OFFICIAL STATEMENT

New Issue | **Moody's Rating: "Aa3"**
Book-Entry Only | **(See "OTHER BOND INFORMATION— Rating on the Bonds")**

In the opinion of Bond Counsel, under existing federal law and assuming compliance by the District with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes under existing federal law and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

$54,000,000
KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(EvergreenHealth)
KING COUNTY, WASHINGTON

LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B

DATED: Date of Initial Delivery | **DUE: December 1, as shown on inside cover**

King County Public Hospital District No. 2 (EvergreenHealth), King County, Washington (the "District"), Limited Tax General Obligation Bonds, 2015, Series B (the "Bonds"), will be issued only in fully registered form under a book-entry only system. When issued, the Bonds will be registered to Cede & Co., as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as initial securities depository for the Bonds (the "Securities Depository). Individual purchases of the Bonds will be made in the principal amount of $5,000 or integral multiples thereof within a maturity. Purchasers of the Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial ownership interest in the Bonds purchased. The fiscal agent of the State of Washington (the "State"), currently U.S. Bank National Association, will act as the registrar, paying agent, transfer agent and authenticating agent for the Bonds (the "Bond Registrar").

Interest on the Bonds will be payable semiannually on each June 1 and December 1, beginning on December 1, 2015, to the maturity or earlier redemption of the Bonds. The Bonds will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover. For so long as the Bonds are held in book-entry only form, the principal of and interest on the Bonds will be paid by the Bond Registrar to the Securities Depository, which in turn is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners. See "THE BONDS–Registration and Bond Registrar–Book-Entry System" and Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM."

MATURITY SCHEDULE ON INSIDE COVER

The Bonds are subject to redemption prior to their stated maturity dates. See "THE BONDS–Redemption of the Bonds."

The Bonds are being issued to provide funds necessary to carry out capital improvements to the Hospital System and to pay the costs of issuance of the Bonds. See "PURPOSE AND USE OF PROCEEDS."

The Bonds are general obligations of the District. For as long as any of the Bonds are outstanding, the District irrevocably pledges to include in its budget and levy taxes annually, within the constitutional and statutory limitations provided by law without a vote of the electors of the District, on all of the taxable property within the District in an amount sufficient, together with other revenues of the District available and to be used therefor at the discretion of the Board of Commissioners, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the District are pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest and such pledge is enforceable in mandamus against the District. The District also has pledged the Net Revenue of EvergreenHealth Medical Center and all other District hospitals or other health care facilities and services owned and operated by the District to the payment of debt service on the Bonds. See "SECURITY FOR THE BONDS–Pledge of Revenue and Lien Position."

THE BONDS DO NOT CONSTITUTE INDEBTEDNESS OF KING COUNTY, THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE DISTRICT.

The District has not designated the Bonds as "qualified tax-exempt obligations" for banks, thrift institutions and other financial institutions under Section 265(b)(3) of the Code. See "TAX MATTERS."

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel and special counsel to the District. The form of Bond Counsel's opinion is attached as Appendix C. Certain legal matters will be passed upon for the District by its general counsel. It is anticipated that the Bonds will be available for delivery in New York, New York, through the facilities of DTC or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about October 15, 2015.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

PiperJaffray®

Dated: October 1, 2015

MATURITY SCHEDULE

$54,000,000

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(EvergreenHealth)
KING COUNTY, WASHINGTON

LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B

Due (December 1)	Principal Amounts	Interest Rates	Yields	Prices*	CUSIP Nos.**
2031	$1,475,000	5.00%	3.290%	113.384%	494791RG3
2032	7,265,000	5.00	3.350	112.880	494791RH1
2033	7,825,000	5.00	3.400	112.461	494791RJ7
2034	8,415,000	5.00	3.450	112.044	494791RK4
2035	9,035,000	5.00	3.500	111.629	494791RL2

$19,985,000 4.00% Term Bond due December 1, 2037, Yield 4.08%, Price 98.837%, CUSIP No. 494791RM0

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* Priced to the December 1, 2024, par call date.

** The CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the District and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the District nor the Underwriter takes responsibility for the accuracy of the CUSIP numbers.

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(EvergreenHealth)
12040 NE 128th Street
Kirkland, Washington 98034
(425) 899-1000
Webpage: http://www.evergreenhealth.com/ [*]

Commission

Al F. DeYoung	Chair and Commissioner
Jeanette D. Greenfield	Secretary and Commissioner
Rebecca D. Hirt	Commissioner
R. August Kempf	Commissioner
Charles A. Pilcher, MD	Commissioner

Key Administrative Officials

Robert H. Malte	Superintendent and Chief Executive Officer
Chrissy C. Yamada, CPA	Senior Vice President, Finance, Chief Financial Officer and Treasurer
James S. Fitzgerald	District General Counsel

Certain King County Officials

Lloyd Hara	Assessor
Ken Guy	Director, Finance and Business Operations Division

Bond Counsel

Foster Pepper PLLC
Seattle, Washington

Paying Agent

Washington State Fiscal Agency
Currently U.S. Bank National Association

Underwriter

Piper Jaffray & Co.
Seattle, Washington

[*] The District's website is not part of this Official Statement, and investors should not rely on information presented in the District's website in determining whether to purchase the Bonds. This inactive textual reference to the District's website is not a hyperlink and does not incorporate the District's website by reference.

The information in this Official Statement has been obtained from the District and other sources that the District believes to be current and reliable and, while not guaranteed as to accuracy, the District believes to be correct as of its date. The District makes no representation regarding the accuracy or completeness of the information provided in Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM," which has been obtained from DTC's website, or other information provided by third parties. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date as of which such information is presented.

No dealer, broker, salesman, underwriter or other person has been authorized by the District or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Underwriter has provided the following two sentences for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. In connection with this offering, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds offered by this Official Statement at levels above those which otherwise might prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time without prior notice to any person.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe" and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The District specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in "CONTINUING DISCLOSURE."

Information on website addresses set forth in this Official Statement is not included in or incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor can it be relied upon in making investment decisions regarding the Bonds.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

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OFFICIAL STATEMENT

$54,000,000

KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2
(EvergreenHealth)

KING COUNTY, WASHINGTON

LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B

INTRODUCTION

This Official Statement contains certain information concerning the issuance by King County Public Hospital District No. 2 (EvergreenHealth) (the "District") of King County, Washington (the "County"), of $54,000,000 aggregate principal amount of its Limited Tax General Obligation Bonds, 2015, Series B (the "Bonds").

The information contained herein has been obtained from District officers, employees, records, and other sources believed to be reliable. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Bonds.

Quotations, summaries and explanations of constitutional provisions, statutes, judicial decisions, administrative regulations, resolutions, ordinances, and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents. A complete copy of the Bond Resolution (described below) may be obtained from the District at 12040 NE 128th Street, Kirkland, Washington 98034.

Appendix A provides definitions of certain capitalized terms used in this Official Statement. Appendix B provides demographic and economic information relating to the District. Appendix C is the form of approving legal opinion of Foster Pepper PLLC, Seattle, Washington ("Bond Counsel"). Appendix D provides the audited financial statements of the District as of December 31, 2014 and 2013 and as of December 31, 2013 and 2012. Appendix E provides a description of DTC procedures with respect to book-entry bonds.

THE BONDS

Authorization

The Bonds are issued pursuant to the authority of chapter 39.46 of the Revised Code of Washington ("RCW") and RCW 70.44.110. The Bonds are authorized under the provisions of Resolution No. 871-15 (the "Bond Resolution"), adopted by the District's Board of Commissioners (the "Board") on August 18, 2015.

Principal Amount, Date, Interest Rates and Maturities

The Bonds will be issued in the aggregate principal amount of $54,000,000 and will be dated and bear interest from the date of their initial delivery. The Bonds will mature on the dates and in the principal amounts, and will bear interest (payable semiannually on June 1 and December 1, beginning on December 1, 2015), until maturity or earlier redemption, if applicable, at the rates set forth on the inside cover of this Official Statement. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Bond Registrar

Book-Entry System. The Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). DTC will act as the initial Securities Depository for the Bonds (the "Securities Depository"). Individual purchases and sales of the Bonds will be made in book-entry form only in minimum denominations of $5,000 or integral multiples thereof within a single maturity ("Authorized Denominations"). Purchasers ("Beneficial Owners") will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners will mean Cede & Co. or its successor and will not mean the Beneficial Owners of

the Bonds. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM." The District makes no representation as to the accuracy or completeness of the information in Appendix E provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its Participants.

Bond Registrar. The principal of and interest on the Bonds will be payable by the fiscal agent of the State (the "Bond Registrar"), currently U.S. Bank National Association (or such other fiscal agent or agents as the State may from time to time designate). So long as Cede & Co. is the Registered Owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Bond Registrar to DTC, which, in turn, is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Transfer and Exchange; Record Date. The Bond Registrar is not obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the next interest payment or redemption date. For purposes hereof, Record Date means in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month immediately preceding such interest payment date, and, with respect to redemption of a Bond prior to its maturity, the Bond Registrar's close of business on the date on which the Bond Registrar sends the notice of redemption in accordance with the Bond Resolution. Registered ownership of any Bond registered in the name of the Securities Depository may not be transferred except (1) to any successor Securities Depository; (2) to any substitute Securities Depository appointed by the District; or (3) to any person if the Bond is no longer to be held in book-entry only form.

Termination of Book-Entry System. If the Bonds are no longer held in book-entry only form by the Securities Depository, the District will execute, authenticate and deliver, at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon due presentment and surrender to the Bond Registrar, and interest on the Bonds will then be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on the Record Date. The District is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner.

Redemption of the Bonds

Optional Redemption. The Bonds are subject to redemption at the option of the District prior to their stated maturity dates at any time on or after December 1, 2024, as a whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

Mandatory Redemption. The Bonds maturing in 2037 are Term Bonds and, if not optionally redeemed or purchased, will be called for redemption at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption, on December 1 in the years and principal amounts as follows:

Mandatory Redemption Year (December 1)	Mandatory Redemption Amount
2036	$ 9,695,000
2037*	10,290,000

*Final maturity.

If a Term Bond is redeemed under the optional redemption provisions, defeased or purchased by the District and surrendered for cancellation, the principal amount of the Term Bond so redeemed, defeased or purchased (irrespective of its actual redemption or purchase price) will be credited against one or more scheduled mandatory redemption installments for that Term Bond in the manner described below regarding the selection of Bonds for redemption.

Selection of Bonds for Redemption; Partial Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the District, the District will select the maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity are to be redeemed, so long as the Bonds are held by the Securities Depository in book-entry form, selection of Bonds for redemption will be made in accordance with the operational arrangements

between the District and the Securities Depository (the "Letter of Representations"), and the Bond Registrar will select all other Bonds to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in Authorized Denominations. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there will be issued to the Registered Owner, without charge therefor, a new Bond (or Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount remaining outstanding.

Notice of Redemption. While the Bonds are held by the Securities Depository in book-entry only form, any notice of redemption will be given at the time, to the entity and in the manner required by the Letter of Representations, and the Bond Registrar will not be required to give any other notice of redemption. If the Bonds cease to be in book-entry only form, unless waived by any Registered Owner of the Bonds to be redeemed, notice of any redemption of Bonds will be given by the Bond Registrar on behalf of the District by mailing a copy of a redemption notice by first-class mail, postage prepaid, not less than 20 nor more than 60 days prior to the date fixed for redemption, to the Registered Owners of the Bonds to be redeemed at the addresses appearing on the registration books at the time the Bond Registrar prepares the notice.

Conditional Notice of Redemption. In the case of an optional redemption, the District has reserved the right to rescind any redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the date fixed for redemption. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of redemption has been rescinded will remain outstanding.

Effect of Call for Redemption. Interest on each Bond called for redemption will cease to accrue on the date fixed for redemption, unless either a conditional notice of optional redemption is rescinded as described above or money sufficient to effect such redemption is not on deposit in the District's Limited Tax General Obligation Bond Fund (140028400) (the "Bond Fund") or in a trust account established to refund or defease the Bond.

Purchase of Bonds. The District has reserved the right to purchase any or all of the Bonds offered to the District at any time and at any price acceptable to the District plus accrued interest thereon.

Failure to Pay Bonds

If the principal of any Bond is not paid when properly presented at its maturity or date fixed for redemption, as applicable, the District will be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner thereof.

Refunding or Defeasance

The District may issue refunding bonds pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include: (1) paying when due the principal of and interest on any or all of the Bonds (the "defeased Bonds"); (2) redeeming the defeased Bonds prior to their maturity; and (3) paying the costs of the refunding or defeasance. If the District sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the "trust account"), money and/or noncallable, nonprepayable "government obligations" (as defined in RCW 39.53.010, as now in effect or hereafter amended) maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bonds in accordance with their terms, then all right and interest of the owners of the defeased Bonds in the covenants of the Bond Resolution and in the funds and accounts obligated to the payment of the defeased Bonds will cease and become void. Thereafter, the Registered Owners of defeased Bonds will have the right to receive payment of the principal of and interest on the defeased Bonds solely from the trust account and the defeased Bonds will be deemed no longer outstanding. In that event, the District may apply money remaining in any fund or account (other than the trust account) established for the payment and redemption of the defeased bonds to any lawful purpose

As currently defined in RCW 39.53.010, "government obligations" means: (1) direct obligations of or obligations the principal and interest on which are unconditionally guaranteed by the United States of America and bank

certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, federal land banks or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or guaranteed as permitted under any other provision of State law.

