OVERLAKE HOSPITAL ASSOCIATION

Consolidated Financial Statements
and Consolidating Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Overlake Hospital Association:

We have audited the accompanying consolidated financial statements of Overlake Hospital Association and subsidiaries, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Overlake Hospital Association and subsidiaries as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019 Overlake Hospital Association adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring a change in the presentation of the provision for uncollectible accounts and enhanced financial statement disclosures, and ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, requiring a change in the presentation of net assets and enhanced financial statement disclosures. Our opinion is not modified with respect to these matters.

Other Matters

Our audit was performed 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 the 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 28, 2019

OVERLAKE HOSPITAL ASSOCIATION

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	$ 20,770	29,730
Receivables, net	68,667	60,787
Current portion of pledges receivable	2,691	2,158
Current portion of assets whose use is limited	6,654	6,946
Supplies inventory	9,968	9,744
Prepaid expenses	11,218	10,722
Other current assets	5,043	5,519
Total current assets	125,011	125,606
Assets whose use is limited:		
Restricted by donors	11,547	10,657
Management designated	4,180	4,041
Funds held under bond indenture and collateral agreements	80,868	118,939
Less current portion	(6,654)	(6,946)
Total assets whose use is limited, net of current portion	89,941	126,691
Investments	498,491	466,515
Long-term portion of pledges receivable, net	6,142	4,743
Other long-term receivables, net	1,566	3,043
Land, buildings, and equipment, net	290,680	253,178
Other assets:		
Investments in joint ventures	2,901	2,740
Other assets	1,786	1,917
Total other assets	4,687	4,657
Total assets	$ 1,016,518	984,433

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OVERLAKE HOSPITAL ASSOCIATION

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Liabilities and Net Assets		2019	2018
Current liabilities:			
Current portion of long-term debt	$	5,449	5,245
Accounts payable		23,694	21,576
Accrued liabilities		50,606	56,168
Accrued interest payable		5,427	5,699
Payable to third-party agencies		7,862	7,229
Total current liabilities		93,038	95,917
Long-term debt, net of current portion		300,460	307,653
Pension liability		—	5,438
Other long-term liabilities		10,890	11,454
Total liabilities		404,388	420,462
Net assets:			
Without donor restrictions		592,061	546,792
With donor restrictions		20,069	17,179
Total net assets		612,130	563,971
Total liabilities and net assets	$	1,016,518	984,433

See accompanying notes to consolidated financial statements.

OVERLAKE HOSPITAL ASSOCIATION

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Operating revenue:			
Patient service revenue	$	559,660	540,109
Provision for uncollectible accounts		—	(11,013)
Net patient service revenue		559,660	529,096
Other operating revenue		11,317	27,997
Contribution revenue		3,167	2,190
Net operating revenue		574,144	559,283
Operating expenses:			
Salaries		247,016	231,374
Registry		8,799	10,337
Employee benefits		58,613	54,191
Supplies		98,818	90,910
Purchased services		54,869	49,818
Interest and amortization		8,784	8,794
Depreciation and amortization		33,555	33,742
Rent, leases, and utilities		12,783	12,080
Hospital taxes and assessments		17,359	17,655
Marketing, insurance, and other		16,458	18,359
Total operating expenses		557,054	527,260
Excess of revenue over expenses from operations		17,090	32,023
Nonoperating revenue (expense), net:			
Investment income		10,858	13,552
Loss on refinancing		—	(8,627)
Nonoperating expenses		(13,090)	(2,219)
Total nonoperating revenue (expense), net		(2,232)	2,706
Excess of revenue over expenses		14,858	34,729
Other changes in net assets without donor restrictions::			
Net assets released for capital acquisitions		4,876	6,924
Change in pension liability		14,902	(4,746)
Change in net unrealized gains on investments		10,389	6,810
Other		244	343
Increase in net assets without donor restrictions		45,269	44,060
Changes in net assets with donor restrictions:			
Contributions		10,114	5,561
Investment income		431	616
Change in net unrealized gains on investments		83	24
Net assets released from restrictions		(7,738)	(8,626)
Increase (decrease) in net assets with donor restrictions		2,890	(2,425)
Increase in net assets		48,159	41,635
Net assets, beginning of year		563,971	522,336
Net assets, end of year	$	612,130	563,971

See accompanying notes to consolidated financial statements.

