



## **OVERLAKE HOSPITAL ASSOCIATION**

Consolidated Financial Statements  
and Consolidating Information

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 2800  
401 Union Street  
Seattle, WA 98101

## Independent Auditors' Report

The Board of Directors  
Overlake Hospital Association:

### *Opinion*

We have audited the consolidated financial statements of Overlake Hospital Association and its subsidiaries (the Association), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *Basis for Opinion*

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 Consolidated Financial Statements section of our report. We are required to be independent of the Association 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 opinion.

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 consolidated 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 consolidated 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 consolidated 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 Association'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association'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.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

Seattle, Washington  
October 21, 2022

## OVERLAKE HOSPITAL ASSOCIATION

### Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Current assets:		
Cash and cash equivalents	\$ 16,765	25,090
Receivables, net	109,314	86,627
Current portion of pledges receivable	2,521	3,978
Current portion of assets whose use is limited	11,001	6,709
Supplies inventory	14,474	13,514
Prepaid expenses	12,931	11,194
Other current assets	11,024	9,072
Total current assets	178,030	156,184
Assets whose use is limited:		
Restricted by donors	14,299	12,434
Management designated	4,442	5,232
Funds held under bond indenture and collateral agreements	11,001	6,709
Less current portion	(11,001)	(6,709)
Total assets whose use is limited, net of current portion	18,741	17,666
Investments	381,596	537,534
Long-term portion of pledges receivable, net	1,989	3,980
Other long-term receivables, net	6,267	6,581
Land, buildings, and equipment, net	450,694	429,974
Operating lease right-of-use assets, net	34,484	38,190
Other assets:		
Investments in joint ventures	4,446	2,621
Other assets	2,118	3,390
Total other assets	6,564	6,011
Total assets	\$ 1,078,365	1,196,120

**OVERLAKE HOSPITAL ASSOCIATION**

## Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

<b>Liabilities and Net Assets</b>	<b>2022</b>	<b>2021</b>
Current liabilities:		
Accounts payable	\$ 34,029	25,087
Accrued liabilities	77,031	70,856
Accrued interest payable	5,244	5,258
Payable to third-party agencies	11,249	10,261
Medicare advanced funding	6,955	31,495
Line of credit borrowing	35,000	—
Current portion of long-term debt	6,503	5,866
Current portion of operating lease right-of-use liabilities	6,538	6,200
Total current liabilities	182,549	155,023
Long-term debt, net of current portion	277,225	285,462
Long-term operating lease right-of-use liabilities, net of current portion	31,147	35,503
Other long-term liabilities	18,338	16,780
Total liabilities	509,259	492,768
Net assets:		
Without donor restrictions	550,078	683,163
With donor restrictions	19,028	20,189
Total net assets	569,106	703,352
Total liabilities and net assets	\$ 1,078,365	1,196,120

See accompanying notes to consolidated financial statements.

**OVERLAKE HOSPITAL ASSOCIATION**

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Operating revenue:		
Net patient service revenue	\$ 622,205	585,978
Other operating revenue	17,518	20,362
Contribution revenue	<u>3,135</u>	<u>877</u>
Net operating revenue	<u>642,858</u>	<u>607,217</u>
Operating expenses:		
Salaries	313,950	282,452
Registry	45,366	16,608
Employee benefits	73,508	65,334
Supplies	104,617	101,181
Purchased services	72,199	64,791
Interest and amortization	11,050	7,421
Depreciation and amortization	34,430	30,107
Rent, leases, and utilities	15,712	15,194
Hospital taxes and assessments	18,910	18,872
Marketing, insurance, and other	<u>22,022</u>	<u>18,817</u>
Total operating expenses	<u>711,764</u>	<u>620,777</u>
Deficit of revenue over expenses from operations	<u>(68,906)</u>	<u>(13,560)</u>
Nonoperating revenue (expense), net:		
Investment income (expense)	(67,520)	92,622
Revenue from nonoperating affiliates	<u>209</u>	<u>—</u>
Total nonoperating (expense) revenue, net	<u>(67,311)</u>	<u>92,622</u>
(Deficit) excess of revenue over expenses	(136,217)	79,062
Other changes in net assets without donor restrictions:		
Net assets released for capital acquisitions	4,439	13,168
Other	<u>(1,307)</u>	<u>307</u>
(Decrease) increase in net assets without donor restrictions	<u>(133,085)</u>	<u>92,537</u>
Changes in net assets with donor restrictions:		
Contributions	5,089	10,206
Investment income	848	377
Change in net unrealized (losses) gains on investments	(2,207)	2,035
Net assets released from restrictions	<u>(4,891)</u>	<u>(13,475)</u>
(Decrease) in net assets with donor restrictions	<u>(1,161)</u>	<u>(857)</u>
(Decrease) increase in net assets	(134,246)	91,680
Net assets, beginning of year	<u>703,352</u>	<u>611,672</u>
Net assets, end of year	\$ <u><u>569,106</u></u>	\$ <u><u>703,352</u></u>

See accompanying notes to consolidated financial statements.