PURPOSE AND USE OF PROCEEDS

Purpose

Proceeds of the Bonds will be used to provide funds necessary to carry out the following capital improvements to the Hospital System (the "Project Plan") and to pay the costs of issuance and sale of the Bonds. The Project Plan is phase one of five phases of the District's long-term master facility plan. The long-term facility plan spans eleven years and was approved by the District's Board in July 2015. The Project Plan will consist of acquiring, constructing, remodeling and renovating improvements to the Hospital System including the following:

- Expand space in the DeYoung Pavilion (Floors 4 and 5) to provide for the aggregation of musculoskeletal services including pain, physiatry, orthopedics and orthopedic spine;
- Expand the progressive care unit in 5 Silver to provide 32 additional telemetry beds;
- Update the current critical care unit in 4 Silver (26 beds);
- Expand the Hospital's cardiac catheterization and interventional radiology suites to add a third laboratory and to accommodate electrophysiology and neuro-interventional services;
- Update the Hospital System's infrastructure, including air handling units, generator, utility redundancy and other improvements;
- Expand the Canyon Park Clinic;
- Relocate and expand the Kenmore Clinic;
- Establish a clinic in Mill Creek;
- Establish a clinic at Redmond Ridge;
- Add new clinic space and build out shelled space on the Hospital's campus to support the operation of the Hospital System; and
- Complete additional capital improvements as part of Phase 1 of the District's Master Facility Plan for the Hospital System.

The Project Plan will also include the acquisition, construction and installation of all necessary furnishings, equipment, apparatus, fixtures and appurtenances in the foregoing, all as deemed necessary or advisable by the Board, and the payment of incidental costs incurred in connection with carrying out and accomplishing the Project Plan.

Sources and Uses of Proceeds

The proceeds of the Bonds are expected to be applied as follows:

Sources		
Par Amount of Bonds	$	54,000,000
Net Original Issue Premium		3,939,976
Total Sources	$	57,939,976
Uses		
Deposit to Project Fund	$	57,470,476
Issuance Expenses[(1)]		469,500
Total Uses	$	57,939,976

(1) Includes underwriter's discount, bond counsel fees, rating agency fees, contingency, and other costs associated with the issuance of the Bonds.

SECURITY FOR THE BONDS

Pledge of Taxes

The Bonds are limited tax general obligations of the District. For as long as any of the Bonds are outstanding, the District has irrevocably pledged to include in its budget and levy taxes annually, within the constitutional and statutory limitations provided by law without a vote of the electors of the District, on all of the taxable property within the District in an amount sufficient, together with other revenues of the District available and to be used therefor at the discretion of the Board, to pay when due the principal of and interest on the Bonds. The full faith, credit and resources of the District are pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest. See "Payments into Bond Fund" for a description of how the District's tax receipts are deposited to the Bond Fund.

THE BONDS ARE NOT SECURED BY OR PAYABLE FROM EXCESS TAX LEVIES MADE BY THE DISTRICT (I.E., THOSE LEVIES THAT THE DISTRICT IS AUTHORIZED BY ITS VOTERS TO MAKE WITHOUT REGARD TO RATE OR AMOUNT). THE TAXES PLEDGED TO THE PAYMENT OF THE BONDS ARE THE DISTRICT'S REGULAR PROPERTY TAXES. THE DISTRICT'S ABILITY TO LEVY SUCH TAXES IS SUBJECT TO VARIOUS LEGAL CONSTRAINTS, AS DESCRIBED UNDER "PROPERTY TAX INFORMATION" HEREIN.

THE BONDS DO NOT CONSTITUTE INDEBTEDNESS OF KING COUNTY, THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE DISTRICT.

The Bonds are not subject to acceleration of maturities in the event the District defaults on a payment due thereunder. See "BONDOWNERS' RISKS – Limitations on Remedies."

Pledge of Revenue and Lien Position

In the Bond Resolution, the District also has pledged the Net Revenue of EvergreenHealth Medical Center and all other District hospitals or other health care facilities and services as now or hereafter owned and operated by the District (the "Hospital System") to the payment of debt service on the Bonds. The lien and charge upon the Net Revenue of the Hospital System securing the payment of the Bonds is:

(i) subordinate to the lien on the Net Revenue of the Hospital System of any First Lien Revenue Bonds;

(ii) on parity with the lien and charge on the Net Revenue of the Hospital System of the Parity Bonds, including any Future Parity Bonds; and

(iii) prior and superior to any other charges.

See "Payments into Bond Fund" for a description of the circumstances under which the Net Revenue of the Hospital System may be used to pay debt service on the Bonds.

The District has reserved the right to issue Future Parity Bonds without restriction.

See discussion herein under heading "THE DISTRICT – Summary of Financial Information and Operating Data" for information regarding the sources of the Net Revenue of the Hospital System. The District's ability to generate Net Revenue of the Hospital System is subject to various limitations generally described under "BONDOWNERS' RISKS" below.

Payments into Bond Fund

The District has created the Bond Fund to be drawn upon for the sole purpose of paying the principal of and interest on limited tax general obligation bonds issued by the District, and its "General Fund 140020010" (the "Regular Property Tax General Fund"), into which all Regular Property Taxes collected for the District during each year are to be deposited. The Bond Fund and the Regular Property Tax General Fund currently are held in King County's Finance and Business Operations Division. The District may elect to hold either fund at any time in the future.

Deposit of Regular Property Tax General Fund. In the Bond Resolution, the District has covenanted to transfer from the Regular Property Tax General Fund to the Bond Fund on the day preceding each debt service payment or

mandatory redemption date the amount necessary (together with other money on deposit in the Bond Fund) to pay interest or principal and interest next due on the Parity Bonds. If at any time during a calendar year the amount deposited into the Bond Fund is sufficient to make all payments of principal and interest on the Parity Bonds coming due during the remainder of such year, then the balance of Regular Property Taxes collected for the District may be transferred to the District's other funds and used for any other lawful purpose of the District.

Deposit of Net Revenue Due to Insufficient Levies. If the Regular Property Taxes levied for collection in any calendar year are insufficient to pay the principal and interest coming due during such year on all Parity Bonds, the District has covenanted to deposit into the Bond Fund, out of the Net Revenue of the Hospital System first available after paying debt service on the First Lien Revenue Bonds and making any required deposits into the debt service reserve accounts created to secure the First Lien Revenue Bonds, the amount necessary to make up any such insufficiency. Such deposits out of the Net Revenue of the Hospital System will commence as soon as the budget containing the request for an insufficient levy to be collected during the coming year is adopted by the Board and will continue until the required amount for the year in which such levy is to be collected has been deposited into the Bond Fund.

Deposit of Net Revenue Due to Insufficient Collections. If Regular Property Taxes actually being collected during any calendar year reasonably appear to be insufficient to pay the principal and interest coming due during such year on all Parity Bonds, the District has covenanted to deposit into the Bond Fund, out of the Net Revenue of the Hospital System first available after paying debt service on the First Lien Revenue Bonds and making any required deposits into the debt service reserve accounts created to secure the First Lien Revenue Bonds, the amount necessary to make up any such insufficiency for that year. Such deposits out of the Net Revenue of the Hospital System will commence as soon as the insufficiency of tax collections is known to the District and will continue until the required amount has been deposited in the Bond Fund for the year in which such levy is being collected.

Remedies of Bondowners. If the District fails to set aside and pay into the Bond Fund the amounts set forth above, the Registered Owner of any of the Bonds may bring an action against the District to compel the setting aside and payment into the Bond Fund of such amounts. However, see "BONDOWNERS' RISKS – Limitations on Remedies."

Additional Covenants

The District has made the following additional covenants in the Bond Resolution:

Conduct of Business. The District will maintain in good condition and operate those portions of the Hospital System owned by the District and will establish, maintain and collect rates and charges for services furnished by those portions of the Hospital System owned by the District, subject to applicable laws and regulations, as will produce Net Revenue of the Hospital System sufficient to make all payments required to be made into the Bond Fund for the payment of any Parity Bonds.

Books and Records. The District will keep proper books of accounts and records, separate and apart from other accounts and records, in which complete and correct entries will be made of all transactions relating to the Hospital System.

Insurance. The District will carry the types of insurance on the Hospital System in the amounts normally in good practice carried on such properties by comparable private hospitals in the State to the full insurable value thereof and also will carry adequate public liability insurance at all times, including malpractice insurance in at least the amounts customarily carried by similar hospitals in the State (unless such coverage is not available in the marketplace at what appears in the discretion of the Board to be reasonable cost, in which case an experienced insurance consultant will be retained by the District to recommend alternative options), or in lieu thereof it may self-insure through such individual or pooled risk management program as may be determined by the Board to be in the best interests of the District after receiving the recommendations of an experienced insurance consultant. The cost of such insurance or program will be considered a part of Operating and Maintenance Expenses.

Compliance With Laws. The District will operate the Hospital System subject to and in accordance with the laws, ordinances, rules, regulations and orders of all government authorities or agencies having jurisdiction over the Hospital System and the District.

Corporate Existence. The District will maintain its corporate existence and will cause the Hospital System to be operated so long as the Bonds are outstanding unless the Bonds are defeased pursuant to the Bond Resolution or the District is consolidated with another public hospital district pursuant to the requirements of RCW 70.44.190.

THE DISTRICT

Introduction

The District is a municipal corporation of the State of Washington (the "State") formed under the provisions of chapter 70.44 RCW. The District is considered a political subdivision of the State and is allowed by law to be its own Treasurer.

The District includes the incorporated cities of Kirkland, Redmond, Woodinville, Kenmore and Duvall, portions of Bothell, Bellevue, Clyde Hill, Sammamish, Lake Forest Park, and the town of Yarrow Point, as well as adjacent unincorporated areas.

The District's primary operations include EvergreenHealth Medical Center, an acute care hospital with 333 licensed beds (318 acute, 15 hospice) located in the city of Kirkland. The primary service area of EvergreenHealth Medical Center is northeast King County and southeast Snohomish County. Overlake Hospital Medical Center ("OHMC"), located approximately six miles south of EvergreenHealth Medical Center in Bellevue, is the nearest competing acute care hospital.

As of January 1, 2015, the estimated population of the District was 300,769, and the estimated population of the District's primary service area was 424,833.

The District is accredited by The Joint Commission. The District provides comprehensive medical surgical services, maternity and neonatal services, radiation oncology, diagnostic imaging, laboratory and related ancillary services. The District also operates primary and specialty care group practices, a freestanding inpatient hospice unit, the Booth Gardner Parkinson's Care Center, the Halvorson Cancer Center and EvergreenHealth Home Care Services, a comprehensive home health and hospice agency that serves patients throughout King and south Snohomish counties. The group practices are composed of 57 primary care providers and 170 specialty clinic providers, representing 32 medical specialties and including a senior care clinic specializing in geriatric primary care services. Since opening its doors in 1972, the District's patient and family centered philosophy, combined with its commitment to advancing medical solutions, has enabled the District to provide excellent patient care.

On February 21, 2012, the District entered into a Strategic Partnership Agreement with Virginia Mason Medical Center. Virginia Mason Medical Center is a nonprofit regional health system located in Seattle that includes a primary and specialty care group practice of approximately 460 physicians and a 336-bed acute care hospital. Virginia Mason Medical Center also operates a network of clinics in the Puget Sound region. Under the Strategic Partnership Agreement, the two organizations remain independent with no impact on governance, management or financial independence of either organization. The strategic partnership permits the two organizations to collaborate on the delivery of certain health care services, which thus far has included cardiology, neurosciences, otolaryngology, home health and hospice care.

In June 2011, the District entered into a series of agreements with Seattle Cancer Care Alliance ("SCCA") relating to the development of a new cancer center on the campus of EvergreenHealth Medical Center. SCCA was organized in 1998 by Fred Hutchinson Cancer Research Center, University of Washington and Seattle Children's for the purpose of developing and offering a comprehensive program of integrated cancer services. A major focus of SCCA is to speed the transfer of new diagnostic and treatment techniques from the research setting to the patient bedside. Under the agreements with the District, SCCA leases space in the District's new cancer center and operates an infusion therapy clinic staffed by physicians affiliated with University of Washington Medicine. The new cancer center opened in November 2012.