OVERLAKE HOSPITAL ASSOCIATION

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	48,159	41,635
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		31,811	32,768
Provision for uncollectible accounts		—	11,013
(Gain) loss on disposal of assets		(34)	3
Loss on refinancing		—	8,627
Restricted contributions received for capital and permanently restricted purposes		(5,908)	(1,054)
Net realized and unrealized losses (gains) on investments and management designated assets whose use is limited		10,913	(6,600)
Equity earnings in joint ventures		(161)	(2,213)
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Receivables, net		(7,880)	(16,817)
Pledges receivable		(1,932)	(2,943)
Supplies inventory		(224)	(715)
Prepaid expenses		(496)	(2,568)
Other current assets		476	279
Other long-term receivables		1,477	355
Prepaid pension		—	1,946
(Decrease) increase in:			
Accounts payable		847	3,308
Accrued liabilities		(5,562)	6,976
Deferred revenues		—	(14,029)
Accrued interest payable		(272)	1,970
Payable to third-party agencies		633	1,629
Pension liability		(5,438)	5,438
Other long-term liabilities		(564)	612
Net cash provided by operating activities		65,845	69,620
Cash flows from investing activities:			
Purchase of land, buildings, and equipment		(69,671)	(45,262)
Proceeds from disposal of assets		50	5
Proceeds from sale of investments and management designated assets whose use is limited		68,192	81,701
Purchase of investments and management designated assets whose use is limited		(74,039)	(239,145)
Distributions from joint ventures		—	2,564
Net cash used in investing activities		(75,468)	(200,137)
Cash flows from financing activities:			
Restricted contributions received for capital and restricted purposes		5,908	1,054
Principal payments on long-term debt		(5,245)	(8,640)
Proceeds from issuance of new debt		—	249,215
Refunding of old debt from new debt		—	(98,153)
Financing fees paid		—	(1,633)
Net cash provided by financing activities		663	141,843
Net (decrease) increase in cash and cash equivalents		(8,960)	11,326
Cash and cash equivalents, beginning of year		29,730	18,404
Cash and cash equivalents, end of year	$	20,770	29,730
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	9,056	6,824
Purchase of land, buildings, and equipment included in accounts payable		5,214	3,942

See accompanying notes to consolidated financial statements.

(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.

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.

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

(b) Reclassifications

Certain prior year amounts have been reclassified to conform with the fiscal year 2019 presentation.

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(c) 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 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.

(d) 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.

(e) 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.

(f) Allowance for Uncollectible Accounts

As a result of adopting Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09 as described in Note 1, the Hospital and the Clinics continue to maintain an allowance for uncollectible accounts related to performance obligations satisfied prior to July 1, 2019. The Hospital estimates this allowance based on the aging of accounts receivable, historical collection experience, and other relevant factors. The Clinics estimate this allowance based on the historical collection experience by the clinic and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of co-insurance, and deductibles to be made by patients with insurance and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process.

(g) 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.

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(h) 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.

(i) Investments

Investments consist primarily of cash, accrued interest, money market funds, bond mutual funds, and equity mutual funds, and are recorded at fair value. Investments are classified as other-than-trading with unrealized gains and losses included in changes in net assets unless the losses are considered other-than-temporary.

(j) Other-Than-Temporary Impairment

The Association reviews investments each period and assesses whether an other-than-temporary impairment has occurred. Each investment within the portfolio is evaluated individually. Major factors that are considered are: 1) fair value of the investment is below cost, 2) loss has been sustained over an extended period of time, and 3) whether the Association intends to sell or could be required to sell the investment security, or, if not, whether it has the ability to hold an investment for a reasonable period of time sufficient for a forecasted recovery of fair value up to or beyond the cost of the investment. Additional factors that might be considered include, but are not limited to: 1) credit risk of the investment, 2) decline attributable to adverse conditions specifically related to the investment, its industry, or geography, 3) investment has been downgraded by a rating agency, 4) dividends have been reduced or eliminated or scheduled interest has not been paid, 5) changes in the value of the investment after the close of the period, 6) trading in the investment has been suspended, and 7) discussion with investment advisor.

A decline in the market value of any other-than-trading security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair market value. The impairment is charged against nonoperating revenue and a new cost basis for the security is established.

(k) Liquidity

Cash and cash equivalents and accounts receivable are the primary liquid resources used by 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 87% of investments and virtually all of its current assets, as stated at June 30, 2019, could be utilized within a year if needed while continuing to satisfy bond covenants.

(l) Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions over $3 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.

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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.

(m) 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.

(n) Net Assets with 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.

(o) 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 it's 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

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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 $1,073 and $1,799 as a result of retroactive adjustments under reimbursement agreements with third-party payors during 2019 and 2018, respectively, which are now considered variable consideration in 2019 under Topic 606.

(p) 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 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.

(q) 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.

(r) 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.