**OVERLAKE HOSPITAL ASSOCIATION**

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (134,246)	91,680
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,696	28,370
Loss on disposal of land, buildings and equipment	14	32
Restricted contributions received for capital and permanently restricted purposes	(6,970)	(9,751)
Net realized and unrealized losses on investments and management designated assets whose use is limited	85,956	(72,803)
Equity (gains) losses from joint ventures	(1,825)	134
Change in right of use assets and lease liabilities	(312)	89
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables, net	(22,687)	(10,612)
Pledges receivable	3,448	1,318
Supplies inventory	(960)	(4,318)
Prepaid expenses	(1,737)	(455)
Other current assets	(1,952)	(2,826)
Other long-term receivables	314	(3,503)
(Decrease) increase in:		
Accounts payable	10,419	2,059
Accrued liabilities	6,175	12,636
Accrued interest payable	(14)	77
Payable to third-party agencies	988	826
Medicare advanced funding	(24,540)	(3,505)
Other long-term liabilities	1,558	3,083
Net cash (used in) provided by operating activities	<u>(53,675)</u>	<u>32,531</u>
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(55,368)	(84,651)
Proceeds from disposal of land, buildings and equipment	—	192
Proceeds from sale of investments and assets whose use is limited	971,535	345,812
Purchase of investments and assets whose use is limited	(903,417)	(310,151)
Purchase of other assets	—	(754)
Net cash provided by (used in) investing activities	<u>12,750</u>	<u>(49,552)</u>
Cash flows from financing activities:		
Restricted contributions received for capital and permanently restricted purposes	6,970	9,751
Borrowing on line of credit	37,000	7,000
Principal payments on line of credit borrowing	(2,000)	(7,000)
Principal payments on long-term debt	(5,866)	(5,652)
Net cash provided by financing activities	<u>36,104</u>	<u>4,099</u>
Net (decrease) in cash, cash equivalents, and restricted cash	(4,821)	(12,922)
Cash, cash equivalents, and restricted cash, beginning of year	<u>25,662</u>	<u>38,584</u>
Cash, cash equivalents, and restricted cash, end of year	\$ <u>20,841</u>	\$ <u>25,662</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 11,064	7,344
Purchase of land, buildings, and equipment included in accounts payable	3,938	5,414

See accompanying notes to consolidated financial statements.

## OVERLAKE HOSPITAL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

### (1) Description of Organization and Summary of Significant Accounting Policies

#### (a) Organization

Overlake Hospital Association (the Association) is a 501(c)(3) not-for-profit corporation located in Bellevue, Washington. The purpose of the Association is to promote and conduct health-related activities through its affiliation with other health-related organizations. The Association owns buildings adjacent to the Overlake Hospital Medical Center campus and currently leases space for mixed office use.

Overlake Hospital Medical Center (the Hospital) is a 501(c)(3) not-for-profit corporation located in Bellevue, Washington. The Hospital's primary service area is from Bothell to Black Diamond and from the Cascade Mountains to Lake Washington, including Mercer Island. The Hospital provides inpatient, outpatient, and emergency care services. The Hospital is controlled by the Association.

The Hospital is affiliated with other healthcare related organizations including the following:

Overlake Medical Clinics, LLC (the Clinics) was formed to establish, own, and operate primary care clinics and other outpatient healthcare entities. The Hospital is the sole member of the Clinics.

Overlake Hospital Foundation (the Foundation) is a 501(c)(3) not-for-profit corporation. 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 Hospital and its related tax-exempt corporations. The Foundation is controlled by the Hospital.

Overlake Hospital Auxiliaries (the Auxiliaries) is a 501(c)(3) not-for-profit corporation. The purpose of the Auxiliaries is to promote, support, and advance the well-being of the Hospital through a variety of ways including serving as goodwill ambassadors to the community, conducting fund-raising activities, maintaining membership strength, and providing services to the Hospital for the benefit of its patients and their families. The Auxiliaries are controlled by the Hospital and were dissolved on May 3, 2022.

Overlake Medical Tower LLC (the Medical Tower) was formed to acquire, own, develop, and operate a medical office building and garage complex on the Hospital's campus. The Association is the sole member of the Medical Tower.

Overlake Surgery Center LLC (the Surgery Center) is a limited liability company organized as a multi-specialty surgery center. In August 2021, The Hospital became the majority owner of the Surgery Center.

The consolidated financial statements of the Association include the accounts of the Association and all of the above listed affiliates.

#### (b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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



## OVERLAKE HOSPITAL ASSOCIATION

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include the provision for contractual allowances and uncollectible accounts, fair value of financial instruments, reserves for employee benefit obligations, and self-insurance reserves for professional liability and workers' compensation.

#### **(c) Basis of Presentation**

The consolidated financial statements include the accounts of the Association and its affiliates. All significant intercompany transactions between the Association and its affiliates have been eliminated in consolidation.

#### **(d) Cash and Cash Equivalents**

The Association maintains cash on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes the Association to potential risk of loss in the event the financial institution becomes insolvent.

Cash and cash equivalents and restricted cash and cash equivalents for the years ending June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash	\$ 16,765	25,090
Restricted cash presented in assets whose use is limited, restricted by donors	<u>4,076</u>	<u>572</u>
Total cash and cash equivalents and restricted cash	<u>\$ 20,841</u>	<u>25,662</u>

#### **(e) Pledges Receivable**

Pledges of financial support are recorded at fair value by the Association when a donor's unconditional promise to give has sufficient definition with respect to the amount and planned timing of the donation. Conditional promises to give and intentions to give are reported at fair value at the earlier of when the contingency is met or the date the gift is received. An allowance for uncollectible pledges is recorded based on an estimated percentage of pledges that may not be collectible based on historical experience. The Association anticipates collection of net pledges receivable over the next one to ten years. Pledges over \$250 not scheduled to be collected within one year are discounted using a discount factor based upon an estimate of the risk factor and duration of each pledge.

#### **(f) Assets Whose Use is Limited**

Certain assets of the Association are held in trust under indenture agreements, are restricted by donor stipulations, or are management designated. Assets that have been management designated are subject to change in the future. These assets consist primarily of cash, accrued interest, money market funds, bond mutual funds, and equity mutual funds, and are recorded at fair value.

## OVERLAKE HOSPITAL ASSOCIATION

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

#### **(g) Investments**

Investments consist primarily of cash, accrued interest, money market funds, bond mutual funds, equity mutual funds, hedge funds and private equity, and are recorded at fair value. The estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value is the NAV per share provided by fund administrators. Investments are classified as other-than-trading with unrealized gains and losses included in current earnings as nonoperating revenue (expense), net.

#### **(h) Liquidity**

Cash and cash equivalents, accounts receivable, and current assets are the primary liquid resources available to the Association to meet expected expenditure needs within the next year. Although intended to satisfy long-term obligations and capital needs, management estimates that approximately 75% and 87% of investments and virtually all of its current assets, as stated at June 30, 2022 and 2021, respectively, could be utilized within a year if needed while continuing to satisfy bond covenants.

#### **(i) Land, Buildings, and Equipment**

Land, buildings, and equipment acquisitions with a useful life of at least two years are recorded at cost. Improvements and replacements of buildings and equipment are capitalized; maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the records and any resulting gain or loss is recorded. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets or lease term if shorter.