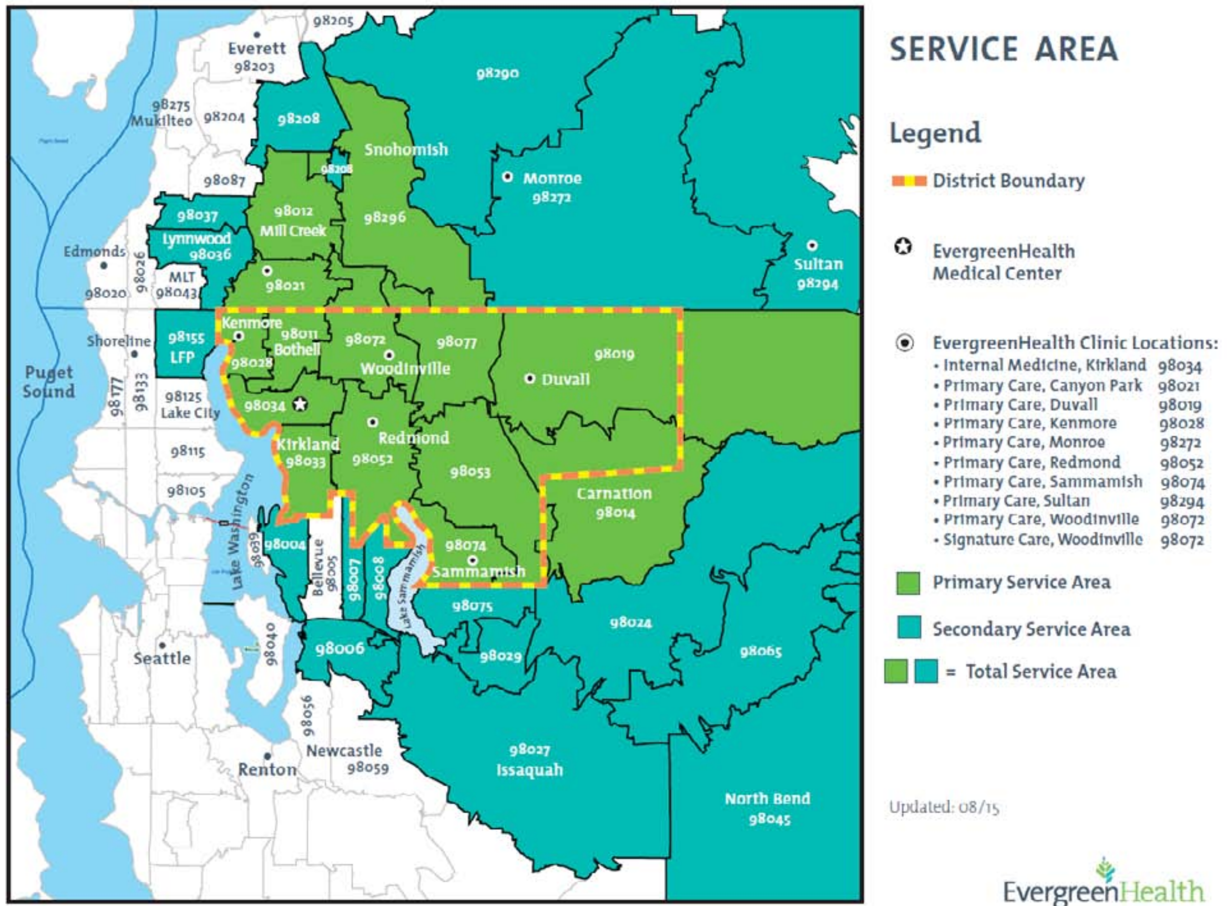
Effective March 1, 2015, the District and Snohomish County Public Hospital District No. 1, a Washington public hospital district d/b/a Valley General Hospital of Monroe, entered into a Strategic Alliance Partnership titled "Phase 3 Interlocal Agreement," and Valley General Hospital's name was changed to EvergreenHealth Monroe. EvergreenHealth Monroe is an acute care hospital licensed for 72 acute care beds and an addiction recovery center

licensed for 8 detox and 32 residential treatment beds. Its service area includes approximately 100,000 people in central and eastern Snohomish County. The Alliance has provided and continues to provide opportunities to combine efforts on important initiatives benefitting patients and both communities. The District has acquired a primary care medical practice in Sultan, Washington, and facilitated new agreements for emergency department and behavioral health services at EvergreenHealth Monroe. In addition, the District has opened a primary care and obstetrics practice in Monroe.

Under the Alliance, the District manages and operates EvergreenHealth Monroe. Beginning with the fiscal year ending December 31, 2015, in accordance with Statement No. 61 of the Governmental Accounting Standards Board, EvergreenHealth Monroe will be presented as a discrete component unit of the District. Accordingly, EvergreenHealth Monroe's financial position and the results of its operations will be included as a separate column in the District's financial statements. The Phase 3 Interlocal Agreement provides that Snohomish County Public Hospital District No. 1 retains title to the EvergreenHealth Monroe assets and is solely liable for the EvergreenHealth Monroe obligations unless and until otherwise agreed. EvergreenHealth is not obligated to subsidize the operations of EvergreenHealth Monroe.

District's Service Area

The District serves residents residing well outside the District's boundaries. Below is a map that shows the District's Total Service Area where 84% of the inpatient discharges originate. This map also highlights the official district boundary, and shows the Primary Service Area (where 69% of the discharges originate) and Secondary Service Area (where another 15% of the discharges originate).



Facilities

Facility Overview. Many of the District's facilities are located on the EvergreenHealth Medical Center campus, which occupies 35 acres within the city of Kirkland, Washington. EvergreenHealth Medical Center consists of a five-level building constructed in 1972, a six-level wing constructed in 1992, and a nine-story building housing emergency and trauma services, inpatient and outpatient care and parking which opened in 2007. A five-story building (the DeYoung Pavilion) on campus hosts clinical services, as does a five-story building a block away (EvergreenHealth Plaza).

The District's primary care clinics are located in Redmond, Canyon Park, Kirkland, Kenmore, Woodinville, Bothell, Sammamish, Duvall, Monroe and Sultan. The Senior Care Clinic is located in Kirkland. The District also operates an urgent care center in Woodinville and an urgent care center and an emergency department in Redmond. All of these facilities are located in leased space. A new primary/urgent care clinic located in leased space in Mill Creek (98012) is expected to be open in Quarter 4, 2016.

EvergreenHealth Monroe has the hospital, referred to above, on its campus and leases space in an adjacent medical office building for some clinical services.

Bed Complement. The District is currently licensed to operate 333 beds. The number of beds currently set up is detailed in the following table.

Bed Complement
(As of December 31, 2014)

Type of Bed	Number of Set-Up Beds	License Category
Critical Care	20	Acute
Family Maternity	36	Acute/Newborn
Acute Rehabilitation	14	Acute Rehab
Medical/Surgical	205	Acute
NICU	43	Acute/Newborn
Hospice	15	Hospice
Total Beds	333	

Source: District financial records.

Competition

EvergreenHealth Medical Center had a 42.5% market share in its primary service area in 2014. The following table shows the market share information for the past five years.

Percentage of Market Share in the District's Primary Service Area

	2014	2013	2012	2011	2010
EvergreenHealth Medical Center	42.5%	42.6%	43.3%	44.7%	44.0%
Overlake Hospital Medical Center[1]	16.8	16.9	18.1	19.2	19.6
Swedish Health Services[2]	14.4	13.8	12.3	9.2	9.6
University of Washington[3]	8.2	8.8	9.0	9.2	9.9
Virginia Mason Medical Center	3.7	3.9	3.5	3.4	3.2
Children's Hospital	4.2	4.1	4.2	4.2	3.6
Providence Regional Medical Center	5.9	5.8	5.2	4.8	5.2
Others	4.3	4.1	4.4	5.3	4.9

(1) Overlake volumes include Group Health Eastside.
(2) Includes Swedish First Hill/Ballard, Swedish Cherry Hill, Swedish Hospital Edmond and Swedish Issaquah from 2011.
(3) University of Washington includes the University of Washington Medical Center, Harborview Medical Center, Northwest Hospital and Valley Medical Center.

Source: Intellimed.

Summary of Financial Information and Operating Data

The following tables present selected operating data and financial information for the District.

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

Historical Utilization

Utilization statistics (excluding newborns)	2014	2013	2012
Licensed beds	333	333	290
Acute Care admissions	14,707	14,441	15,288
Acute Care Average length of stay	3.7	3.6	3.3
Acute Care Patient days	54,873	52,389	51,388
Occupancy	47.3%	52.2%	60.9%
Acute Care Adjusted admissions	32,669	31,716	32,038
Outpatient surgeries	13,925	12,775[(1)]	5,137
Home health episodes and admissions	10,020	9,078	8,408
Hospice program days (outpatient)	165,764	162,251	151,906
Emergency room visits	54,788	52,475	54,074

(1) The District acquired 100% ownership interest in the Evergreen Surgical Center in October 2012. Prior to that date, it owned 51% of the Evergreen Surgical Center and only reported surgeries based on its ownership share.

Source: District financial records.

Summary of Revenues and Expenses. The following table shows selected financial data for the fiscal years ended December 31, 2014, 2013 and 2012 derived from the District's financial statements for those fiscal years. The selected financial data has been derived from the audited financial statements of the District prepared by KPMG LLP, the District's independent auditor. The audited financial statements for the fiscal years ended December 31, 2014 and 2013, and December 31, 2013 and 2012, are included in Appendix D-AUDITED FINANCIAL STATEMENTS. KPMG LLP has not been engaged to perform and has not performed, since the dates of its reports included herein, any procedures on the financial statements addressed in those reports. KPMG LLP also has not performed any procedures relating to this Official Statement. The selected financial data should be read in conjunction with the audited financial statements and related notes that appear in Appendix D.

Summary of Revenues, Expenses, and Changes in Net Assets

	Fiscal Years Ended December 31		
	2014	**2013**	**2012**
Net Patient Service Revenue	$ 511,862,199	$ 465,287,515	$ 413,667,172
Other Operating Revenue	34,701,379	31,378,303	33,567,514
Total Operating Revenues	$ 546,563,578	$ 496,665,818	$ 447,234,686
Operating Expenses	$ 512,358,575	$ 459,759,405	$ 417,213,265
Depreciation & Amortization	30,007,570	29,944,474	29,342,249
Total Operating Expenses	$ 542,366,145	$ 489,703,879	$ 446,555,514
Excess of Revenue Over Expenses From Operations	$ 4,197,433	$ 6,961,939	$ 679,172
Non-Operating Income	27,369,047	24,514,259	$ 32,882,990
Interest Expense	(7,786,310)	(8,653,956)	(10,250,703)
Net Non-Operating Income	$ 19,582,737	$ 15,860,303	$ 22,632,287
Excess of Revenues Over Expenses	$ 23,780,170	$ 22,822,242	$ 23,311,459

Source: District financial records.

Management Discussion. See Management's Discussion and Analysis on pages 3 to 13 of the District's financial statements for fiscal years ended December 31, 2014 and 2013, and on pages 1 to 11 of the District's financial statements for fiscal years ended December 31, 2013 and 2012, attached as Appendix D.

Sources of Patient Revenue. The District derives a substantial portion of its operating revenue from federal and state programs and insurance plans that pay for all or a portion of the health care services provided to its patients. As a consequence, the District's operating revenue depends to a great extent on the availability and level of reimbursement or payment under those programs and plans.

The following table sets forth the percentages of the District's gross patient revenue applicable to various programs and plans for the fiscal years ended December 31, 2014, 2013 and 2012.

Percent of Gross Patient Revenue

	2014	**2013**	**2012**
Medicare	37.8%	37.7%	36.2%
Medicaid	9.6	7.9	7.9
Premera	16.6	16.5	17.7
Regence	13.3	13.3	12.5
First Choice	4.6	5.2	5.5
Other third-party payers	16.7	16.6	16.7
Patient self-pay	1.4	2.8	3.5

Source: District financial records.

Capitalization

The District's capitalization as of June 30, 2015, is as set forth in the table below:

Long-Term Debt (in 000's)	**As of 6/30/2015**
UTGO Bonds	$ 59,460,000
LTGO Bonds	116,935,000[1]
Total Tax-Supported Bonds	$ 176,395,000
Revenue Bonds	0
Other Long-Term Debt	11,122,021
Noncurrent Liabilities	1,671,703
Total Long-Term Debt	$ 189,188,724
Less Current Portion	(11,433,237)
Net Long-Term Debt	$ 177,755,487
Plus Fund Balance	296,454,456
Total Capitalization	$ 474,209,943
UTGO Debt as a % of Total Capital [2]	12.54%
LTGO Debt as a % of Total Capital [2]	24.66%
Revenue Bond Debt as a % of Total Capital [2]	0.00%
Total Debt as a % of Total Capital [2]	37.48%

Note: Totals may not foot due to rounding.
(1) Includes the 2010, 2011 and 2015 LTGO Bonds; excludes the Bonds.
(2) Adjusted for current portion.
Source: District financial records.

Medical Staff

As of December 31, 2014, the District's medical staff included 875 physicians, including 723 active, 119 courtesy, 27 consultative and 6 staff members on leave. Approximately 95% of the District's active medical staff is board-certified. The District currently employs 227 physicians and 51 mid-level practitioners.

Employees

As of December 31, 2014, the District employed 3,895 people, resulting in 3,137 full-time equivalent employees.

The District currently works with four primary collective bargaining units: Washington State Nurses Association ("WSNA"), representing 1,006 nurses; Service Employees & Industrial Union ("SEIU") Local 6, representing 804 employees; United Foods and Commercial Workers ("UFCW") Local 1001, representing 226 employees; and International Union of Operating Engineers ("IUOE") Local 286, representing 24 employees.

The District enters into a written bargaining agreement ("CBA") with each of the unions. The agreements contain provisions on mandatory subjects of bargaining as defined by the law including, but not limited to, hours of work, wages, vacation, sick leave, medical and dental insurance, working conditions, and grievance procedures. The District strives to negotiate the agreements with all groups in a timely manner, consistent with all applicable State law, to ensure equity in contract provisions, and promote labor relation policies mutually beneficial to management and employees. In the past decade, there have been no labor strikes.