(s) Excess of Revenue over Expenses

The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in net assets that are excluded from excess of revenue over expenses include net assets released for capital acquisitions, certain changes in pension liability, change in net unrealized gains on investments that are other-than-trading, contributions to net assets with donor restrictions, and investment income from donor-designated endowments.

(t) 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.

(u) Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles (GAAP) upon implementation. The Association adopted this standard on July 1, 2018 under the cumulative effect transition method. Results for reporting periods beginning on or after July 1, 2018 are presented under Topic 606, while prior period amounts continue to be presented in accordance with the Association's historical accounting under *Revenue Recognition (Topic 605)*. The adoption of the standard resulted in a change in presentation on the statement of operations and changes in net assets for the provision for uncollectible accounts and enhanced footnote disclosures. The adoption did not result in a significant impact on the recognition of net patient service revenue.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which, among other things requires a not-for-profit to: 1) present on the face of the consolidated balance sheet amounts for two classes of net assets at the end of the period, rather than for the previously required three classes. The two classes are net assets with donor restrictions and net assets without donor restrictions; 2) present on the face of the consolidated statement of operations and changes in net assets the amount of the change in each of the two classes of net assets; 3) continue to present on the face of the consolidated statement of cash flows the net amount for operating cash flows using either the direct or indirect method; 4) provide various enhanced disclosures; 5) report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses; and 6) use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. The Association adopted ASU 2016-14 effective July 1, 2018. ASU 2016-14 was applied using a retrospective basis. As a result of adoption, temporarily restricted and permanently restricted net assets of $11,334 and $5,845, respectively, were combined to create net assets with donor restrictions in the 2018 consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for the Association on July 1, 2019. The Association is currently evaluating the effects this standard will have on the Association's consolidated financial statements and accompanying disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase the reported assets and liabilities. Lessor accounting remains substantially the same as current U.S. GAAP. ASU 2016-02 supersedes Topic 840, *Leases*. ASU 2016-02 is effective for the Association on July 1, 2019. The inventory of leases has been finalized. Adoption of this standard is expected to have an impact between $30,000 and $35,000 in an additional liability and right of use asset on the consolidated balance sheet.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU, among other things, requires equity securities classified as other than trading to be measured at fair value with changes in fair value recognized in excess of revenues over expenses and updates certain disclosure requirements related to financial instruments. ASU 2016-01 is effective for the Association for annual and interim periods beginning on or after July 1, 2019; however, the Association early adopted the option to remove the fair value of debt disclosure as of June 30, 2018 as permitted under the provisions of the ASU. When the remaining provisions of this ASU are adopted, a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption is required. The Association is currently evaluating the effects this standard will have on the Association's consolidated financial statements and accompanying disclosures.

(2) Net Patient Service Revenue

(a) Disaggregation of Revenue

The mix of net patient service revenue by payor for the years ended June 30, 2019 and 2018 is as follows:

		2019	2018
Medicare	$	97,299	96,501
Medicaid		2,401	4,325
Kaiser Permanente/Group Health		124,827	112,940
Premera		97,009	89,562
Regence		77,309	83,954
Other third-party payors and private pay		160,815	141,814
Total	$	559,660	529,096

(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 $13,483 and $14,091 for the years ended June 30, 2019 and 2018, respectively and is classified in net patient service revenue. Safety net expenses recognized under the program in the consolidated statements of operations are $12,381 and $12,977 for the years ended June 30, 2019 and 2018, respectively and were classified in hospital taxes and assessments.

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Safety net revenue recognized and not yet received as of June 30, 2019 and 2018 totaled $3,558 and $3,253, respectively. Safety net expenses recognized and not yet paid as of June 30, 2019 and 2018 totaled $3,095 and $3,244, 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, 2019 and 2018, the cost of providing charity was estimated at approximately $5,687 and $7,057, respectively.

The Association provides care to Medicaid patients at rates below the cost of providing services. For the years ended June 30, 2019 and 2018, payments were less than estimated cost by approximately $17,816 and $15,971, 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 $5,620 and $5,701 in 2019 and 2018, 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.