The fair value of a long-lived asset may change due to a number of factors such as a significant decrease in the market price of a long-lived asset, a significant adverse change in the manner in which the asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a change in expected useful life due to changes regarding obsolescence, planned replacement, or disposal. When management becomes aware of a situation that causes the fair value of a long-lived asset to be lower than the book value, management records an impairment and revises the estimated useful life as needed.

#### **(j) Deferred Financing Costs**

The Association defers the costs of obtaining financing and amortizes these costs over the term of the related debt using the effective-interest method. Deferred financing costs are included in long-term debt.

#### **(k) Net Assets**

Net assets without donor restrictions are available for unrestricted use by the Association and are reported as net assets without donor restrictions

Net assets with donor restrictions are those whose use by the Association have been limited by donors to a specific time period or purpose or restricted by donors to be maintained by the Association in perpetuity.

## OVERLAKE HOSPITAL ASSOCIATION

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

#### **(l) Net Patient Service Revenue**

The Association is paid for services to Medicare inpatients under the Prospective Payment System, which provides for reimbursement based on diagnosis-related groupings (DRGs). Such DRG payments are prospectively established and may be greater or less than the Association's actual charges for its services. The majority of Medicare outpatient services are reimbursed based on ambulatory payment classifications (APCs). APC payments are prospectively established and may be greater or less than the Association's actual charges for its services. Payments for Medicare outpatient laboratory services and certain therapeutic services are based on a fee schedule.

The Association is paid for services provided to Medicaid inpatients under a DRG-based system. Payments for Medicaid outpatient services are reimbursed on a percentage of actual charges or a fee schedule.

The Association has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and risk sharing agreements.

Net patient service revenue is reported at the estimated transaction price the Association expects to collect as a result of satisfying its performance obligations, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

For services that are paid under cost-reimbursed contractual arrangements with Medicare, the Association is paid at an interim rate during the year. The difference between the interim rate and the actual reimbursement based on defined allowable costs results in a receivable from or a payable to third-party agencies.

The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Medicare program until after the Association's annual cost reports have been audited or otherwise reviewed and settled by Medicare. The estimated settlement receivable/payable for unsettled cost reports is included in the accompanying consolidated financial statements.

Net patient service revenues are recognized at the time the services are provided to patients. Revenue is recorded in the amount which the Association expects to collect. Retroactive adjustments are accrued on an estimated basis in the period the performance obligations are satisfied and adjusted in future periods as final settlements are determined. The Association's net patient service revenue increased by \$1,734 and \$1,868 as a result of retroactive adjustments under reimbursement agreements with third-party payors during 2022 and 2021, respectively, which are considered variable consideration under Topic 606.

#### **(m) Charity Care**

The Association provides service to eligible patients at reduced or no cost based upon the individual patient's financial resources. The Association's policy provides for 100% charity to patients with income up to 200% of the federal poverty guidelines and from 65% to 98% charity to patients with income from 201% to 400% of the federal poverty guidelines. Records are kept to identify, approve, and monitor those costs that are incurred under the charity care policy. Because the Association does not expect

## OVERLAKE HOSPITAL ASSOCIATION

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

payment, estimated charges for charity care are not included in revenue. In addition to the approved charity care described above, the Association believes that other uncollected accounts would be approved under its charity care policy if information about the patient's financial resources were shared with the Association. Such amounts are not considered charity care.

#### **(n) Private Pay Discounts**

The Association offers patients with no insurance prompt pay discounts for medically necessary services. A 30% prompt pay discount is granted for full payment within 30 days of the first billing statement. Prompt pay discounts are recorded as an adjustment to patient service charges.

#### **(o) Donor-Restricted Gifts**

Gifts received from or pledged by donors are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets or contain a time restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or restricted purpose is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions.

#### **(p) Excess (Deficit) of Revenue over Expenses**

The consolidated statements of operations and changes in net assets include excess (deficit) of revenue over expenses. Changes in net assets that are excluded from excess of revenue over expenses include net assets released for capital acquisitions, contributions to net assets with donor restrictions, and investment income from donor-designated endowments.

#### **(q) Federal Income Taxes**

The Association is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to federal income taxes. However, the Association 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.

**OVERLAKE HOSPITAL ASSOCIATION**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

**(2) Net Patient Service Revenue**

**(a) Disaggregation of Revenue**

The mix of net patient service revenue by payor for the years ended June 30, 2022 and 2021 is as follows:

	<b>2022</b>	<b>2021</b>
Medicare	\$ 96,229	94,629
Medicaid	3,692	2,550
Kaiser Permanente	122,793	144,759
Premera	126,866	124,219
Regence	66,807	64,098
Other third-party payors and private pay	205,818	155,723
Total	\$ 622,205	585,978

**(b) Hospital Safety Net Program**

Under the Hospital Safety Net program, Washington State nongovernmental hospitals are assessed a fee on all non-Medicare patient days, up to a maximum of fifty-four thousand days per year. This fee is collected by the state and the state uses these funds to obtain federal Medicaid matching funds. Each state fiscal year, the state uses the assessment and Medicaid matching funds to make supplemental payments to Washington hospitals. The law sunsets on July 1, 2021.

Safety net revenue recognized under the program in the consolidated statements of operations is \$14,599 and \$15,069 for the years ended June 30, 2022 and 2021, respectively and is classified in net patient service revenue. Safety net expenses recognized under the program in the consolidated statements of operations are \$13,573 and \$13,553 for the years ended June 30, 2022 and 2021, respectively and are classified in hospital taxes and assessments.

Safety net revenue recognized and not yet received as of June 30, 2022 and 2021 totaled \$3,773 and \$3,792, respectively. Safety net expenses recognized and not yet paid as of June 30, 2022 and 2021 totaled \$3,393 and \$3,339, respectively.