All of the CBAs are three-year agreements. The current status of each CBA is as follows:

- The WSNA RN CBA expires on October 31, 2015.
- The UFCW Technical CBA expires on March 31, 2016.
- The IUOE Facility Engineers CBA expires March 31, 2018.
- The SEIU Service and Maintenance CBA expires on October 31, 2016.

Professional Liability Insurance

The District holds professional liability insurance coverage through an independent insurance company. The insurance coverage is based on a claims-made policy. The District is self-insured for the professional liability tail and expected claims payout on this coverage. The policy's self-insured retention limit is $1,000,000 per claim and $3,500,000 per aggregate. The District has accrued an estimated professional claims liability of $5.1 million and $4.8 million as of December 31, 2014 and 2013, respectively.

Governance

The District is governed by a five-member Board of Commissioners elected by the District's voters. Each Commissioner serves for a term of six years and the expiration dates of the Commissioners' terms are staggered. The present Commissioners, their positions and terms of office are shown in the following table.

Name	Position	Expiration
Al F. DeYoung	Chair and Commissioner	2021
Jeanette D. Greenfield	Secretary and Commissioner	2018
Rebecca D. Hirt	Commissioner	2018
R. August Kempf	Commissioner	2017
Charles A. Pilcher, MD	Commissioner	2021

Management

Robert H. Malte, Superintendent and Chief Executive Officer, joined the District in May 2010. Mr. Malte most recently was president and CEO at Exempla Lutheran Medical Center in Wheat Ridge, Colorado. Prior to that he served as senior vice president at ThedaCare and COO at Touchpoint Health Plan in Appleton, Wisconsin. He has a strong commitment to community service and had been a board member of the Colorado Hospital Association since 2007, and served on the YMCA of Denver Metro board as well as a number of other organizations. Mr. Malte earned a Master of Business Administration at The University of Chicago Graduate School of Business in 1982 and bachelor degree in economics at Ripon College in Wisconsin.

Chrissy Yamada, CPA, Senior Vice President, Finance, Chief Financial Officer and Treasurer, came to the District in May 2004, from Northwest Hospital in Seattle, where she spent 15 years. Ms. Yamada started at Northwest Hospital in the role of Controller and was later promoted to Chief Financial Officer. Prior to joining Northwest Hospital, Ms. Yamada spent several years in the local office of the national accounting firm of KPMG. Ms. Yamada earned her Bachelor of Science Degree in Accounting from Central Washington University, and has been a Certified Public Accountant since 1985. She is also a member of several national and state organizations, including the Healthcare Financial Management Association, the American Institute of Certified Public Accountants and the Washington Society of Certified Public Accountants.

James S. Fitzgerald, District General Counsel, has served in that role since 2001, first as outside counsel and joining the District as in-house counsel in September, 2013. He was in private practice with the firm of Livengood, Fitzgerald & Alskog, PLLC for 35 years before joining the District, and has worked on District legal matters since 1978. Mr. Fitzgerald earned a Juris Doctorate degree in 1978 and a bachelor degree in business administration with a concentration in accounting in 1975, both from the University of Washington, graduating magna cum laude and elected to Phi Beta Kappa. He is also a member of several national and state organizations, including the American Health Lawyers Association, and is admitted to practice in Washington, Oregon, and the United States Supreme Court.

Authorized Investments

Chapter 35.39 RCW limits the investment by municipalities, including public hospital districts, of inactive funds or other funds in excess of current needs to the following authorized investments: United States bonds; United States certificates of indebtedness; bonds or warrants of the State; general obligation or utility revenue bonds or warrants of its own or of any other local government in the State; its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district or the State Treasurer. Under chapter 43.84 RCW, the State Treasurer may invest in

non-negotiable certificates of deposit in designated qualified public depositories; in obligations of the U.S. government, its agencies and wholly-owned corporations; in bankers' acceptances; in commercial paper; in the obligations of the Federal Home Loan Bank, Federal National Mortgage Association and other government corporations subject to statutory provisions and may enter into repurchase agreements. Utility revenue bonds and warrants of any city and bonds or warrants of a local improvement district are also eligible investments. The District currently invests its funds in shares of money market funds with portfolios of securities authorized by law for investment by local governments.

In addition to the eligible investments discussed above, bond proceeds may also be invested in mutual funds with portfolios consisting of U.S. government and guaranteed agency securities with average maturities of less than four years; municipal securities rated in one of the four highest categories; and money market funds consisting of the same, so long as municipal securities held in the fund(s) are in one of the two highest rating categories of a nationally recognized rating agency. Bond proceeds may also be invested in shares of money market funds with portfolios of securities otherwise authorized by law for investment by local governments (RCW 39.59.030).

Retirement Plans

The District has a defined contribution retirement plan covering substantially all eligible employees. The District makes a matching contribution of up to a maximum of 8% of the employee's eligible compensation. All contributions vest over a five-year schedule.

In addition to the retirement plan, the District maintains a voluntary employee deferred compensation program under the provision of Section 457 of the Internal Revenue Service Code. Under this program, District employees can defer a portion of their income until withdrawn in future years. All assets are required to be held in trust for the exclusive benefit of participants and their beneficiaries. The District also contributes up to 4% of compensation as base pension depending on years of service.

Retirement plan expense incurred and reflected in employee benefits was approximately $13.6 million in 2014 and $12.1 million in 2013. Contributions made by employees to the benefit plans totaled approximately $19.4 million in 2014 and $17.3 million in 2013. The District's retirement plans are administered by the District under record-keeping and trust agreements with third parties.

The District has a post-employment benefit plan covering the executive management team. The District makes annual contributions to the senior executive retirement plan (SERP). The SERP is recorded under assets limited as to use and under noncurrent liabilities on the balance sheet. At December 31, 2014 and 2013, the SERP balance was $1.2 million and $0.8 million, respectively.

Dissolution

The dissolution of special purpose districts, such as public hospital districts, is governed by chapter 53.48 RCW. No dissolution may occur without the approval of the governing body of the special purpose district and the superior court of the county in which the district is located. The dissolution may be approved by the court only if the indebtedness of the district has been settled or paid and the court finds that the best interests of all persons concerned will be served by the dissolution. If the proceeds of the sale of the property of the district together with its available cash are insufficient to retire the district's indebtedness, the court is authorized to order the district's governing body to levy assessments against property in the district in amounts sufficient to retire the indebtedness.

DEBT INFORMATION

Outstanding Obligations

The District had the following obligations outstanding as of June 30, 2015, adjusted to include issuance of the Bonds.

Type	Dated Date	Amount Outstanding as of 06/30/15
Nonvoted (LTGO) Bonds:		
LTGO Refunding Bonds, 2010	02/08/01	$ 29,020,000
LTGO Refunding Bonds, 2011	11/29/11	25,175,000
LTGO Refunding Bonds, 2015	01/07/15	62,740,000
LTGO Bonds, 2015, Series B (the "Bonds")	Delivery	54,000,000
Subtotal		$ 170,935,000
Voted (UTGO) Bonds:		
UTGO Refunding Bonds, 2013	05/14/13	$ 59,460,000
Subtotal		$ 59,460,000
Total[1]		$ 230,395,000

(1) Includes the Bonds.

Source: District financial records.

Debt Repayment Record

The District has promptly met all debt service payments on its outstanding obligations. No refunding bonds have been issued to prevent an impending default.

Future Financings

The District currently has no plans to issue additional general obligation debt within the next 12 months, other than the Bonds.

General Obligation Debt Capacity

Total (Voted and Nonvoted) Debt Capacity. The District may have total (voted and nonvoted) general obligation debt outstanding of up to 2.5% of the assessed value of taxable property within the District. Voted debt, in the form of unlimited tax general obligation ("UTGO") bonds, may be incurred with the assent of 60% of voters at an election at which the total number of persons voting is at least 40% of the total votes cast at the last preceding State general election. The principal of and interest on such voted debt is payable from an "excess levy," without limitation as to rate or amount.

Nonvoted Debt Capacity. The District may have nonvoted general obligation debt in the form of limited tax general obligation ("LTGO") bonds or other nonvoted obligations outstanding of up to 0.75% of assessed value of the taxable property within the District. This includes any LTGO bonds, conditional sales contracts and capital leases. The principal of and interest on such nonvoted debt is payable from the District's "regular levy" (subject to the limitations described herein under "PROPERTY TAX INFORMATION") or from other available revenues.

Remaining Debt Capacity
(As of June 30, 2015—Includes Issuance of the Bonds)

2015 Collection Year Assessed Value	$ 62,203,500,740
Nonvoted Debt Capacity (0.75% of assessed value)	$ 466,526,256
Less: outstanding LTGO Bonds	(116,935,000)
Less: outstanding capital leases	(11,122,021)
Less: the Bonds	(54,000,000)
Remaining Nonvoted Capacity	$ 284,469,235
Total Debt Capacity (2.50% of assessed value)	$ 1,555,087,519
Less: outstanding nonvoted indebtedness (from above)	(182,057,021)
Less: outstanding UTGO Bonds	(59,460,000
Remaining Voted and Nonvoted Capacity	$ 1,313,570,498

Source: King County Assessor and King County Finance and Business Operations Division.

Direct and Estimated Overlapping General Obligation Debt

The following table presents information regarding the District's direct debt as of June 30, 2015, and the estimated portion of the debt of overlapping taxing districts allocated to property within the District. The overlapping debt information was provided by the King County Assessor's Office, the King County Finance and Business Operations Division and individual taxing districts. While such information is believed by the District to be reliable, the District does not guarantee the accuracy of the debt information provided by other taxing districts.

Direct and Estimated Overlapping General Obligation Debt Information

Direct Debt [1]		
Unlimited tax (voted) general obligation bonds	$	59,460,000
Limited tax (non-voted) general obligation bonds		116,935,000
Capital leases		11,122,021
The Bonds		54,000,000
Total Direct Debt	$	241,517,021
Estimated Overlapping Debt		
King County[2]	$	129,445,700
Port of Seattle		51,659,881
Cities		125,005,802
School Districts		837,142,675
Fire Districts		4,271,435
Library Districts		33,428,533
Park and Recreation District		1,785,000
Total Estimated Overlapping Debt	$	1,182,739,026
Direct Debt and Estimated Overlapping Debt	$	1,424,256,047
Certain Debt Ratios[3]		
Direct Debt to Assessed Value		0.39%
Direct Debt and Estimated Overlapping Debt to Assessed Value		2.29%
Per Capita Assessed Value	$	206,815
Per Capita Direct Debt	$	803
Per Capita Direct Debt and Estimated Overlapping Debt	$	4,735
Assessed Value	$	62,203,500,740
Estimated population[4]		300,769

(1) Outstanding voted and nonvoted general obligation debt as of June 30, 2015, adjusted to reflect the issuance of the Bonds.
(2) King County's debt excludes available cash in debt service funds, proprietary-type debt, debt financed from component unit, and hotel/motel tax-financed debt.
(3) As of June 30, 2015, adjusted to reflect the issuance of the Bonds.
(4) Estimated population of the District as of January 1, 2015.

Sources: King County Assessor's Office, King County Finance and Business Operations Division and Cities, District financial records.

Annual Debt Service

The following table shows the remaining annual debt service payments on the District's outstanding non-voted long-term debt, including the Bonds and excluding the Refunded Bonds.

Annual Debt Service
(Years Ending December 31)

		The Bonds			
Ending	Outstanding LTGO Debt [1]	Principal	Interest	Total	Total Non-Voted Debt Service
2015	$ 7,881,738	-	$ 319,464	$ 319,464	$ 8,201,201
2016	10,650,375	-	2,500,150	2,500,150	13,150,525
2017	10,640,675	-	2,500,150	2,500,150	13,140,825
2018	10,648,675	-	2,500,150	2,500,150	13,148,825
2019	10,647,425	-	2,500,150	2,500,150	13,147,575
2020	10,641,675	-	2,500,150	2,500,150	13,141,825
2021	10,639,525	-	2,500,150	2,500,150	13,139,675
2022	10,668,244	-	2,500,150	2,500,150	13,169,394
2023	10,639,844	-	2,500,150	2,500,150	13,139,994
2024	10,633,994	-	2,500,150	2,500,150	13,134,144
2025	10,635,319	-	2,500,150	2,500,150	13,135,469
2026	10,638,256	-	2,500,150	2,500,150	13,138,406
2027	10,634,569	-	2,500,150	2,500,150	13,134,718
2028	10,628,669	-	2,500,150	2,500,150	13,128,819
2029	7,691,281	-	2,500,150	2,500,150	10,191,431
2030	7,689,500	-	2,500,150	2,500,150	10,189,650
2031	5,527,000	$ 1,475,000	2,500,150	3,975,150	9,502,150
2032		7,265,000	2,426,400	9,691,400	9,691,400
2033	-	7,825,000	2,063,150	9,888,150	9,888,150
2034	-	8,415,000	1,671,900	10,086,900	10,086,900
2035	-	9,035,000	1,251,150	10,286,150	10,286,150
2036	-	9,695,000	799,400	10,494,400	10,494,400
2037	-	10,290,000	411,600	10,701,600	10,701,600

Note: Totals may not foot due to rounding.
(1) Excludes interest payment on outstanding LTGO debt paid on June 1, 2015.