(Continued)

(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:

	2019	2018
Medicare	21 %	18 %
Medicaid	2	3
Kaiser Permanente	14	16
Premera	13	13
Regence	8	9
Other third-party payors	34	31
Private pay	8	10
Total	100 %	100 %

(e) Allowance for Uncollectible Accounts

The Association records a provision for uncollectible accounts in the period of services on the basis of past experience, which has historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which they are financially responsible. As a result of adopting ASU 2014-09 as described in Note 1(u), the Hospital and the Clinics continue to maintain an allowance for uncollectible accounts related to performance obligations satisfied prior to July 1, 2019. Any provision for uncollectible accounts in 2019 was considered an implicit price concession and is recorded directly to net patient service revenue. The estimates made and changes affecting those estimates for the years ended June 30, 2019 and 2018 are summarized below and relate solely to revenues recorded prior to July 1, 2018:

	2019	2018
Changes in allowance for uncollectible accounts:		
Allowance for uncollectible accounts at beginning of year	$ 9,465	9,009
Write-off of uncollectible accounts, net of recoveries	(7,840)	(10,557)
Provision for uncollectible accounts	—	11,013
Allowance for uncollectible accounts at end of year	$ 1,625	9,465

(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, 2019 and 2018:

		2019	2018
Assets whose use is limited:			
Cash and accrued interest receivable	$	6,152	5,921
Money market funds		76,651	114,407
Bond mutual funds		5,582	5,237
Equity mutual funds		8,210	8,072
Assets whose use is limited	$	96,595	133,637
Investments:			
Cash and accrued interest receivable	$	2,382	2,080
Money market funds		28	12
Bond mutual funds		247,473	228,335
Equity mutual funds		248,608	236,088
Total investments	$	498,491	466,515

Components of unrestricted investment income (which is included in other nonoperating revenue (expense), net) for the years ended June 30, 2019 and 2018 are as follows:

		2019	2018
Interest and dividends	$	32,242	14,041
Net realized (losses) gains on investments		(21,384)	(489)
Total investment income	$	10,858	13,552

Components of temporarily restricted investment income for the years ended June 30, 2019 and 2018 are as follows:

		2019	2018
Interest and dividends	$	431	361
Net realized gains on investments		—	255
Total investment income	$	431	616

The following tables summarize the composition of the Association's assets whose use is limited and investments with unrealized losses as of June 30, 2019 and 2018:

	2019					
	Unrealized losses existing					
	Less than 12 months		12 Months or longer		Total	
Description of securities	**Fair value**	**Unrealized loss**	**Fair value**	**Unrealized loss**	**Fair value**	**Unrealized loss**
Bond mutual funds	$ —	—	53,309	(351)	53,309	(351)
Equity mutual funds	7,833	(493)	36	(5)	7,869	(498)
	$ 7,833	(493)	53,345	(356)	61,178	(849)

	2018					
	Unrealized losses existing					
	Less than 12 months		12 Months or longer		Total	
Description of securities	**Fair value**	**Unrealized loss**	**Fair value**	**Unrealized loss**	**Fair value**	**Unrealized loss**
Bond mutual funds	$ 132,645	(3,578)	49,494	(2,908)	182,139	(6,486)
Equity mutual funds	13,998	(430)	—	—	13,998	(430)
	$ 146,643	(4,008)	49,494	(2,908)	196,137	(6,916)

The Association recognized $21,389 and $607 of other-than-temporary impairment on assets whose use is limited and investments during the years ended June 30, 2019 and 2018, respectively.

The majority of the Association's investments and assets whose use is limited are in bond and equity mutual funds. Unrealized losses on these investments and assets whose use is limited are due to the economic environment.

(4) Disclosure about 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 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, 2019 and 2018, 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, 2019 and 2018, Level 2 securities include an unregistered mutual fund.

- 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, 2019 and 2018, 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.

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.

(b) Marketable Securities

The tables below present the balances of assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

		2019			
		Investments at estimated fair value			
		Quoted prices in active markets for identical assets (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Cash and accrued interest	$	6,152	—	—	6,152
Money market funds		76,651	—	—	76,651
Bond mutual funds		5,582	—	—	5,582
Equity mutual funds		8,210	—	—	8,210
Total assets whose use is limited	$	96,595	—	—	96,595

		2019			
		Investments at estimated fair value			
		Quoted prices in active markets for identical assets (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Cash and accrued interest	$	2,382	—	—	2,382
Money market funds		28	—	—	28
Bond mutual funds		247,473	—	—	247,473
Equity mutual funds		224,975	23,633	—	248,608
Total investments	$	474,858	23,633	—	498,491

		2018			
		Investments at estimated fair value			
		Quoted prices in active markets for identical assets (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**	**Total**
Cash and accrued interest	$	5,921	—	—	5,921
Money market funds		114,407	—	—	114,407
Bond mutual funds		5,237	—	—	5,237
Equity mutual funds		8,072	—	—	8,072
Total assets whose use is limited	$	133,637	—	—	133,637
Cash and accrued interest	$	2,080	—	—	2,080
Money market funds		12	—	—	12
Bond mutual funds		228,335	—	—	228,335
Equity mutual funds		213,313	22,775	—	236,088
Total investments	$	443,740	22,775	—	466,515

