabilities	720,195	(1,592)	720,127	1,660
Deferred inflows of resources related to leases	21,284	—	21,284	—
Net position:				
Invested in capital assets, net of related debt	16,557	—	16,557	—
Restricted:				
Expendable	1,868	—	(2,467)	4,335
Nonexpendable	8,911	—	(2,158)	11,069
Unrestricted	271,058	—	267,679	3,379
Total net position	298,394	—	279,611	18,783
Total liabilities and net position	\$ 1,039,873	(1,592)	1,021,022	20,443

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

Notes to Financial Statements

December 31, 2024 and 2023

	<b>Statement of net position – December 31, 2023</b>			
	<u>Combined entities</u>	<u>Eliminations/ reclassifications</u>	<u>District</u>	<u>Foundation</u>
	(In thousands)			
Assets:				
Current assets:				
Total current assets	\$ 275,973	(376)	267,642	8,707
Noncurrent assets:				
Total other assets	176,896	—	172,601	4,295
Capital assets, net	339,688	—	339,688	—
Right-to-use leased assets	<u>228,811</u>	<u>—</u>	<u>228,811</u>	<u>—</u>
Total assets	1,021,368	(376)	1,008,742	13,002
Deferred outflows of resources	<u>6,051</u>	<u>—</u>	<u>6,051</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>\$ 1,027,419</u>	<u>(376)</u>	<u>1,014,793</u>	<u>13,002</u>
Liabilities:				
Total current liabilities	\$ 156,051	(376)	156,041	386
Total noncurrent liabilities	<u>543,877</u>	<u>—</u>	<u>543,877</u>	<u>—</u>
Total liabilities	<u>699,928</u>	<u>(376)</u>	<u>699,918</u>	<u>386</u>
Deferred inflows of resources related to leases	31,928	—	31,928	—
Net position:				
Invested in capital assets, net of related debt	65,677	—	65,677	—
Restricted:				
Expendable	8,802	—	748	8,054
Nonexpendable	2,445	—	459	1,986
Unrestricted	<u>218,639</u>	<u>—</u>	<u>216,063</u>	<u>2,576</u>
Total net position	295,563	—	282,947	12,616
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,027,419</u>	<u>(376)</u>	<u>1,014,793</u>	<u>13,002</u>

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

Notes to Financial Statements

December 31, 2024 and 2023

	<b>Statement of revenue, expenses, and changes in net position – year ended December 31, 2024</b>		
	<b>Combined entities</b>	<b>District</b>	<b>Foundation</b>
		(In thousands)	
Revenue:			
Operating revenue:			
Net patient service revenue	\$ 958,743	958,743	—
Other operating revenue	<u>61,727</u>	<u>54,244</u>	<u>7,483</u>
Total operating revenue	<u>1,020,470</u>	<u>1,012,987</u>	<u>7,483</u>
Expenses:			
Operating expenses:			
Other operating expenses	988,888	984,964	3,924
Depreciation and amortization	<u>61,695</u>	<u>61,695</u>	<u>—</u>
Total operating expenses	<u>1,050,583</u>	<u>1,046,659</u>	<u>3,924</u>
(Deficit) excess of revenue over expenses from operations	<u>(30,113)</u>	<u>(33,672)</u>	<u>3,559</u>
Nonoperating income, net of expenses:			
Property taxes	\$ 21,151	21,151	—
Interest and amortization expense	(17,888)	(17,888)	—
Other nonoperating revenue	<u>28,061</u>	<u>27,156</u>	<u>905</u>
Net nonoperating income	<u>31,324</u>	<u>30,419</u>	<u>905</u>
Excess of revenue over expenses	1,211	(3,253)	4,464
Capital grants and contributions	<u>1,620</u>	<u>(82)</u>	<u>1,702</u>
Total change in net position	2,831	(3,335)	6,166
Net position, beginning of year	<u>295,563</u>	<u>282,947</u>	<u>12,616</u>
Net position, end of year	<u>\$ 298,394</u>	<u>279,612</u>	<u>18,782</u>

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

Notes to Financial Statements

December 31, 2024 and 2023

	<b>Statement of revenue, expenses, and changes in net position – year ended December 31, 2023</b>		
	<b>Combined entities</b>	<b>District</b>	<b>Foundation</b>
		(In thousands)	
Revenue:			
Operating revenue:			
Net patient service revenue	\$ 858,922	858,922	—
Other operating revenue	<u>52,430</u>	<u>48,795</u>	<u>3,635</u>
Total operating revenue	<u>911,352</u>	<u>907,717</u>	<u>3,635</u>
Expenses:			
Operating expenses:			
Other operating expenses	956,942	950,337	6,605
Depreciation and amortization	<u>62,653</u>	<u>62,653</u>	<u>—</u>
Total operating expenses	<u>1,019,595</u>	<u>1,012,990</u>	<u>6,605</u>
Deficit of revenue over expenses from operations	<u>(108,243)</u>	<u>(105,273)</u>	<u>(2,970)</u>
Nonoperating income, net of expenses:			
Property taxes	\$ 29,029	29,029	—
Interest and amortization expense	(15,025)	(15,025)	—
Other nonoperating revenue	<u>28,801</u>	<u>28,298</u>	<u>503</u>
Net nonoperating income	<u>42,805</u>	<u>42,302</u>	<u>503</u>
Deficit of revenue over expenses	(65,438)	(62,971)	(2,467)
Capital grants and contributions	<u>4,003</u>	<u>2,547</u>	<u>1,456</u>
Total change in net position	(61,435)	(60,424)	(1,011)
Net position, beginning of year	<u>356,998</u>	<u>343,371</u>	<u>13,627</u>
Net position, end of year	<u>\$ 295,563</u>	<u>282,947</u>	<u>12,616</u>

**KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2**

(d/b/a EvergreenHealth)

Notes to Financial Statements

December 31, 2024 and 2023

**Statement of cash flows – year ended  
December 31, 2024**

	<b>Combined entities</b>	<b>District</b>	<b>Foundation</b>
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ 32,200	25,439	6,761
Noncapital financing activities	25,445	25,340	105
Capital and related financing activities	15,498	15,498	—
Investing activities	<u>(82,172)</u>	<u>(80,835)</u>	<u>(1,337)</u>
Net (decrease) increase in cash and cash equivalents	(9,029)	(14,558)	5,529
Cash and cash equivalents, beginning of year	<u>89,012</u>	<u>82,648</u>	<u>6,364</u>
Cash and cash equivalents, end of year	<u>\$ 79,983</u>	<u>68,090</u>	<u>11,893</u>

**Statement of cash flows – year ended  
December 31, 2023**

	<b>Combined entities</b>	<b>District</b>	<b>Foundation</b>
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ (5,789)	(4,162)	(1,627)
Noncapital financing activities	35,285	35,279	6
Capital and related financing activities	(56,859)	(56,859)	—
Investing activities	<u>68,589</u>	<u>65,069</u>	<u>3,520</u>
Net increase in cash and cash equivalents	41,226	39,327	1,899
Cash and cash equivalents, beginning of year	<u>47,786</u>	<u>43,321</u>	<u>4,465</u>
Cash and cash equivalents, end of year	<u>\$ 89,012</u>	<u>82,648</u>	<u>6,364</u>