PROPERTY TAX INFORMATION

Authorized Property Taxes

The District is authorized by statute to levy "excess," "regular" and "emergency medical services" property taxes. The Bonds are secured by a pledge of regular property taxes.

Excess Property Taxes. The District may impose "excess" property taxes, which are not subject to limitation, when authorized by a 60% majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40% of the number of those who voted at the last State general election, except that one-year excess tax levies also are valid if the turnout is less than 40% and the measure receives a number of affirmative votes equal to or greater than 24% of the number who voted at the last State general election. Excess levies also may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

The District's current and historical excess property tax levy amounts and rates are shown in the table below under the heading "District Property Tax Levies."

Regular Property Taxes. The District may impose regular property taxes for general corporate purposes, including the payment of debt service on limited tax general obligation bonds. Subject to a number of statutory and constitutional limitations, the District may levy regular property taxes, without voter approval, up to a maximum statutory amount of $0.75/$1,000 of assessed value. The statutory and constitutional limitations include: (i) a

constitutional requirement that property taxes be levied at a uniform rate upon the same class of property within the territorial limits of a taxing district; (ii) constitutional and statutory requirements that limit aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to 1% of the true and fair value of property; (iii) a statutory limitation that restricts the aggregate rate of regular levies by all overlapping taxing districts, other than the State, public utility districts and port districts, to a maximum of $5.90/$1,000 of the assessed valuation; and (iv) a statutory restriction on the amount of increase in an individual taxing district's regular levy from one year to the next (the "Levy Lid Law"). The Levy Lid Law limits a taxing district's regular levy, without voter approval, to an amount equal to 100% of the district's highest levy amount certified in the past three years, multiplied by a "limit factor," plus a full value adjustment for new construction, improvements to existing property and State-assessed property. Substantively, this means that the taxing district must set its regular levy so that the property taxes payable in a given year (excluding new construction, improvements and State-assessed property) will not exceed the amount levied by the taxing district in the highest of the three most recent years multiplied by the limit factor. Revenue attributable to new construction, improvements to existing property and State-assessed property is not subject to the levy limit. See "Property Tax Limitations–*The 101% Regular Tax Increase Limitation*."

The District's current and historical regular property tax levy amounts and rates are shown in the table below under the heading "District Property Tax Levies."

<u>Emergency Medical Services Property Taxes</u>. The District may impose additional regular property tax levies for emergency medical services in an amount equal to 50 cents or less per thousand dollars of the assessed value of property in the District in each year for six consecutive years, each year for ten consecutive years or permanently when specifically authorized so to do by majority of at least 60% of the electors thereof approving a proposition authorizing the levies submitted at a general or special election, at which election the number of persons voting "yes" on the proposition constitutes 60% of a number equal to 40% of the total votes cast in the District at the last preceding general election when the number of electors voting on the proposition does not exceed 40% of the total votes cast in the District in the last preceding general election; or by majority of at least 60% of the electors thereof voting on a proposition when the number of electors voting on the proposition exceeds 40% of the total votes cast in the District in the last preceding general election.

The District currently does not levy taxes for emergency medical services. Emergency medical services are provided by the County, which levies 30 cents per thousand dollars of the assessed value of property for emergency medical services. As long as the County levies for emergency medical services, other taxing districts within its boundaries, such as the District, cannot do so.

<u>Timber Excise Taxes</u>. The District also is eligible to receive timber excise taxes. In Washington, standing timber is exempted from *ad valorem* taxes, but is subject to an excise tax at the time that it is harvested, as calculated and collected by the State Department of Revenue. The State imposes a 1% tax, while counties may impose up to 4%, to be distributed to local governments, such as hospital districts. The timber assessed value ("TAV") for a county equals the stumpage value of timber harvested from privately-owned land multiplied by the ratio of the county's timber excise tax rate to its property tax rate on forestlands. The TAV for an individual taxing district equals the county TAV multiplied by the percentage of county forestland within that district. Timber excise taxes are distributed to districts in the following order, with any excess placed in reserve for use the following year:

(1) Taxing districts with an excess levy or a capital levy. The amount is the district's TAV multiplied by that levy rate.

(2) School districts with a maintenance and operations levy. The amount is half the district's TAV multiplied by that levy rate.

(3) Taxing districts with a regular property tax levy. The amount is the district's TAV multiplied by that levy rate.

District Property Tax Levies

The following table shows the District's levy rates and dollar amounts levied since 2011.

District Tax Levy

Collection Year	Levy Rates ($ per thousand)			Levy Amounts ($)		
	Regular	Excess	Total	Regular	Excess	Total
2015	0.26805	0.13434	0.40239	16,220,805	8,289,264	24,910,069
2014	0.30495	0.16545	0.47040	16,185,111	8,733,350	24,918,461
2013	0.32684	0.19211	0.51895	15,824,104	9,240,303	25,064,407
2012	0.30598	0.18894	0.49492	15,071,067	9,242,368	24,313,436
2011	0.29979	0.18240	0.48219	15,283,465	9,239,230	24,522,696

Source: King County Assessor's Office.

Property Tax Limitations

Regular property taxes are subject to rate and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1, of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout a district. Aggregate property taxes vary because of various combinations of overlapping taxing districts. Properties that are subject to the same combination of taxing districts and thus have the same aggregate levy rate are in the same "levy code."

Maximum Regular Tax Levy Rates. Subject to the limitations described below, public hospitals and other taxing districts in Washington may levy regular, nonvoted property taxes at the following rates subject to the limitations provided by chapter 84.55 RCW.

Maximum Regular Tax Levy Rates
(per $1,000 of Assessed Value)

Taxing District	Levy Rate	Taxing District	Levy Rate
Hospital Districts	$0.75	Metropolitan Park Districts	$0.75
Counties [(1)]	1.80	Park and Recreation Districts	0.60
County Roads (unincorp.)	2.25	Cities and Towns [(2)]	3.60
Library Districts	0.50	State Schools [(3)]	3.60
Fire Districts	1.50	Cemetery Districts	0.11
Port Districts	0.45		

(1) Pursuant to RCW 84.52.043(1), a county may increase its levy from $1.80/$1,000 to $2.475/$1,000 if (i) the total levies for both the county and any road district within the county do not exceed $4.05/$1,000 and (ii) no other taxing district has its levy reduced as a result of the increased county levy.
(2) Up to $0.225/$1,000 of this amount may be levied for pension funding purposes under RCW 41.16.060. Also, the maximum regular levy for any city annexed to a library district or a fire protection district is limited to $3.60/$1,000 less any regular levy made by the library or fire protection district, pursuant to RCW 37.12.390 and 52.04.081.
(3) The $3.60/$1,000 maximum is adjusted for each county by the ratio of total assessed value to market value.

Source: King County Assessor's Office.

There are three other regular levies that certain taxing districts may impose that are outside the above statutory rate limits: (1) a conservation futures levy, which can be imposed by a county without voter approval at a maximum rate of $0.0625 per $1,000 assessed value; (2) an emergency medical services levy, which can be imposed with voter approval at a maximum rate of $0.50 per $1,000 assessed value; and (3) an affordable housing levy, which can be imposed by a city or a county, with voter approval, at a maximum rate of $0.50 per $1,000 assessed value.

ALTHOUGH THE DISTRICT MAY LEVY REGULAR TAXES AT THE MAXIMUM LEVY RATES DESCRIBED UNDER THIS SUBHEADING, THE DISTRICT'S ABILITY TO DO SO IS LIMITED BY: (1) STATUTES THAT RESTRICT THE DISTRICT'S ABILITY TO INCREASE THE DOLLAR AMOUNT OF ITS REGULAR TAX LEVY IN ANY GIVEN YEAR (SEE "THE 101% REGULAR PROPERTY TAX INCREASE LIMITATION" BELOW); (2) STATUTES THAT LIMIT THE AGGREGATE REGULAR TAX LEVY RATE OF CERTAIN TAXING DISTRICTS AND REQUIRE ADJUSTMENT OF THOSE LEVY RATES UNDER CERTAIN CIRCUMSTANCES (SEE "THE $5.90/$1,000 AGGREGATE REGULAR LEVY RATE LIMITATION" BELOW); AND (3) A

CONSTITUTIONAL AND STATUTORY LIMIT ON THE MAXIMUM AMOUNT OF ALL REGULAR TAXES LEVIED ON PROPERTY (SEE "CONSTITUTIONAL 1% AGGREGATE REGULAR PROPERTY LEVY RATE LIMITATION" BELOW). FURTHER, VARIOUS INITIATIVES AND REFERENDA HAVE BEEN SUBMITTED TO THE STATE'S VOTERS IN RECENT YEARS THAT HAVE ATTEMPTED TO FURTHER LIMIT THE DISTRICT'S ABILITY TO LEVY REGULAR TAXES. SOME OF THESE HAVE BEEN APPROVED BY THE VOTERS. THE DISTRICT ANTICIPATES THAT ADDITIONAL INITIATIVES AND REFERENDA REGARDING TAXES WILL BE SUBMITTED IN THE FUTURE. SEE "INITIATIVES AND REFERENDA."

Constitutional Uniformity Requirement. Article VII, Section 1, of the State Constitution requires that a taxing district must levy the same rate on similarly classified property throughout a district. It is possible that the overlapping of taxing districts in different areas of the District could cause the maximum aggregate levy to vary within the District. To comply with the uniformity requirement, if either the Constitutional 1% limitation or the $5.90 limitation is exceeded, county assessors must reduce or eliminate levies according to a detailed prioritized list, beginning with the junior taxing districts. See "Junior Taxing Districts" below.

Constitutional 1% Aggregate Regular Property Tax Levy Limitation. Article VII, Section 2, of the State Constitution limits aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to 1% of the true and fair value of property. RCW 84.52.050 provides the same limitation by statute.

The 101% Regular Property Tax Increase Limitation. Chapter 84.55 RCW limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a "limit factor," plus adjustments for new construction, improvements to existing property and State-assessed property. For taxing districts with a population greater than 10,000, such as the District, the limit factor is defined as (i) the lesser of 101% or 100% plus inflation (measured by the implicit price deflator or IPD), or (ii) up to 101%, regardless of inflation, if approved by the legislative authority of the taxing district upon a finding of substantial need. Since the regular tax increase limitation applies to the total dollar amount levied rather than to levy rates, any increases in property values exceeding the limit factor result in decreased levy rates, unless voters authorize a higher levy.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy since 1986 had been set at the full amount allowed under chapter 84.55 RCW. Also, a newly created taxing district can initiate its levy at the maximum permitted statutory levy rate, unless that rate would exceed the limitations described below.

With a majority vote, RCW 84.55.050 allows a taxing district to levy a greater amount than would otherwise be allowed under the levy lid, either indefinitely or for a limited period or purpose. This is known as a "levy lid lift." A levy lid lift does not permit the taxing district to exceed any applicable levy rate limitations. The District has not received an increase to the levy lid in the past several years.

The $5.90/$1,000 Aggregate Regular Levy Rate Limitation. Aggregate regular property tax levies imposed by all taxing districts, *except* the State, port districts and public utility districts, are limited to $5.90/$1,000 (0.59%) of assessed value, per RCW 84.52.043(2). This limit excludes the regular levies for conservation futures, emergency medical services and affordable housing as discussed above under the subheading "Maximum Regular Tax Levy Rate."

Junior Taxing Districts. The District is a "junior" taxing district relative to the $5.90/$1,000 limit. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts. Under RCW 84.52.010, junior taxing district levies are reduced or eliminated in the following order until the consolidated levy is within the $5.90 limitation:

(1) Levies by park and recreation districts; park and recreation service areas; and recreation service districts; city transportation authorities; and cultural arts, stadium and convention districts are reduced on a *pro rata* basis or eliminated.

(2) The levies of flood control zone districts are reduced on a *pro rata* basis or eliminated.

(3) The levy rates of all other junior taxing districts (except fire protection districts, regional fire protection service authorities, library districts, and the first $0.50/$1,000 levied by a public hospital district or a metropolitan park district) are reduced on a *pro rata* basis or eliminated.

(4) For new metropolitan park districts, the $0.50/$1,000 protected under (3), above, is reduced or eliminated.

(5) Levies by fire protection districts and regional fire protection service authorities are reduced on a *pro rata* basis until only the first $0.50/$1,000 remains.

(6) The remaining levies (i.e., library districts, and the remaining $0.50/$1,000 levied by older metropolitan park districts, public hospital districts, fire protection districts and regional fire protection service authorities) are all reduced on a *pro rata* basis or eliminated.

In addition, RCW 84.52.125 provides that, beginning with levies collected in 2006, fire protection districts may protect up to $0.25/$1,000 from proration under the steps outlined above, regardless of the aggregate levy limitation. However, if the Constitutional 1% aggregate rate limitation (see above) is exceeded, this $0.25/$1,000 is the first levy to be reduced or eliminated in accordance with RCW 84.52.010.

Finally, chapter 39.67 RCW allows taxing districts to contract with one another to avoid a loss of revenues associated with a reduction of levy rates. Typically under these contracts, a geographically smaller taxing district agrees to impose a lower levy rate in order to avoid proration. In return, that district receives payments from a geographically larger taxing district so that the total revenues received by the smaller district are approximately equal to what it would have received had it not agreed to lower its levy.