(5) Land, Buildings, and Equipment

The Association's land, buildings, and equipment accounts, and related accumulated depreciation accounts, as of June 30, 2019 and 2018 are set forth below:

		2019	2018
Assets:			
Land	$	7,601	7,601
Land improvements		5,011	4,957
Buildings and improvements		287,187	285,236
Equipment:			
Fixed		46,831	46,474
Movable		232,296	220,763
Construction in progress		84,939	37,482
Total land, buildings, and equipment		663,865	602,513

		2019	2018
Accumulated depreciation:			
Land improvements	$	4,361	4,261
Buildings and improvements		155,116	144,217
Equipment:			
Fixed		34,717	32,823
Movable		178,991	168,034
Total accumulated depreciation		373,185	349,335
Total land, buildings, and equipment, net	$	290,680	253,178

The Association recorded $33,424 and $33,484 of depreciation expense in 2019 and 2018, respectively. The following is a summary of asset lives used for calculating depreciation:

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

(Continued)

(6) Sale of Interest in PacLab, LLC

In May 2017, the Association entered into an agreement to sell its interest in PacLab, LLC to a third party. The Association was paid $14,339 for its interest in PacLab upon entering the agreement. This amount less the value of the interest was recorded as deferred revenue until the sale closed on April 6, 2018 at which time it was recorded as other operating revenues.

(7) Financing

(a) Long-Term Debt

Long-term debt, as of June 30, 2019 and 2018, is as follows:

		2019	2018
Revenue bonds, Series 2014, 4.00% to 5.00%, due in annual principal installments ranging from $1,360 to $3,370, until 2038, including a premium of $3,112 and $3,397, and net of deferred financing cost of $556 and $607 as of June 30, 2019 and 2018, respectively, callable on or after July 2024.	$	47,276	48,800
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 $19,893 and $21,554, and net of deferred financing cost of $1,340 and $1,441 as of June 30, 2019 and 2018, respectively, callable on or after January 2028.		195,339	196,897
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 $110 and $142 as of June 30, 2019 and 2018, respectfully. 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.		49,890	49,858
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 $25 and $42 as of June 30, 2019 and 2018, respectively.		13,404	17,343
Total long-term debt		305,909	312,898
Less current portion		(5,449)	(5,245)
Long-term debt, net of current portion	$	300,460	307,653

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 $49,890 as of June 30, 2019, 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.

The principal amounts due by year are as follows:

Fiscal year:		
2020	$	5,449
2021		5,652
2022		5,866
2023		6,503
2024		6,815
Thereafter		254,650
		284,935
Add net unamortized bond premiums		23,005
Less unamortized deferred financing costs		(2,031)
	$	305,909

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 Program

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

(a) The Plan

The Plan is a defined benefit, noncontributory plan with a defined contribution feature. The Plan covers all qualified employees hired prior to September 1, 2008, including employees of the Hospital’s controlled affiliates, complies with the Employee Retirement Income Security Act of 1974 and is accounted for in accordance with ASC 715-20-50, *Compensation – Retirement Benefits – Defined Benefit Plans – General*. The measurement date of the Plan is June 30.

On April 25, 2018, the Finance Committee of the Board of Trustees of the Hospital approved a plan to terminate the Plan on July 15, 2018 pursuant to the criteria outlined in the plan document. All participant balances that were not fully vested became fully vested as of July 15, 2018 due to the plan termination.

On February 1, 2019, plan participants were given the option to elect from the following methods to receive the value of their benefits: 1) immediate lump sum payment calculated as of May 1, 2019 which may be rolled over to the Overlake Hospital Medical Center 403(b) Retirement Plan (if the participant is an active employee), an Individual Retirement Account (IRA), or another eligible retirement plan; 2) immediate lump sum payment calculated as of May 1, 2019 taken in cash subject to applicable taxes and penalties; 3) immediate monthly annuity payment as of May 1, 2019; 4) as a deferred benefit under the normal terms of the Plan, from an insurance company selected by the Plan. Participants had until March 18, 2019 to make an election. Participants that did not make an election were considered to have elected the deferred benefit.

On April 30, 2019, benefit payments were made to participants that had elected an immediate lump sum. On June 28, 2019, funds were transferred to Principal Life Insurance Company to satisfy the liabilities of the immediate monthly annuity payments and the deferred benefits.

The Plan received approval of the plan termination from the IRS on June 4, 2019.