**(c) Charity Care and Community Benefit**

The Association provides care without charge or at reduced rates to patients who qualify for charity care according to the Association's policy. The Association determines the cost of charity care using a cost to charge ratio following the regulatory guidelines. Total expenses are reduced by bad debt, other operating revenue, the hospital safety net assessment, and community benefit expense and patient charges are reduced by community benefit revenue in determining the cost to charge ratio. The ratio is then applied to the charges that were written off for charity to determine the cost of charity. For the years ended June 30, 2022 and 2021, the cost of providing charity was estimated at approximately \$5,545 and \$4,720, respectively.

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(Dollars in thousands)

The Association provides care to Medicaid patients at rates below the cost of providing services. For the years ended June 30, 2022 and 2021, payments were less than estimated cost by approximately \$33,493 and \$22,943, respectively.

The Association is also involved in an array of activities that benefit the broader community. Community education classes are offered in a wide range of health-related topics including preparing for childbirth, positive parenting, infant and child safety, adult first aid, CPR, women's health, smoking cessation, weight loss, diabetes, balance, dementia, living wills, long-term care insurance, cholesterol, caregiver support, dealing with cancer, and depression. In addition to classes, the Association has a cancer resource center that coordinates support groups, counseling, and provides access to the latest information on cancer at no cost. The Association assists patients that need help enrolling in Medicaid. Education is part of the Association's mission and is evidenced by the Association's participation in several residency programs or by providing a clinical setting for college-based programs including nursing, pharmacy technicians, medical imaging technicians, respiratory therapists, lab assistants, and cancer counselors. The Association operates a senior care clinic at a loss for the benefit of the community. The Association participates in clinical research projects. As a community member, the Association participates and helps sponsor many community events in the area it serves. The estimated net unreimbursed expenditures on community benefit programs were \$8,637 and \$6,223 in 2022 and 2021, respectively.

The Association works in partnership with a number of community agencies and provides volunteer support for programs and events that benefit the community. It is the Association's belief that giving back to the community is an integral part of its mission.

#### **(d) Concentrations of Credit Risk**

The Association grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30 is as follows:

	<u>2022</u>	<u>2021</u>
Medicare	18 %	21 %
Medicaid	2	2
Kaiser Permanente	18	19
Premera	10	12
Regence	8	6
Other third-party payors	38	32
Private pay	6	8
Total	<u>100 %</u>	<u>100 %</u>

**OVERLAKE HOSPITAL ASSOCIATION**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

**(3) Assets Whose Use is Limited and Investments**

Assets whose use is limited and investments, which are stated at fair value based primarily on quoted market prices, consisting of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Assets whose use is limited:		
Cash and accrued interest receivable	\$ 4,216	860
Money market funds	11,001	6,709
Fixed income securities	5,249	5,714
Equity mutual funds	<u>9,276</u>	<u>11,092</u>
Assets whose use is limited	<u>\$ 29,742</u>	<u>24,375</u>
Investments:		
Cash and accrued interest receivable	\$ 2,616	1,083
Money market funds	190	93
Fixed income securities	184,047	266,969
Equity mutual funds	143,738	241,844
Commingled funds	18,368	27,545
Investments measured using NAV:		
Hedge funds	27,777	—
Private equity	<u>4,860</u>	<u>—</u>
Total investments	<u>\$ 381,596</u>	<u>537,534</u>

Components of unrestricted investment income (which is included in other nonoperating revenue (expense), net) for the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 16,227	21,864
Net realized gains (losses) on investments	36,178	9,894
Net unrealized gains (losses) on investments	<u>(119,925)</u>	<u>60,864</u>
Total investment income	<u>\$ (67,520)</u>	<u>92,622</u>

Temporarily restricted investment income consisted of \$848 and \$377 in interest and dividends for the years ended June 30, 2022 and 2021, respectively.

**(4) Fair Value of Financial Instruments**

Generally Accepted Accounting Principles established a framework for measuring fair value that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or

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### Notes to Consolidated Financial Statements

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liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Accounting Standards Codification (ASC) 820-10-50, *Fair Value Measurement – Overall*, are described below:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. At June 30, 2022 and 2021, Level 1 securities include primarily money market funds and mutual funds.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market. At June 30, 2022 and 2021, Level 2 securities include an unregistered mutual fund with a valuation based on net asset value (NAV) per share provided by the fund administrator.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Association's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques. At June 30, 2022 and 2021, there were no Level 3 securities.

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 Association maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements. Fair value measurements for assets and liabilities where there is limited or no observable market data and, therefore, are based primarily upon estimates calculated by the Association, are based on the economic and competitive environment, the characteristics of the asset or liability, and other factors.

Therefore, the results cannot be determined with precision and may not be realized upon an actual settlement of the asset or liability. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of the current or future values.

Valuation for certain investments is based on the net asset value (NAV) per share provided by the fund administrators.

Following is a description of valuation methods and assumptions used for assets recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but required to be disclosed:

**(a) Cash**

The carrying amounts, at cost, equal fair value.



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**(b) Marketable Securities**

The tables below present the balances of assets measured at fair value on a recurring basis as of June 30, 2022 and 2021:

		<b>2022</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>
Cash and accrued interest	\$	4,216	—	—	4,216
Money market funds		11,001	—	—	11,001
Fixed income mutual funds		5,249	—	—	5,249
Equity mutual funds		9,276	—	—	9,276
Total assets whose use is limited		\$ 29,742	—	—	29,742
Cash and accrued interest	\$	2,616	—	—	2,616
Money market funds		190	—	—	190
Fixed income mutual funds		184,047	—	—	184,047
Equity mutual funds		143,738	—	—	143,738
Commingled equity securities		—	18,368	—	18,368
		\$ 330,591	18,368	—	348,959
Investments measured using NAV per share or its equivalent					32,637
Total investments					\$ 381,596

		<b>2021</b>			
		<b>Investments at estimated fair value</b>			
		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Valuation techniques based on observable market data (Level 2)</b>	<b>Valuation techniques incorporating information other than observable market data (Level 3)</b>	<b>Total</b>
Cash and accrued interest	\$	288	—	—	288
Money market funds		6,709	—	—	6,709
Fixed income mutual funds		5,714	—	—	5,714
Equity mutual funds		11,092	—	—	11,092
Total assets whose use is limited		\$ 23,803	—	—	23,803