Representative Levy Rates. Accounting for the taxing districts that currently have overlapping boundaries with the District, the following table shows that (1) if all taxing districts in the incorporated areas of the District levied regular property taxes at the maximum allowable rates, the $5.90/$1,000 limit would be exceeded by $0.25 per $1,000 assessed value, and (2) if all taxing districts in the unincorporated areas of the District levied regular property taxes at the maximum allowable rates, the $5.90/$1,000 limit would be exceeded by $0.90 per $1,000 assessed value.

Maximum Regular Levy Rates Subject to $5.90/$1,000 Limit
(Per $1,000 of Assessed Value)

Incorporated Areas		**Unincorporated Areas**	
Senior Districts:		Senior Districts:	
King County	$1.800	King County	$1.800
Cities	3.375	County Roads	2.250
City Pensions	0.225	Total Senior Districts:	$4.050
Total Senior Districts:	$5.400		
Junior Districts		Junior Districts	
The District [1]	$0.750	The District [2]	$0.750
		Fire Districts	1.500
		Library District	0.500
		Total Junior Districts	$2.750
Maximum Aggregate Rate	$6.150	Maximum Aggregate Rate	$6.800
Amount in Excess of Limit	$0.250	Amount in Excess of Limit	$0.900

(1) To the extent the consolidated tax levy rate of the senior taxing districts for any levy code in the incorporated areas of the District exceeds $5.15/$1,000, the County Assessor will reduce the District's levy rate. Currently the maximum amount by which the District's levy rate can be reduced is $0.25/$1,000.

(2) In the unincorporated area, the first $0.50/$1,000 of the District's levy is essentially protected because, while the library district's levy has the same priority as the District's first $0.50/$1,000, the fire districts' first $1.00/$1,000 is of a lower priority and would be reduced first, if necessary.

Source: King County Assessor's Office.

The following table shows the 2015 regular tax levy rates for the Tax Code Areas ("TCA") in the incorporated and unincorporated areas of the District with the highest overall regular tax levy rates. There are a total of 86 TCAs comprising the District and 26 overlapping taxing districts.

Highest Regular 2015 Levy Rates
Subject to $5.90/$1,000 Limit
(Per $1,000 of Assessed Value)

Incorporated Areas [1]		Unincorporated Areas [2]	
Senior Districts:		Senior Districts:	
King County	$1.19644	King County	$1.19644
City of Duvall	1.38575	County Roads	2.25000
Total Senior Districts:	$2.58219	Total Senior Districts:	$3.44644
Junior Districts		Junior Districts	
The District	$0.26805	The District	$0.26805
Fire District No. 45	1.41859	Fire District No. 45	1.41859
Library District	0.44747	Library District	0.44747
Total Junior Districts	$2.13411	Total Junior Districts	$2.13411
Aggregate Rate	$4.71630	Aggregate Rate	$5.58055
Amount Below Limit	$1.18370	Amount Below Limit	$0.31945

(1) Levy code 1155 in the City of Duvall.
(2) Levy code 7518 in unincorporated King County

Source: King County Assessor's Office.

The following table shows the actual rate levied in a representative area of the District in 2014. This includes regular tax levies and excess tax levies in all taxing districts and the State School Fund.

2015 Representative Aggregate Levy Rate
(Per $1,000 of Assessed Value)

State of Washington (State Schools)	$2.28514
King County [1]	1.34522
City of Redmond	1.48849
Lake Washington School District No. 414	3.29918
The District	0.40239
Emergency Medical Services	0.30217
Library District	0.50276
Redmond Library Capital Facilities	0.03876
King County Flood District	0.13860
Port of Seattle	0.18885
Total	$9.99156

(1) Includes Ferry District levy of $0.00306

Source: King County Assessor's Office.

TAX VALUATION AND COLLECTION

Assessed Value Determination

In the State, the county assessor (the "Assessor") determines the value of all real and personal property throughout the County (including the District) that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes the assessed value of property is 100% of its true and fair value. Since 1996, all property in the District has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals.

One hundred percent of the actual value of taxable property within the District, less exempt senior citizens, plus timber assessed value, is known as the "bond assessed value."

The following is the historical regular assessed valuation of the District for the last five years.

District's Historical Assessed Value

Collection Year	Assessed Valuation
2015	$62,203,500,740
2014	53,280,018,529
2013	48,412,595,682
2012	49,251,032,551
2011	51,188,699,517

Source: King County Assessor's Office.

Tax Collection Procedure

Property taxes are levied in specific dollar amounts, as determined by the various county assessors in the State. These amounts are placed on a tax roll which is delivered to the county treasurer, or equivalent thereof, by January 15. The county treasurer creates a tax account for each taxpayer and is responsible for the collection of taxes due to each account.

Taxes are due and payable on April 30, but if the amount due from a taxpayer exceeds $50, one-half may be paid then and the balance no later than October 31. Delinquent taxes are subject to interest at the rate of 12% per year computed on a monthly basis from the date of delinquency until paid. In addition, a penalty of 3% will be assessed on June 1 of the year in which the tax was due and 8% on December 1 of the year due. Interest collected on delinquent taxes is retained by the District. The method of giving notice of payment of taxes due, the accounting for the money collected, the division of the taxes among the various taxing districts, notices of delinquency, and collection procedures are all covered by detailed statutes.

The lien for property taxes is prior to all other liens or encumbrances. By law, the county treasurer may not commence foreclosure of a tax lien until three years have passed since the first delinquency. In *Algona v. Sharp*, 30 Wn. App. 837 (1982), the Washington Court of Appeals, Division One, held that all property which constitutes a homestead under chapter 6.13 RCW (up to a total property value of $125,000) is protected from forced sale to satisfy special assessment liens. The Court expressly did not rule as to the effect of a declaration of homestead against a lien for general taxes. The United States Bankruptcy Court for the Western District of Washington has held that the Homestead Law applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Tax Collection Record

The following tables shows the District's regular property and excess property tax collection record over the past five years. The tables shows the percentage of taxes collected during the year of levy, as well as the total collected as of June 30, 2015. The total amount collected as of June 30, 2015, may reflect fees and penalties collected on delinquent tax payments.

Historical Tax Collection Results
(Regular Property Taxes)

Collection Year	Property Tax Levy	Collected in Year of Levy		Collected as of June 30, 2015	
		Amount	Percent	Amount	Percent
2015	$16,613,993	(1)	(1)	$ 8,600,932	51.77%
2014	16,149,451	15,967,291	98.87%	16,089,335	99.63
2013	15,787,089	15,594,063	98.78	15,756,206	99.80
2012	15,011,524	14,817,739	98.71	15,005,603	99.96
2011	15,236,144	15,019,303	98.58	15,235,228	99.99
2010	14,916,682	14,662,786	98.30	14,915,055	99.99

(1) in process of collection.

Source: King County Finance and Business Operations Division.

Historical Tax Collection Results
(Excess Property Taxes)

Collection Year	Property Tax Levy	Collected in Year of Levy		Collected as of June 30, 2015	
		Amount	Percent	Amount	Percent
2015	$8,289,476	(1)	(1)	$4,288,103	51.73%
2014	8,713,805	8,616,307	98.88%	8,681,562	99.63
2013	9,223,816	9,113,023	98.80	9,207,040	99.82
2012	9,206,519	9,089,303	98.73	9,203,363	99.97
2011	9,206,543	9,076,573	98.59	9,205,944	99.99
2010	9,217,124	9,060,655	98.30	9,216,112	99.99

(1) in process of collection.

Source: King County Finance and Business Operations Division.

INITIATIVES AND REFERENDA

Under the State Constitution, the voters of the State have the ability to initiate legislation and require the State Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. The initiative power in the State may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiatives) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws.

Initiative petitions affecting tax collections, levy rates and other matters may be filed in the future. The District cannot predict whether any such initiatives will qualify to be submitted to the voters or, if submitted, will be approved. Likewise, the District cannot predict what actions the Legislature might take, if any, regarding future initiatives approved by voters.

BONDOWNERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement to make an informed investment decision. Certain of these risks are described below.

The Bonds are payable from certain tax receipts and from the Net Revenue of the Hospital System, as described under the heading "SECURITY FOR THE BONDS" herein. The District's ability to collect Regular Property Taxes could be adversely affected if the assessed valuation of the District declines in future years or if one or more of the regular property tax limitations described under the heading "PROPERTY TAX INFORMATION" causes a reduction in the rate or amount of taxes the District can levy. The future financial condition of the District – and thus the District's ability to generate Net Revenue of the Hospital System – could be adversely affected by, among other things, legislation, regulatory actions, increased competition from other health care providers, demand for health care services, the impact of technological and demographic changes on the ability of the District to provide the services required by patients, confidence of physicians and the public in the District, economic developments in the service area, malpractice claims and other litigation, and changes in the rates, timing and methods of payment for the hospital services of health care providers. Such factors may also consequently affect payment by the District of principal of, premium, if any, and interest on the Bonds. There can be no assurance that the financial condition of the District will not be adversely affected by those factors. Certain of the factors that could affect the Bonds and the future financial condition of the District are set forth in more detail below.

For recent financial information relating to the operations and condition of the District, see "THE DISTRICT – Summary of Financial Information and Operating Data" and the Audited Financial Statements of the District included in Appendix D.

General

The current federal and state budget deficits may significantly reduce payment rates from governmental programs such as Medicare and Medicaid. Federal health care reform could further reduce payment rates. Private payers are also striving to reduce payments for hospital stays and/or promote provision of care in lower acuity (non-inpatient hospital) settings. Changes in payer policies and the need for providers to adapt to changing and complex payment arrangements have had and will continue to have a significant impact upon the District's economic performance.

In addition to these economic trends, health care providers like the Hospital System are subject to extensive governmental regulation, which has increased and is likely to continue to increase the cost and risk of doing business. In response to perceived abuses and actual violations of the terms of existing federal, state and local health care payment programs, Federal and state governments have increased their audit and enforcement activities, and federal and state legislation has been considered or enacted providing for or expanding existing civil and criminal penalties for perceived abusive activities.

Further, the District is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payers and is subject to actions by, among others, the Centers for Medicare & Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), The Joint Commission, the National Labor Relations Board and other federal, state and local government agencies. The District's future financial condition could be adversely affected by, among other things, changes in the method, timing and amount of payments to the District by governmental and nongovernmental payers, the financial viability of these payers, increased competition from other health care entities, the costs associated with responding to governmental audit inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., accountable care organizations and other health reform payment mechanisms), future changes in the economy, demographic changes, availability of physicians, nurses and other health care professionals, and malpractice claims and other litigation. In addition, compliance with other regulatory requirements at the federal, state and local levels impose uncertainty and potentially significant capital and operating cost increases.

Any of these factors and others may affect the District's ability to generate revenues and to pay principal of and interest on the Bonds. There can be no assurance that the District's financial condition and/or the utilization of the

Hospital System will not be adversely affected by any of these circumstances. These and other risks are described in greater detail below.

Impact of Disruptions in the Credit Markets and General Economic Factors

The disruption of the credit and financial markets in the last several years resulted in volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies.

In response to this disruption of the markets, in 2010 Congress enacted and the President approved the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act").* Additional legislation is under active consideration by Congress and regulatory action is being considered by various federal agencies, the Federal Reserve Board and foreign governments which legislation is intended to increase the regulation of financial institutions and domestic and global credit and securities markets. The effects of these legislative, regulatory and other governmental actions, including the Dodd-Frank Act, upon the District cannot be predicted.

The health care sector has been adversely affected as a direct consequence of the disruption of the credit and financial markets. Patient service revenues and inpatient volumes have not increased as historic trends would otherwise indicate. Reduced employment and personal income have resulted in increases in self-pay admissions, increased levels of bad debt and uncompensated care, reduced demand for elective procedures, and reduced availability and affordability of health insurance. During the past several years there have also been increased stresses on state budgets, which could potentially result in reductions in Medicaid payment rates or Medicaid eligibility standards, and delays of payment of amounts due under Medicaid and other state or local payment programs.

In February 2009, the American Recovery and Reinvestment Act of 2009 (the "*Recovery Act")* was enacted. The Recovery Act includes several provisions that are intended to provide financial relief to the health care sector by providing approximately $150 billion in new funds, most of which was to be spent by the end of 2011. The new funds were to be used to, among other things, provide a temporary increase in Federal payments to fund state Medicaid programs and provide subsidies to the recently unemployed for health insurance premium costs. The Recovery Act and resulting regulations established a framework for the implementation of a nationally-based health information technology program. For more information regarding this program, *see* "Regulatory Environment - The HITECH Act" below. However, there can be no assurance that the Recovery Act has had or will have the positive economic effect intended or that the Recovery Act will provide any financial relief to the District.

Federal Health Care Reform and Other Governmental Initiatives

In March, 2010, the Patient Protection and Affordable Care Act (the "*Health Care Reform Act")* was enacted and approved by the President.

Some of the provisions of the Health Care Reform Act took effect immediately, while others will take effect or will be phased in over time, ranging from a few months following approval to ten years. Because of the complexity of the Health Care Reform Act generally, additional legislation is likely to be considered and enacted over time. The Health Care Reform Act will also require the promulgation of substantial regulations with significant effects on the health care industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to health care providers are expected to impose new and additional contractual terms and conditions. Thus, the health care industry will be subjected to significant new statutory and regulatory requirements and contractual terms and conditions and, consequently, to structural and operational changes and challenges, for a substantial period of time.