A summary of the change in benefit obligation and change in plan assets for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Benefit obligation at beginning of year	$ 64,966	58,787
Service cost	960	2,803
Interest cost	2,000	1,971
Benefits paid	(1,028)	(4,591)
Expenses paid	(1,233)	(326)
Actuarial (gain) loss	(2,029)	3,346
Plan amendments	—	757
Plan settlements	(63,030)	—
Benefits and expense payable	(606)	—
Special termination benefits	—	2,219
Benefit obligation at end of year	—	64,966
Fair value of plan assets at beginning of year	59,528	60,733
Actual return on plan assets	869	2,168
Employer contribution	5,500	1,544
Benefits paid	(1,028)	(4,591)
Expenses paid	(1,233)	(326)
Plan settlements	(63,030)	—
Benefits and expense payable	(606)	—
Fair value of plan assets at end of year	—	59,528
Funded status	—	(5,438)
Net amount recognized in the consolidated balance sheets	$ —	(5,438)

	2019	2018
Amounts recognized in unrestricted net assets consist of:		
Accumulated loss	$ —	(14,902)
Net actuarial loss	$ —	(14,902)

(Continued)

A summary of the components of net periodic benefit cost for the years ended June 30, 2019 and 2018 is as follows:

		2019	2018
Service cost	$	960	2,803
Interest cost		2,000	1,971
Expected return on plan assets		(1,317)	(3,285)
Amortization of loss		—	608
Amortization of prior service cost		—	(109)
Amortization of net loss (gain)		231	(25)
Settlement loss recognized		13,090	—
Special termination benefit recognized		—	2,219
Net periodic benefit cost	$	14,964	4,182

Weighted average assumptions used to determine benefit obligations at June 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	N/A	4.08 %
Rate of compensation increase	N/A	5.75
Measurement date	June 30, 2019	June 30, 2018

Weighted average assumptions used to determine net benefit cost for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	4.08%/4.02%	3.54 %
Long-term rate of return on assets	3.02%	5.61
Rate of compensation increase	N/A	5.75

The objectives of the Plan's investment policy are to protect the funded status of the Plan by reducing the investment risk to align with the reduced timeline to pay out plan assets, secondarily maximize returns within reasonable and prudent levels of risk, and maintain sufficient liquidity to meet benefit payment obligations on a timely basis. At June 30, 2019 and 2018 100% of plan assets were in money market funds.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2019:

		Investments at estimated fair value			
		Investments at fair as value determined by quoted prices in active markets (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Mutual funds:					
Money market funds	$	606	—	—	606
Total investments	$	606	—	—	606

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2018:

		Investments at estimated fair value			
		Investments at fair as value determined by quoted prices in active markets (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)	Total
Mutual funds:					
Money market funds	$	59,528	—	—	59,528
Total investments	$	59,528	—	—	59,528

(b) 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.

(c) The Contribution Plan

Plan eligibility commences on the date of hire. Employees are divided into two groups. Group I employees include those hired prior to September 1, 2008, who had attained at least 41 years of age on December 31, 2008, and elected to continue to accrue benefits under the Overlake Hospital Medical Center Cash Account Plan. Group II employees include those hired after August 31, 2008 and employees hired prior to September 1, 2008 who did not attain at least 41 years of age on December 31, 2008 or otherwise elected to become a Group II employee. Employees who were eligible to elect between coverage as a Group I or a Group II employee but did not make an election were treated as a Group I employee under the Contribution Plan.

As of July 1 2018, all Group I employees become Group II employees due to the Cash Account Plan termination.

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 Plan based on a percentage of employee contributions to the Voluntary Plan up to a specified maximum percent of the employee's eligible compensation. The Hospital's matching contributions are summarized as follows:

Group I employees receive 50% of employee contributions to the Voluntary Plan up to 3% of eligible compensation.

Group II Employees receive 100% of employee contributions to the Voluntary Plan, up to a maximum of 4% of the employee's eligible compensation for participants with less than five years of service or up to a maximum of 6% of the employee's eligible compensation for participants with five or more years of service at the start of the plan year, respectively.

In addition, the Hospital makes a nonelective service contribution equal to 2% of eligible compensation for each Group II employee subject to certain limitations imposed under the IRC. The Hospital contributed approximately $12,497 and $10,618 in matching and service contributions for the years ended June 30, 2019 and 2018, respectively, and is reflected in employee benefits in the consolidated statements of operations and changes in net assets.