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	<b>2021</b>			
	<b>Investments at estimated fair value</b>			
	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Valuation techniques based on observable market data (Level 2)</b>	<b>Valuation techniques incorporating information other than observable market data (Level 3)</b>	<b>Total</b>
Cash and accrued interest	\$ 1,083	—	—	1,083
Money market funds	93	—	—	93
Fixed income mutual funds	266,969	—	—	266,969
Equity mutual funds	241,844	—	—	241,844
Commingled equity securities	—	27,545	—	27,545
Total investments	<u>\$ 509,989</u>	<u>27,545</u>	<u>—</u>	<u>537,534</u>

The Hospital uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used for certain financial instruments is the NAV per share. The NAV per share provided by fund administrators for these financial instruments considers variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. Management review the valuations and assumptions used by fund administrators to determine NAV per share for reasonableness and believes the carrying values of the related financial instruments are reasonable estimates of fair value.

The practical expedient used by the Hospital for certain financial instruments is the NAV per share equivalent. For these financial instruments, the valuation of the transaction price is initially used as the best estimate of fair value. Accordingly, when a private equity provides a valuation, is adjusted so the value at inception equals the transaction price. The initial valuation is adjustment when changes to inputs and assumptions are corroborated by evidence, such as transactions of similar financial instruments; completed, or pending third-party transactions in the underlying security; or changes in financial results, data or cash flows. For positions that are not traded in active markets or are subject to notice provision, valuations are adjusted to reflect such provisions, and adjustments are generally based on available market evidence.

**OVERLAKE HOSPITAL ASSOCIATION**

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The Hospital used the NAV per share or its equivalent to measure fair value of the following types of investments as of June 30, 2022:

	<u>2022</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 27,777	Bi-annually	95 days
Private equity	4,860	Event driven	—
	<u>\$ 32,637</u>		

The fair values of private equity were estimated using the most current information available, which is March 31, 2022, adjusted for cash flows and other known events impacting fair value since the valuation date. The Hospital has committed up to \$25,000 for investments in these funds through August 10, 2026, of which \$4,800 had been funded as of June 30, 2022.

**(5) Land, Buildings, and Equipment**

The Association's land, buildings, and equipment accounts, and related accumulated depreciation accounts, as of June 30, 2022 and 2021 are set forth below:

	<u>2022</u>	<u>2021</u>
<b>Assets:</b>		
Land	\$ 7,601	7,601
Land improvements	4,671	4,808
Buildings and improvements	549,445	508,871
<b>Equipment:</b>		
Fixed	63,312	58,094
Movable	255,453	237,345
Construction in progress	10,692	20,675
Total land, buildings, and equipment	<u>891,174</u>	<u>837,394</u>
<b>Accumulated depreciation:</b>		
Land improvements	4,308	4,354
Buildings and improvements	191,720	177,459
<b>Equipment:</b>		
Fixed	40,466	38,811
Movable	203,986	186,796
Total accumulated depreciation	<u>440,480</u>	<u>407,420</u>
Total land, buildings, and equipment, net	<u>\$ 450,694</u>	<u>429,974</u>

The Association capitalized interest in connection with its construction projects of \$0 and \$3,189 during the years ended June 30, 2022 and 2021, respectively.

**OVERLAKE HOSPITAL ASSOCIATION**  
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The Association recorded \$33,158 and \$28,616 of depreciation expense in 2022 and 2021, respectively. The following is a summary of asset lives used for calculating depreciation:

	<b>Asset lives</b>
Land improvements	5–40 years
Buildings and improvements	2–40 years
Fixed equipment	3–30 years
Movable equipment	2–20 years

The Association has outstanding construction contract commitments of \$11,494 and \$17,388 as of June 30, 2022 and 2021, respectively.

**(6) Revolving Line of Credit**

The Hospital has a revolving line of credit of \$35,000 available as of June 30, 2022, which expires on August 5, 2023. In fiscal year 2022, the Hospital borrowed the full balance and has \$35,000 outstanding as of June 30, 2022.

**(7) Financing**

**(a) Long-Term Debt**

Long-term debt, as of June 30, 2022 and 2021, is as follows:

	<b>2022</b>	<b>2021</b>
Revenue bonds, Series 2014, 4.00% to 5.00%, due in annual principal installments ranging from \$1,425 to \$3,370, until 2038, including a premium of \$2,314 and \$2,570, and net of deferred financing cost of \$413 and \$459 as of June 30, 2022 and 2021, respectively, callable on or after July 2024.	\$ 42,340	44,046
Revenue bonds, Series 2017A/B, 4.00% to 5.00%, due in annual principal installments ranging from \$2,625 to \$16,215, from 2023 until 2043, including a premium of \$14,911 and \$16,571, and net of deferred financing cost of \$1,035 and \$1,137 as of June 30, 2022 and 2021, respectively, callable on or after January 2028.	190,660	192,220

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	<b>2022</b>	<b>2021</b>
Revenue bonds, Series 2017C, variable rate, due in annual principal installments ranging from \$14,180 to \$18,185, from 2043 until 2045, net of deferred financing cost of \$15 and \$47 as of June 30, 2022 and 2021, respectively. Principal may be prepaid in whole or in part at each Rate Reset Date and is subject to a mandatory tender date of December 21, 2022 unless the Bank (or other owner) elects the right to retain the bonds.	\$ 49,985	49,953
Note payable to a financial institution, 3.34%, secured by a deed of trust on land, building, and rental income due in monthly payments including interest of \$373 until August 2022, net of deferred financing cost of \$0 and \$4 as of June 30, 2022 and 2021, respectively.	743	5,109
Total long-term debt	283,728	291,328
Less current portion	(6,503)	(5,866)
Long-term debt, net of current portion	\$ 277,225	285,462

In fiscal year 2018, the Hospital received proceeds from the Washington Health Care Facilities Financing Authority, Revenue Bonds, Series A, B and C with total proceeds of approximately \$249,215. The 2017 Series C bonds, in the amount of approximately \$49,985 as of June 30, 2022, are variable rate revenue bonds which were all purchased in a private placement by a financial institution. They will be held by that financial institution until December 2022 unless an election is made by the financial institution to retain the 2017 Series C Revenue Bonds for a longer period. If the financial institution does not elect to retain the 2017 Series C bonds, the bonds will be remarketed and it is possible that if the remarketing is not successful they will become due and payable in December 2022. The debt maturity table includes the expected principal payments for the 2017 Series C Revenue Bonds according to the original contractual maturity schedule at the time of issuance.