The District's management is analyzing the Health Care Reform Act and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

A significant component of the Health Care Reform Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and dependents and, as a consequence, expansion of the base of consumers of health

care services. One of the primary purposes of the Health Care Reform Act is to provide or make available, or subsidize the premium costs of, health care insurance for some of the millions of currently uninsured (or underinsured) consumers who fall below certain income levels. The Health Care Reform Act proposes to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents; (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels; (iii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates; (iv) expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps; and (v) expansion of existing public programs, including Medicaid, for individuals and families. The Congressional Budget Office *("CBO")* has estimated that in federal fiscal year 2015, 19 million consumers who are currently uninsured will become insured, followed by an additional 11 million consumers in federal fiscal year 2016. To the extent all or any of those provisions produce the expected result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues.

Some of the specific provisions of the Health Care Reform Act that may affect hospital operations, financial performance or financial conditions, including those of the District, are described below. This listing is not, is not intended to be, nor should be considered by the reader as, comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws.

Some provisions of the Health Care Reform Act will adversely affect the District more significantly than others. The mix of services at the District, the number of uninsured or underinsured in its service area that obtain insurance coverage and other factors will affect the actual outcomes. At this time, the District's management cannot predict the aggregate effect of the Health Care Reform Act upon the Obligated Group as a whole.

- Commencing upon enactment and through September 30, 2019, the annual Medicare market basket updates for hospitals will be reduced. Beginning October 1, 2011, the market basket updates became subject to productivity adjustments. The reductions in market based updates and the productivity adjustments will have a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates will be effective prior to the periods during which insurance coverage and the insured consumer base will expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payment per discharge on a year-to-year basis.

- Commencing October 1, 2010 and continuing through September 30, 2019, payments under the "Medicare Advantage" programs (Medicare managed care) will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.

- Commencing October 1, 2012, a value-based purchasing program was established under the Medicare program designed to provide incentive payments to hospitals based on performance on quality and efficiency measures. These incentive payments are funded through a pool of money collected and withheld from all hospital providers; funds are restored to hospitals according to how they performed on specified quality measures.

- Commencing October 1, 2013, Medicare disproportionate share hospital *("DSH")* payments were reduced initially by 75%. DSH payments will be increased thereafter to account for the national rate of consumers who

do not have health care insurance and are provided uncompensated care. Commencing October 1, 2013, a state's Medicaid DSH allotment from federal funds will be reduced.

- Expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels. CBO has estimated that 16 million consumers who are currently uninsured will become newly eligible for Medicaid through 2019 as a result of this expansion. The U.S. Supreme Court decision in 2011 resulted in many states choosing not to participate in the Medicaid expansion, but that was not the case in Washington State. The State has budgeted for an additional 325,000 Medicaid enrollees during the 2013-2015 biennium. This increase in the number of insured patients in the State may result in increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be expected to increase in costs of providing that care, which may or may not be balanced by increased revenues.

- Commencing October 1, 2012, Medicare payments that would otherwise be made to hospitals that have a high rate of potentially preventable readmissions of Medicare patients for certain clinical conditions will be reduced by specified percentages to account for those excess and "preventable" hospital readmissions.

- Commencing October 1, 2014, Medicare payments to certain hospitals for hospital-acquired conditions will be reduced by 1%. Effective July 1, 2011, federal payments to states for Medicaid services related to health care-acquired conditions are prohibited.

- Effective October 1, 2011, health care insurers are required to include quality improvement covenants in their contracts with hospital providers, and are required to report their progress on such actions to the Secretary of Health and Human Services ("HHS").

- Commencing January 1, 2015, health care insurers participating in the health insurance exchanges will be allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs is uncertain.

- With varying effective dates, the Health Care Reform Act enhances the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Health Care Reform Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.

- The establishment of an Independent Payment Advisory Board (the "*Board")* to develop proposals to improve the quality of care and limitations on cost increases. Beginning January 15, 2019, if the Medicare growth rate exceeds the target, the Board is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals.

The Health Care Reform Act creates a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies. One purpose of these programs and pilot projects is to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery models, such as accountable care organizations or combinations of provider organizations that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

The Health Care Reform Act establishes a Medicare Shared Savings Program that seeks to promote accountability and coordination of care through the creation of Accountable Care Organizations *("ACOs").* The program will allow hospitals, physicians and others to form ACOs and work together to invest in infrastructure and redesign integrated delivery processes to achieve high quality and efficient delivery of services. ACOs that achieve quality

performance standards will be eligible to share in a portion of the amounts saved by the Medicare program. HHS has significant discretion to determine key elements of the program, including what steps providers must take to be considered an ACO, how to decide if Medicare program savings have occurred, and what portion of such savings will be paid to ACOs. It remains unclear to what extent providers will pursue federal ACO status or whether the required investment would be warranted by shared savings achieved through efficiencies in care delivery. Nevertheless, it is anticipated that private insurers may seek to establish similar incentives for providers, while requiring less infrastructural and organizational change. The potential impacts of these initiatives are unknown, but introduce greater risk and complexity to health care finance and operations. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

On June 28, 2012, the United States Supreme Court upheld the constitutionality of the Health Care Reform Act generally, but struck down certain provisions which would have permitted federal Medicaid funding to be entirely eliminated for states that do not comply with the expanded Medicaid coverage required under the Health Care Reform Act. Since the Supreme Court's decision was handed down, certain political leaders have announced their intention to proceed with legislation to repeal or amend provisions of the Health Care Reform Act. Attempts to repeal provisions of the Health Care Reform Act are pending in Congress while the constitutionality of the Health Care Reform Act continues to be challenged in the courts. The ultimate outcomes of legislative attempts to repeal or amend the Health Care Reform Act and legal challenges to the Health Care Reform Act are unknown.

Federal Budget Cuts. The Budget Control Act of 2011 (the "*Budget Control Act")* limits the federal government's discretionary spending caps at levels necessary to reduce expenditures by $917 billion from the current federal budget baseline between federal fiscal years 2012 and 2021.

The Budget Control Act also created a new Joint Select Committee on Deficit Reduction (the "*Super Committee")* tasked with making recommendations to further reduce the federal deficit by $1.5 trillion. The Super Committee failed to act within the time specified in the Budget Control Act, but as a result of the enactment of the American Taxpayer Relief Act of 2012, automatic spending cuts (in an amount necessary to achieve $1.2 trillion in savings between federal fiscal years 2013 and 2021, commonly referred to as "sequestration") were not triggered on January 1, 2013. Automatic spending cuts were, however, triggered on March 1, 2013, the next effective date of sequestration. A wide range of spending is exempted from sequestration, including Social Security, Medicaid, Veteran's benefits and pensions, federal retirement funds, civil and military pay, child nutrition and other programs. However, Medicare is not exempted from sequestration. Medicare payments are reduced in part as a result of these across the board spending reductions, limited to 2% of total program costs. Fitch Ratings approximates the annualized impact of sequestration cuts in Medicare spending that went into effect in April of 2013 at $11 billion.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have upon the District. Reductions in Medicare spending in the fiscal 2014 federal budget proposal begin at $3 billion in 2014, but ramp up to approximately $300 billion over the next decade. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. If Medicare spending is reduced under either scenario, this may have a material adverse effect upon the District's financial condition.

Taxpayer Relief Act. The American Taxpayer Relief Act of 2012 (the "*Taxpayer Relief Act")* extended the number of supplemental Medicare Payments, including supplemental payments for some low-volume hospitals, ambulance charges and physical therapy costs. The $30 billion cost of these provisions is expected to be partially offset by a reduction in payments to hospitals over the 10-year period following the passage of the Taxpayer Relief Act, including an estimated $10.5 billion reduction in projected Medicare hospital payments for inpatient and overnight care and a reduction in the Medicare disproportionate share payments to hospitals by an additional $4.2 billion during that period. These cuts are in addition to those made to Medicare hospital payments as part of the Health Care Reform Act.

Job Creation Act. The Middle Class Tax Relief Act and Job Creation Act of 2012 (the "*Job Creation Act"*), as amended by the Taxpayer Relief Act, delayed through the end of 2013 the implementation of certain scheduled cuts to physicians payments mandated by the sustainable grown rate *("SGR")* formula that ties physician reimbursement under Medicare to the gross domestic product. The Bipartisan Budget Act of 2013 extended the delay through March 31, 2014, and increased Medicare payments to physicians during the same period. The Job Creation Act provides that the cost of delaying scheduled cuts to physician payments will be achieved by providing for cuts in

other areas of health care, including reductions in Medicaid payments to hospitals with a disproportionate share of uninsured patients through 2023, as well as reductions in Medicare reimbursement to providers for beneficiaries' unpaid coinsurance and deductible amount after reasonable collection efforts. Prior to the enactment of the Job Creation Act, Medicare reimbursed hospital providers 70% of beneficiary bad debt; the Job Creation Act reduces that reimbursement to 65%.

Patient Service Revenues

A substantial portion of the District's net patient service revenues is derived from third-party payors which pay for the services provided to patients covered by third parties for services. These third-party payors include the federal Medicare program, state Medicaid program and private health plans and insurers, including health maintenance organizations and preferred provider organizations. Many of those programs make payments to the District in amounts that may not reflect the District's direct and indirect costs of providing services to patients.

The District's financial performance has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of this statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

Medicare and Medicaid Programs. Approximately 37.8% and 39.6% of the District's net patient service revenue for the fiscal year ended 2014 were derived from the Medicare and Medicaid programs, respectively. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program, and Medicaid is a combined federal and state program.

Medicare. Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare provides certain health care benefits to beneficiaries who are *65* years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care and some home health care, and Medicare Part B covers physician services and some supplies. Medicare is administered by the Centers for Medicare and Medicaid Services *("CMS")* of the federal Department of Health and Human Services. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state in which the provider is located and/or The Joint Commission *("The Joint Commission")* or the Healthcare Facilities Accreditation Program.

The Health Care Reform Act has made several changes to the Medicare program, ranging from changes to amounts payable to providers through imposition, directly or indirectly, of quality assurance measures. Certain of those changes, such as market basket reductions, market productivity adjustments, hospital acquired conditions penalties, readmission rate penalties and DSH payments, are summarized above under the caption "Health Care Reform."

The Health Care Reform Act amended certain provisions of the Federal False Claims Act and added provisions respecting the timing of the obligation to reimburse overpayments. The effect of these changes on the District's existing programs and services cannot be predicted, although management is reasonably confident that the effects will not be materially adverse.

Medicaid. Medicaid is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for services; and administers its own programs.

Under the Medicaid program, the federal government supplements funds provided by the state for medical assistance to the medically indigent. Payment for medical and health services is made to providers in amounts

determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both the federal and state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries. Payment for Medicaid patients is subject to appropriation by the state legislature of sufficient funds to pay the incurred patient obligations. Delays in appropriations and budget deficits create a risk that payment for services to Medicaid patients will be withheld or delayed.

Washington State has implemented a statewide Medicaid managed care delivery system previously known as "*Healthy Options*" and now known as "*Apple Health.*" Apple Health provides comprehensive health services through a managed care provider network. Medicaid participants may choose which managed care plan they want to enroll in or they can be assigned one. In addition, Washington opted to expand Medicaid coverage, which was an option under the Health Care Reform Act. The State budget for the 2013-2015 biennium extends Medicaid coverage to an additional 325,000 Medicaid enrollees, and as of March 2014, approximately 268,000 newly eligible adults enrolled in Medicaid. The budget also established a new hospital safety net assessment program that supports hospitals in Washington State through improvements in Medicaid payments and which will provide approximately $220 million in additional payments to hospitals during the biennium. Both inpatient and outpatient Medicaid reimbursement systems will change in July and October 2014, respectively, due to Medicaid rebasing. Inpatient hospital services will be reimbursed according to an APR-DRG-based payment system to ensure compliance with ICD 10. Outpatient services will be reimbursed according to an EAPG-based payment system.

Reimbursement for Physician Services. The Medicare program pays for physician services on the basis of a resource-based relative value scale fee schedule. The fee schedule uses three types of relative value units ("RVUs") to determine the amount of payment for a particular physician service: (1) physician work; (2) practice expense; and (3) malpractice expense. The RVUs are adjusted by a geographic adjustment factor, then multiplied by a national conversion factor. The conversion factor is adjusted annually by (1) an inflation factor (as measured by a Medicare Economic Index ("MEI")) and (2) a target factor (as measured by a Sustainable Growth Rate ("SGR")). The target factor specifies a desired rate of growth in Medicare expenditures on physician services in a given fiscal year. The 2014 MPFS, scheduled to take effect on April 1, 2014, reduced the conversion factor by approximately 20% to $27.20 per RVU; however, the President signed into law the Protecting Access to Medicare Act of 2014, which prevented the payment reduction from going into effect. The new law maintains the 0.5 percent update for physician and other practitioner services that applied from January 1 through March 31, 2014 through December 31, 2014. It also provides for a zero percent update to the 2015 MPFS through March 31, 2015.

While the Protecting Access to Medicare Act delays the SGR reductions for another year, the SGR automatic reductions, if not adjusted after March 31, 2015, would adversely affect the net patient services revenue generated by the District for the Medicare services provided by its employed physicians and adversely affect the District's financial condition.