(9) Commitments

The Association and its affiliates lease certain equipment and office space that are accounted for as operating leases. Total rental expense for all operating leases for the years ended June 30, 2019 and 2018 was approximately $7,974 and $7,377, respectively. The following is a schedule of future noncancelable operating lease payments as of June 30, 2019:

Fiscal year:		
2020	$	5,712
2021		5,591
2022		4,934
2023		4,721
2024		4,774
Thereafter		12,669
Operating lease obligations	$	38,401

The Association has outstanding construction contract commitments of $130,642 and $32,946 as of June 30, 2019 and 2018, respectively.

(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, 2019 and 2018 has a $500 deductible per occurrence. The Association also carries excess coverage policies for its professional liability program.

Based upon actuarial valuations, the Association has recorded an estimated liability (undiscounted) for claims incurred but not reported as well as claims reported and not paid of $9,464 and $11,684 and a reinsurance receivable of $1,774 and $4,392 as of June 30, 2019 and 2018, 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 an undiscounted liability for workers' compensation claims based on actuarial estimates of approximately $3,198 and $2,610 and a reinsurance receivable of $287 and $243 as of June 30, 2019 and 2018, respectively.

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 an undiscounted liability for medical, dental, and prescription drugs claims based on actuarial estimates of approximately $1,276 and $1,383 as of June 30, 2019 and 2018, 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.

(Continued)

(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, 2019 and 2018 are as follows:

		2019			
		Healthcare Services	**General and administrative**	**Fundraising**	**Total**
Salaries and benefits	$	257,297	47,554	778	305,629
Purchases and other		73,928	35,953	387	110,268
Supplies		93,529	5,089	200	98,818
Interest, depreciation and amortization		33,430	8,909	—	42,339
Total operating expenses	$	458,184	97,505	1,365	557,054

		2018			
		Healthcare Services	**General and administrative**	**Fundraising**	**Total**
Salaries and benefits	$	240,187	44,703	675	285,565
Purchases and other		76,473	31,383	393	108,249
Supplies		86,096	4,605	209	90,910
Interest, depreciation and amortization		33,487	9,049	—	42,536
Total operating expenses	$	436,243	89,740	1,277	527,260

(13) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2019 and 2018 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, 2019 and 2018:

		2019	2018
Donor restricted endowments subject to spending policy for specified purposes:			
Endowment Purpose:			
Family Resource Coordinator	$	442	442
Senior Care Outreach		40	40
Surgical Services		527	527
Oncology Clinical Education		162	162
Nursing Clinical Education		260	260
Intensive Care Unit		2,572	2,572
Charity Care/Uncompensated Care		257	257
General Hospital Support		1,174	1,114
Heart & Vascular		116	116
Reigert Chest Pain Center		114	114
Cardiac Care		145	145
Clinic Oncology Medical Director		96	96
		5,905	5,845

(Continued)

		2019	2018
Subject to expenditure for specified purposes:			
Health care services	$	4,395	4,587
Purchase of building improvements and equipment		9,374	6,371
Health education		264	247
Indigent care		131	129
		14,164	11,334
Total net assets with donor restrictions	$	20,069	17,179

(14) Endowments

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.

(15) Subsequent Events

The Association has performed an evaluation of subsequent events through October 28, 2019, which is the date these consolidated financial statements were issued.

OVERLAKE HOSPITAL ASSOCIATION

Consolidating Information – Balance Sheets

June 30, 2019 and 2018

(In thousands)

	Association	Hospital	Medical Tower	Eliminating entries	Total 2019	Total 2018
Current assets:						
Cash and cash equivalents	$ 90	19,467	1,213	—	20,770	29,730
Receivables, net	—	68,667	—	—	68,667	60,787
Current portion of pledges receivable	—	2,691	—	—	2,691	2,158
Current portion of assets whose use is limited	—	6,654	—	—	6,654	6,946
Supplies inventory	—	9,968	—	—	9,968	9,744
Prepaid expenses	56	10,978	184	—	11,218	10,722
Other current assets	60	4,867	116	—	5,043	5,519
Total current assets	206	123,292	1,513	—	125,011	125,606
Assets whose use is limited, net of current portion	—	89,941	—	—	89,941	126,691
Investments	—	496,109	2,382	—	498,491	466,515
Long-term portion of pledges receivables, net	—	6,142	—	—	6,142	4,743
Other long-term receivables, net	—	1,566	—	—	1,566	3,043
Land, buildings, and equipment, net	5,525	262,709	22,446	—	290,680	253,178
Other assets:				—		
Investments in joint ventures	—	2,901	—	—	2,901	2,740
Other assets	—	1,786	—	—	1,786	1,917
Interest in net assets of consolidated affiliates	606,453	—	—	(606,453)	—	—
Total other assets	606,453	4,687	—	(606,453)	4,687	4,657
Total assets	$ 612,184	984,446	26,341	(606,453)	1,016,518	984,433
Current liabilities:						
Current portion of long-term debt and capital leases	$ —	1,360	4,089	—	5,449	5,245
Accounts payable	9	23,345	340	—	23,694	21,576
Accrued liabilities	10	50,586	10	—	50,606	56,168
Accrued interest payable	—	5,390	37	—	5,427	5,699
Payable to third-party agencies	—	7,862	—	—	7,862	7,229
Total current liabilities	19	88,543	4,476	—	93,038	95,917
Long-term debt, net of current portion	—	291,144	9,316	—	300,460	307,653
Pension liability	—	—	—	—	—	5,438
Other long-term liabilities	34	10,856	—	—	10,890	11,454
Total liabilities	53	390,543	13,792	—	404,388	420,462
Net assets:						
Without donor restrictions	612,131	573,834	12,549	(606,453)	592,061	546,792
With donor restrictions	—	20,069	—	—	20,069	17,179
Total net assets	612,131	593,903	12,549	(606,453)	612,130	563,971
Total liabilities and net assets	$ 612,184	984,446	26,341	(606,453)	1,016,518	984,433