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The principal amounts due by year are as follows:

Fiscal years:		
2023	\$	6,503
2024		6,815
2025		7,170
2026		7,535
2027		7,920
Thereafter		<u>232,024</u>
		267,967
Add net unamortized bond premiums		17,225
Less unamortized deferred financing costs		<u>(1,463)</u>
	\$	<u><u>283,729</u></u>

The obligated group for the revenue bonds (the bonds) consists of the Hospital and the Association. As security for the payment of the bonds, the Hospital has granted the Trustee a security interest in the Hospital's gross revenue and the moneys in the trust funds as described below. Trust funds have been established for the regular deposit of interest and principal payments of the bonds and is reflected within assets whose use is limited on the accompanying consolidated balance sheet.

Under the terms of the loan agreements, the Hospital has agreed to maintain certain financial ratios and comply with certain other covenants.

**(8) Retirement Programs**

The Hospital's retirement program consists of a Voluntary Employee Tax Deferred Plan 403(b) (the Voluntary Plan), and a Contribution Plan 401(a) (the Contribution Plan).

**(a) The Voluntary Plan**

The Voluntary Plan is a 403(b) plan. The Voluntary Plan is entirely employee funded. All employees may participate in the program and have a choice of investments with varying levels of risk and return. New employees are automatically enrolled in the Voluntary Plan.

## OVERLAKE HOSPITAL ASSOCIATION

### Notes to Consolidated Financial Statements

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#### **(b) The Contribution Plan**

Plan eligibility commences on the date of hire. Participants must be credited with 1,000 hours of service during the calendar year in order to receive employer contributions. Each year the Hospital makes matching contributions to the Voluntary Plan based on a percentage of employee contributions up to a specified maximum percent of the employee's eligible compensation. The Hospital's matching contributions are summarized as follows:

Employees receive 100% of matching contributions to the Voluntary Plan, up to a maximum of 4% and 5% of the employee's eligible compensation for participants with less than five years of service or up to a maximum of 6% and 7% of the employee's eligible compensation for participants with five or more years of service at the start of the plan year, respectively for calendar years 2020 and 2021 forward.

In addition, the Hospital made nonelective service contributions equal to 2% of eligible compensation for each employee subject to certain limitations imposed under the IRC for calendar years through 2020, this program was eliminated as of January 1, 2021. The Hospital contributed approximately \$14,079 and \$15,431 in matching and service contributions for the years ended June 30, 2022 and 2021, respectively, and is reflected in employee benefits in the consolidated statements of operations and changes in net assets.

#### **(9) Leases**

The Association enters into operating leases primarily for buildings. For leases with terms greater than 12 months, the Association records the related operating lease ROU assets and liabilities at the present value of the lease payments over the contract term using the Association's incremental borrowing rate. Building lease agreements generally require the Association to pay for maintenance and repairs, which are variable based on actual costs incurred during each applicable period. Such costs are not included in the determination of the operating lease ROU asset or lease liability. Variable lease costs also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation. Most leases include one or more options to renew the lease at the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. All such options are at the Association's discretion and are evaluated at the lease commencement, with only those that are reasonably certain of exercise included in determining the appropriate lease term. The Association has elected the practical expedient to not separate lease components from non-lease components for its operating leases.

The components of lease cost are as follows for the year ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Operating lease cost:		
Fixed lease expense	\$ 7,713	7,610
Variable lease expense	<u>3,123</u>	<u>3,183</u>
Total operating lease cost	<u>\$ 10,836</u>	<u>10,793</u>

**OVERLAKE HOSPITAL ASSOCIATION**

Notes to Consolidated Financial Statements

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(Dollars in thousands)

Other information related to leases as of and for the year ended June 30, 2022 and 2021 is as follows:

	2022	2021
Weighted average remaining lease term (in years)	6	7
Weighted average discount rate	2.9 %	2.9 %

Commitments related to noncancelable operating leases for each of the next five years and thereafter as of June 30, 2022 are as follows:

Fiscal year:		
2023	\$	7,537
2024		7,563
2025		7,701
2026		5,276
2027		3,886
Thereafter		9,300
		41,263
Less imputed interest		3,578
Total lease liabilities		37,685
Less current portion		6,538
Long term lease obligation	\$	31,147

**(10) Professional Liability Insurance, Workers' Compensation, and Health Benefits**

The Association maintains claims-made professional liability insurance coverage through a commercial carrier. The policy for the years ended June 30, 2022 and 2021 has a \$750 deductible per occurrence. The Association also carries excess coverage policies for its professional liability program.

Based upon actuarial valuations, the Association has recorded estimated liabilities (undiscounted) for claims incurred but not reported as well as claims reported and not paid of \$18,339 and \$18,059 and reinsurance receivables of \$7,189 and \$7,531 as of June 30, 2022 and 2021, respectively.

The Association is self-insured for workers' compensation. The accrued liabilities for the self-insured components of this plan include the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. The Association also carries an excess coverage policy for its workers' compensation program. The Association has recorded undiscounted liabilities for workers' compensation claims based on actuarial estimates of approximately \$3,310 and \$3,095 as of June 30, 2022 and 2021, respectively and reinsurance receivables of \$313 as of June 30, 2022 and 2021.



## OVERLAKE HOSPITAL ASSOCIATION

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

The Association is self-insured for medical, dental, and prescription drugs. The accrued liabilities for the self-insured components of this plan include the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. The Association also carries an excess coverage policy for its medical, dental, and prescription program. The Association has recorded undiscounted liabilities for medical, dental, and prescription drugs claims based on actuarial estimates of approximately \$2,638 and \$2,072 as of June 30, 2022 and 2021, respectively.

#### (11) Litigation and Compliance with Laws and Regulations

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

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

#### (12) Functional Expenses

The Association provides healthcare services to residents within its geographic service area. Expenses related to providing these services for the years ended June 30, 2022 and 2021 are as follows:

	2022			
	Healthcare services	General and administrative	Fundraising	Total
Salaries and benefits	\$ 335,376	51,000	1,082	387,458
Purchased services and other	100,159	73,787	263	174,209
Supplies	101,991	2,567	59	104,617
Interest, depreciation and amortization	27,385	18,095	—	45,480
Total operating expenses	\$ 564,911	145,449	1,404	711,764

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

	<b>2021</b>			
	<b>Healthcare services</b>	<b>General and administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and benefits	\$ 292,374	54,543	869	347,786
Purchased services and other	68,888	65,135	259	134,282
Supplies	96,731	4,409	41	101,181
Interest, depreciation and amortization	26,084	11,444	—	37,528
Total operating expenses	<u>\$ 484,077</u>	<u>135,531</u>	<u>1,169</u>	<u>620,777</u>

**(13) Net Assets with Donor Restrictions**

Net assets with donor restrictions as of June 30, 2022 and 2021 are assets whose use has been limited to a specific period, in perpetuity and/or for a designated purpose.

Net assets with donor restrictions subject to expenditure for specified purposes as of June 30, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
Donor restricted endowments subject to spending policy for specified purposes:		
Endowment purpose:		
Family Resource Coordinator	\$ 442	442
Senior Care Outreach	40	40
Surgical Services	551	527
Oncology Clinical Education	162	162
Nursing Clinical Education	281	281
Intensive Care Unit	2,582	2,572
Charity Care/Uncompensated Care	328	318
General Hospital Support	1,468	1,308
Heart & Vascular	112	116
Reigert Chest Pain Center	114	114
Cardiac Care	145	145
Clinic Oncology Medical Director	100	96
	<u>6,325</u>	<u>6,121</u>

**OVERLAKE HOSPITAL ASSOCIATION**

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(Dollars in thousands)

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purposes:		
Health care services	\$ 8,225	6,127
Health education	231	439
Indigent care	122	200
Purchase of building improvements and equipment	<u>4,124</u>	<u>7,302</u>
Total net assets with donor restrictions	<u>12,702</u>	<u>14,068</u>
	<u>\$ 19,027</u>	<u>20,189</u>

The Foundation's endowments consist of 19 individual funds established for a variety of purposes, but primarily supporting various forms of healthcare services, including both donor-restricted endowment funds and funds designated by management to function as endowments. Quasi endowment net assets associated with endowment funds, including funds designated by management, are classified and reported based on the existence or absence of donor-imposed restrictions.

**(14) COVID-19**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, authorizes \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (PHSSEF). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. The U.S. Department of Health and Human Services (HHS) initially distributed \$30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019, but announced that \$50 billion in CARES Act funding (including the \$30 billion already distributed) will be allocated proportional to providers' share of 2018 net patient revenue. HHS indicated that distributions of the remaining \$50 billion were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. The Association received \$1,024 and \$1,421 in payments from the PHSSEF payments all of which was recognized as other operating revenue for the years ended June 30, 2022 and 2021, respectively.

## OVERLAKE HOSPITAL ASSOCIATION

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(Dollars in thousands)

In addition to the CARES Act, the declaration of a public health emergency also provided funding opportunities for healthcare organizations through Public Assistance (PA) of the Federal Emergency Management Agency (FEMA). This funding is available to cover direct COVID-19 related expenditures in addition to those reimbursed through other means, including the CARES Act and any payments received through HHS. The Association has applied for reimbursement through FEMA for expenses occurred in relation to COVID-19 through December 31, 2020 and received reimbursement of \$3,763 and \$4,448 which was recognized in other operating revenues for the years ended June 30, 2022 and 2021, respectively. Additional requests for reimbursement have been submitted and are pending review and reimbursement. Due to the high degree of uncertainty related to these requests, the Association has not recorded additional revenue related to future potential receipts from FEMA.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals may request accelerated payments of up to 100% of the Medicare payment amount for a six-month period (not including Medicare Advantage payments). Centers for Medicare & Medicaid Services (CMS) based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. Such accelerated payments are interest free for inpatient acute care hospitals for 29 months and CMS is required to recoup the payments beginning one year after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped at a rate of 25% of Medicare payments otherwise due the provider during the first 11 months and at 50% of Medicare payments otherwise due in the succeeding 6 month. Any payments not recouped within 29 months will be subject to interest at four percent. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity's customers. In April 2020, the Association received \$35,000 of accelerated payments, which have been recorded on the consolidated balance sheet as of June 30, 2021 as a contract liability. This contract liability will be reduced over time as payments are recaptured. The ending liability as of June 30, 2022 is \$6,955.

Additionally, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Association began deferring the employer portion of social security taxes in April 2020. As of June 30, 2022, the Association deferred \$4,849 in social security taxes.

Due to the recent enactment of the CARES Act, the PPPHCE Act, and PA through FEMA there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. We continue to assess the potential impact of the CARES Act, the PPPHCE Act, PA through FEMA, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

#### **(15) Subsequent Events**

The Association has performed an evaluation of subsequent events through October 21, 2022, which is the date these consolidated financial statements were issued.