See accompanying independent auditors' report.

OVERLAKE HOSPITAL ASSOCIATION

Consolidating Information – Operations and Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

		Association	Hospital	Medical Tower	Eliminating entries	Total 2019	Total 2018
Operating revenue:							
Patient service revenue	$	—	561,285	—	—	561,285	540,109
Provision for uncollectible accounts		—	(1,625)	—	—	(1,625)	(11,013)
Net patient service revenue		—	559,660	—	—	559,660	529,096
Other operating revenue		1,646	7,199	9,793	(7,321)	11,317	27,997
Contribution revenue		—	3,167	—	—	3,167	2,190
Net operating revenue		1,646	570,026	9,793	(7,321)	574,144	559,283
Operating expenses:							
Salaries		—	247,016	—	—	247,016	231,374
Registry		—	8,799	—	—	8,799	10,337
Employee benefits		—	58,613	—	—	58,613	54,191
Supplies		7	98,738	73	—	98,818	90,910
Purchased services		152	53,516	1,201	—	54,869	49,818
Interest		—	8,258	526	—	8,784	8,794
Depreciation and amortization		316	31,771	1,468	—	33,555	33,742
Rent, leases, and utilities		717	18,784	603	(7,321)	12,783	12,080
Hospital taxes and assessments		—	17,359	—	—	17,359	17,655
Marketing, insurance, taxes, and other		68	15,750	640	—	16,458	18,359
Total operating expenses		1,260	558,604	4,511	(7,321)	557,054	527,260
Excess of revenue over expenses from operations		386	11,422	5,282	—	17,090	32,023
Nonoperation revenue, net:							
Investment income		—	10,856	2	—	10,858	13,552
Loss on refinancing		—	—	—	—	—	(8,627)
Nonoperating expenses		—	(13,090)	—	—	(13,090)	(2,219)
Total nonoperating revenue, net		—	(2,234)	2	—	(2,232)	2,706
Interest in net assets of consolidated affiliates		48,687	—	—	(48,687)	—	—
Excess of revenue over expenses		49,073	9,188	5,284	(48,687)	14,858	34,729
Other changes in net assets without donor restrictions:							
Net assets released for capital acquisitions		—	4,876	—	—	4,876	6,924
Change in pension liability		—	14,902	—	—	14,902	(4,746)
Change in net unrealized gains on investments		—	10,389	—	—	10,389	6,810
Appropriation of endowment assets for expenditure		—	244	—	—	244	343
Intercompany transfers		(913)	3,200	(2,287)	—	—	—
Increase in unrestricted net assets		48,160	42,799	2,997	(48,687)	45,269	44,060
Other changes in net assets with donor restrictions:							
Contributions		—	10,114	—	—	10,114	5,561
Investment income		—	431	—	—	431	616
Change in net unrealized gains on investments		—	83	—	—	83	24
Net assets released from restrictions		—	(7,738)	—	—	(7,738)	(8,626)
(Decrease) increase in restricted net assets		—	2,890	—	—	2,890	(2,425)
Increase in net assets		48,160	45,689	2,997	(48,687)	48,159	41,635
Net assets, beginning of year		563,971	548,214	9,552	(557,766)	563,971	522,336
Net assets, end of year	$	612,131	593,903	12,549	(606,453)	612,130	563,971

See accompanying independent auditors' report.