## OVERLAKE HOSPITAL ASSOCIATION

## Consolidating Information – Balance Sheets

June 30, 2022 and 2021

(In thousands)

	Association	Hospital	Medical tower	Eliminating entries	Total 2022	Total 2021
<b>Current assets:</b>						
Cash and cash equivalents	\$ 342	15,673	750	—	16,765	25,090
Receivables, net	—	109,314	—	—	109,314	86,627
Current portion of pledges receivable	—	2,521	—	—	2,521	3,978
Current portion of assets whose use is limited	—	11,001	—	—	11,001	6,709
Supplies inventory	—	14,474	—	—	14,474	13,514
Prepaid expenses	—	12,829	102	—	12,931	11,194
Other current assets	1,448	6,689	2,887	—	11,024	9,072
<b>Total current assets</b>	<b>1,790</b>	<b>172,501</b>	<b>3,739</b>	<b>—</b>	<b>178,030</b>	<b>156,184</b>
Assets whose use is limited, net of current portion	—	18,741	—	—	18,741	17,666
Investments	—	380,963	633	—	381,596	537,534
Long-term portion of pledges receivables, net	—	1,989	—	—	1,989	3,980
Other long-term receivables, net	—	6,267	—	—	6,267	6,581
Land, buildings, and equipment, net	4,420	427,336	18,938	—	450,694	429,974
Operating lease right of use assets, net	—	34,484	—	—	34,484	38,190
<b>Other assets:</b>						
Investments in joint ventures	—	4,446	—	—	4,446	2,621
Other assets	—	2,118	—	—	2,118	3,390
Interest in net assets of consolidated affiliates	562,949	—	—	(562,949)	—	—
<b>Total other assets</b>	<b>562,949</b>	<b>6,564</b>	<b>—</b>	<b>(562,949)</b>	<b>6,564</b>	<b>6,011</b>
<b>Total assets</b>	<b>\$ 569,159</b>	<b>1,048,845</b>	<b>23,310</b>	<b>(562,949)</b>	<b>1,078,365</b>	<b>1,196,120</b>
<b>Current liabilities:</b>						
Accounts payable	\$ 12	33,834	183	—	34,029	25,087
Accrued liabilities	2	76,977	52	—	77,031	70,856
Accrued interest payable	—	5,241	3	—	5,244	5,258
Payable to third-party agencies	—	11,249	—	—	11,249	10,261
Medicare advanced funding	—	6,955	—	—	6,955	31,495
Line of credit borrowing	—	35,000	—	—	35,000	—
Current portion of long-term debt	—	5,760	743	—	6,503	5,866
Current portion of operating lease right-of-use liabilities	—	6,538	—	—	6,538	6,200
<b>Total current liabilities</b>	<b>14</b>	<b>181,554</b>	<b>981</b>	<b>—</b>	<b>182,549</b>	<b>155,023</b>
Long-term debt, net of current portion	—	277,225	—	—	277,225	285,462
Long-term operating lease right-of-use liabilities, net of current portion	—	31,147	—	—	31,147	35,503
Other long-term liabilities	39	18,299	—	—	18,338	16,780
<b>Total liabilities</b>	<b>53</b>	<b>508,225</b>	<b>981</b>	<b>—</b>	<b>509,259</b>	<b>492,768</b>
<b>Net assets:</b>						
Without donor restrictions	569,106	521,592	22,329	(562,949)	550,078	683,163
With donor restrictions	—	19,028	—	—	19,028	20,189
<b>Total net assets</b>	<b>569,106</b>	<b>540,620</b>	<b>22,329</b>	<b>(562,949)</b>	<b>569,106</b>	<b>703,352</b>
<b>Total liabilities and net assets</b>	<b>\$ 569,159</b>	<b>1,048,845</b>	<b>23,310</b>	<b>(562,949)</b>	<b>1,078,365</b>	<b>1,196,120</b>

See accompanying independent auditors' report.

## OVERLAKE HOSPITAL ASSOCIATION

Consolidating Information – Operations and Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	Association	Hospital	Medical tower	Eliminating entries	Total 2022	Total 2021
Operating revenue:						
Net patient service revenue	\$ —	622,205	—	—	622,205	585,978
Other operating revenue	1,294	14,310	10,194	(8,280)	17,518	20,362
Contribution revenue	—	3,135	—	—	3,135	877
Net operating revenue	1,294	639,650	10,194	(8,280)	642,858	607,217
Operating expenses:						
Salaries	—	313,950	—	—	313,950	282,452
Registry	—	45,366	—	—	45,366	16,608
Employee benefits	—	73,508	—	—	73,508	65,334
Supplies	—	104,539	78	—	104,617	101,181
Purchased services	140	70,605	1,454	—	72,199	64,791
Interest and amortization	—	10,954	96	—	11,050	7,421
Depreciation and amortization	56	32,918	1,456	—	34,430	30,107
Rent, leases, and utilities	54	23,259	679	(8,280)	15,712	15,194
Hospital taxes and assessments	—	18,910	—	—	18,910	18,872
Marketing, insurance, and other	55	21,191	776	—	22,022	18,817
Total operating expenses	305	715,200	4,539	(8,280)	711,764	620,777
Excess (deficit) of revenue over expenses from operations	989	(75,550)	5,655	—	(68,906)	(13,560)
Nonoperation revenue, net:						
Investment income (expense)	—	(67,520)	—	—	(67,520)	92,622
Gain from nonoperating affiliates	—	209	—	—	209	—
Total nonoperating (expense) revenue, net	—	(67,311)	—	—	(67,311)	92,622
Interest in net assets of consolidated affiliates	(134,735)	—	—	134,735	—	—
(Deficit) excess of revenue over expenses	(133,746)	(142,861)	5,655	134,735	(136,217)	79,062
Other changes in net assets without donor restrictions:						
Net assets released for capital acquisitions	—	4,439	—	—	4,439	13,168
Other	—	(1,307)	—	—	(1,307)	307
Intercompany transfers	(500)	4,500	(4,000)	—	—	—
(Decrease) increase in net assets without donor restrictions	(134,246)	(135,229)	1,655	134,735	(133,085)	92,537
Changes in net assets with donor restrictions:						
Contributions	—	5,089	—	—	5,089	10,206
Investment income	—	848	—	—	848	377
Change in net unrealized (losses) gains on investments	—	(2,207)	—	—	(2,207)	2,035
Net assets released from restrictions	—	(4,891)	—	—	(4,891)	(13,475)
(Decrease) in net assets with donor restrictions	—	(1,161)	—	—	(1,161)	(857)
(Decrease) increase in net assets	(134,246)	(136,390)	1,655	134,735	(134,246)	91,681
Net assets, beginning of year	703,352	677,009	20,675	(697,684)	703,352	611,672
Net assets, end of year	\$ 569,106	540,619	22,330	(562,949)	569,106	703,352

See accompanying independent auditors' report.