Medicare Trust Funds. Two trust funds are maintained as part of the Medicare Program. Hospital Insurance ("HI"), or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility and hospice care for the aged and disabled (including certain individuals with end stage renal disease) and is financed primarily by payroll taxes paid by workers and employers. Supplementary Medical Insurance ("SMI") consists of Medicare Part B and Part D. Part B helps pay for physician, outpatient and other services for the aged and disabled who have voluntarily enrolled. Part D initially provided access to prescription drug discount cards and transitional assistance to low-income beneficiaries. In 2006 and later, Part D provides subsidized access to drug insurance coverage on a voluntary basis for beneficiaries.

The Board of Trustees of the Medicare trust funds delivered its most recent annual report (the "Annual Report") to Congress on July 28, 2014. The Annual Report indicated that the Part A Trust Fund is not adequately financed and based upon its intermediate estimate is projected to be exhausted in 2030, four years later than projected in last year's report. The trustees project that total Medicare expenditures and scheduled tax income are significantly out of balance and substantial increases in tax revenues and/or reductions in expenditures are required to stabilize the HI Trust Fund. The Part B and Part D accounts in the SMI Trust Fund are adequately financed because premiums and general revenue income are reset each year to match expected costs. Such financing, however, would have to increase rapidly to match expected expenditure growth and to rebuild the Part B assets to an appropriate level. The trustees express the need for timely action to address Medicare's financial challenges and promote consideration of reforms for the program in the near future. Accordingly, it is likely that additional statutory and regulatory reforms

to contain increases in Medicare costs will continue in the future. The effect of such future initiatives on the District cannot be predicted.

Private Health Plans and Managed Care. Managed care plans generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Payments to the District from managed care plans typically are lower than those received from traditional indemnity/commercial insurers. Defined broadly, for the fiscal year ended December 31, 2013, managed care payments (excluding capitated Medicare and Medicaid contracts) constituted approximately 61% of the District's net patient service revenues. There is no assurance that the District will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the District's market share and its net patient service revenues. Conversely, participation may maintain or increase the patient base but could result in lower net income or operating losses if the District is unable to adequately contain its costs.

The District's management anticipates that the Health Care Reform Act will substantially alter the commercial health care insurance industry. The Health Care Reform Act imposes, over time, increased regulation of the industry, the use of the health insurance exchange, the extension of subsidies and tax credits for premium payments by some consumers and employers and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with providers. In addition, the Health Care Reform Act imposes many new obligations on states related to health care insurance. It is unclear how the increased federal oversight of state health care may affect the District or future oversight by Washington State. The effects of these changes upon the financial condition of any third-party payor that offer health care insurance, rates paid by third-party payors to providers and thus the revenues of the District, and upon the operations, results of operations and financial condition of the District cannot be predicted.

Many preferred provider organizations, or PPOs, and health maintenance organizations, or HMOs, currently pay providers on a negotiated fee-for-service basis or on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. The discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a hospital may vary significantly from projections, and/or changes in the utilization of certain services offered by the provider may be dramatic and unexpected, thus further jeopardizing the provider's ability to contain costs.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of care given to the HMO's enrollees. In some cases, the capitated payment covers total hospital patient care provided. However, if payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care or if utilization by enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

As a consequence of the above factors, the effect of managed care on the District's financial condition is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

Dependence upon Third-Party Payors. The District's ability to develop and expand its services and, therefore, profitability, is dependent upon its ability to enter into contracts with third-party payors at competitive rates. There can be no assurance that it will be able to attract third-party payors, and where it does, no assurance that the District will be able to contract with such payors on advantageous terms. The District's inability to contract with a sufficient number of such payors on advantageous terms would have a material adverse effect on its future operations and financial results. Further, while the District to control health care service utilization and increase quality, it cannot predict changes in utilization patterns or on health care providers.

Physician Contracting and Relations. The District may wish to contract with physician organizations _("POs")_ (e.g., independent physician practices or associations, physician-hospital organizations, faculty practice plans, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The District's success will be partially dependent upon its ability to contract with POs, and upon the abilities of the POs, including their employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the District will be able to contract with and retain the requisite

number of POs, or that such POs will deliver high quality health care services. Without contracting with a sufficient number and type of POs, the District could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until it has arranged for physician services necessary to provide adequate access for patients. Such occurrences could have a material adverse effect on the District's business or operations.

As a consequence of the above factors, the effect of managed care on the District's financial condition is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

Regulatory Environment

Licensing, Surveys, Investigations and Audits. The District's health care facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid, state licensing agencies, private payors and the accreditation standards of The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative actions by the District.

Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments with respect to reimbursements claimed under those programs. Medicare and Medicaid regulations also provide for withholding reimbursement payments under certain circumstances. New billing rules and reporting requirements for which there is not clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health care programs.

The Medicare Integrity Program *("MIP")* was established, as authorized by HIPAA (defined below), to deter fraud and abuse in the Medicare program. MIP allows CMS to enter into contracts with outside entities and insure the "integrity" of the Medicare program. Such entities, Medicare zone program integrity contractors *("ZPICs"),* formerly known as program safeguard contractors, are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the Office of Inspector General. CMS is also planning to enable ZPICs to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

Medicare audits may result in reduced reimbursement or in repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Health Care Reform Act explicitly gives the Secretary of HHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The Health Care Reform Act also amended certain provisions of the FCA (defined below) to include retention of overpayments as a violation. It also added provisions relating to the timing of the obligations to identify, report and reimburse overpayments. The effect of these changes on the District's existing programs and services cannot be predicted.

The District's management currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does management anticipate a reduction in third-party payments from events that would materially adversely affect the District's operations or financial condition. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the District's ability to operate all or a portion of its health care facilities, and consequently, could have a material and adverse effect on the District.

Negative Ranking Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings, such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and members of their medical staffs and to influence the behavior of consumers and providers such as the District. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient

satisfaction and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

Civil and Criminal Fraud and Abuse Laws and Enforcement. Federal and state health care fraud and abuse laws regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to beneficiaries. Under these laws, individuals and organizations can be penalized for submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or billed in a manner that does not otherwise comply with applicable government requirements.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare and Medicaid programs, fines, civil monetary penalties, and suspension of payments and, in the case of individuals, imprisonment. Fraud and abuse may be prosecuted by one or more government entities and/or private individuals and more than one of the available penalties may be imposed for each violation.

Laws governing fraud and abuse apply to all individuals and health care entities with which a hospital does business, including other hospitals, home health agencies, long-term care entities, infusion providers, pharmaceutical providers, insurers, health maintenance organizations, preferred provider organizations, third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on a provider and potentially a material adverse impact on the financial condition of other entities in the health care delivery system of which that entity is a part.

Based upon the prohibited activity in which the provider has engaged, governmental agencies and officials may bring actions against providers under civil or criminal False Claims Acts, statutes prohibiting referrals for compensation (including the federal "Anti-Kickback Law") or fee-splitting, or the "Stark law," which prohibits certain referrals by a physician to certain organizations in which the physician has a financial relationship, unless an exception applies. Many states including Washington State also have self-referral prohibitions. The civil and criminal monetary assessments and penalties arising out of such investigations and prosecutions may be substantial. Additionally, the provider may be denied participation in the Medicare and/or Medicaid programs.

The District has a compliance program and policies and procedures that it believes effectively reduce exposure for violations of these laws. However, because the government and third party enforcement efforts are widespread, there can be no assurance that the compliance program will significantly reduce or eliminate the District's exposure to civil or criminal sanctions or adverse administrative determinations.

False Claims Act. The False Claims Act ("FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," share in the damages recovered by the government or recovered independently if the government does not participate. The FCA has become one of the government's primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusions or reputation damage that could have a material adverse impact on the District.

Patient Records and Patient Confidentiality. The Health Insurance Portability and Accountability Act of 1996 *("HIPAA")* addresses the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability. HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The criminal

penalties range from $50,000 to $250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

The Recovery Act includes broad, sweeping changes to the HIPAA provisions regarding confidentiality of patient medical records. In general, the Recovery Act increases the enforcement of violations of patient medical record confidentiality.

The HITECH Act. Provisions in the 2008 Health Information Technology for Economic and Clinical Health Act (the "*HITECH Act")*, enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA-covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities' marketing communications. The District's management does not anticipate that compliance with the HITECH Act will have a material effect on its operations.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified electronic health record *("EHR")* technology. The Medicare and Medicaid EHR incentive programs provide incentive payments to eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by CMS for using health information technology and by reporting on specified clinical quality measures. Beginning in 2015, hospitals and physicians who have not satisfied the performance and reporting criteria for demonstrating meaningful use will have their Medicare payments significantly reduced. As of December 31, 2013, the District met stage 1 of meaningful use.

Security Breaches and Unauthorized Releases of Personal Information. Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Patient Transfers. A federal "anti-dumping" statute imposes certain requirements that must be met before transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. The District's failure to meet its responsibilities under the law could adversely affect its financial condition. The District's management is not aware of any pending or threatened claim, investigation or enforcement action regarding patient transfers that, if determined adversely, would have material adverse consequences to the District.

Certificates of Need. Washington State administers a certificate of need program which regulates certain types of activities such as the construction or development of a new health care facility, the sale, purchase or lease of part or all of any existing hospital, change in bed capacity of a health care facility which increases the total number of licensed beds or redistributes beds, and the offering of a new tertiary health service. In addition, in December 2013 the Washington State Department of Health amended the certificate of need rules to include mergers and affiliations as regulated transactions. This rule change, initially effective January 2014, was challenged by the Washington State Hospital Association and subsequently invalidated by the Superior Court. The Superior Court ruling has been appealed by the State.

Environmental Laws and Regulations. The District's health care operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. The District's operations also are subject to compliance with various environmental laws, rules and regulations. The District anticipates that compliance will not materially affect its business, financial condition or results of operations.

The District's management is not aware of any pending or threatened claim, investigation or enforcement action regarding environmental issues or any instance of contamination that, if determined adversely, would have material adverse consequence to the District.

Certain Business Transactions

Physician Relations. The primary relationship between a hospital and physicians who practice at the hospital is through the organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have membership or privileges curtailed, denied or revoked, often file legal actions against the hospital. Such action may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of the medical staff may result in hospital liability to third parties. The District is subject to these risks.

Physician Contracting. The District may contract with physician organizations (such as independent physician associations and physician-hospital organizations) to arrange for the provision of physician and ancillary services. Because physician organizations are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the physician organizations.

The District's success will be partially dependent upon its ability to attract physicians to practice at its facilities and upon the ability of the physicians, including the employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the District will be able to attract and retain the requisite number of physicians, or that physicians will deliver high quality health care services. Without paneling a sufficient number and type of physicians, the District could fail to be competitive, fail to keep or attract payor contracts, or be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the District's business or operations.

Affiliations, Mergers, Acquisitions and Divestitures. The District evaluates and pursues potential acquisitions, mergers and affiliations as part of its overall strategic planning and development process. Likewise, the District occasionally receives offers from, or conducts discussions with, third parties about the potential sale of some of the operations or property are currently conducted or owned by the District. As a result, it is possible that the District's current organization and assets may change from time to time.

In addition to relationships with other hospitals and physicians, the District may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises that support the District's overall operations. In addition, the District may pursue such transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, the District's management will consider such arrangements if there is a perceived strategic or operational benefit. Any such initiative may involve significant capital commitments and/or capital or operating risk (including potential insurance risk) in a business in which the District may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the District.

Antitrust. Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. While the application of federal and state antitrust laws to health care is still evolving, enforcement activities by federal and state agencies appear to be increasing. Violators of antitrust laws could be subject to criminal and civil liability by both federal and state agencies, as well as by private litigants.

Other Risk Factors Generally Affecting Health Care Facilities

Hospital Pricing. Recently focus has increased on the provision of charity care by nonprofit health care institutions and their pricing policies and billing and collection practices involving the underinsured and uninsured. This increased focus has resulted in congressional hearings, governmental inquiries and private class-action litigation against a number of nonprofit health care institutions generally alleging the overcharging of underinsured and

uninsured patients. Inflation in hospital costs may evoke action by legislatures, payers or consumers. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services. Major purchasers of hospital services could also take action to restrain hospital charges or charge increases.

As a result of increased public scrutiny, it is possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospital revenues may be negatively impacted.

The District has not been served with a complaint relating to litigation regarding pricing policies and billing and collection practices. There can be no assurance, however, that such a claim will not be asserted against the District in the future.

Technology and Services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the District in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated costly equipment and services for diagnosis and treatment. The increased cost of technology is not immediately reflected in the prospective payment system PPS) rates established by the Medicare and Medicaid programs, nor under private health plan negotiated contract rates. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the District to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

Employment and Labor Issues. The District is a major local employer and its work force combines a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the District bears a wide variety of risks in connection with its employees including strikes and other related work actions, contract disputes, difficulties in recruitment, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts, risks related to its benefit plans, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented. The District believes that its retirement plans are in material compliance with the Employee Retirement Income Security Act of 1974, as amended, and other applicable laws. The District is subject to all of the risks listed above, and such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of the District. At the present time, the District is a party to certain collective bargaining agreements. See “THE DISTRICT – Employees.”

Wage and Hour Class Actions and Litigation. Federal law and many states, including Washington, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as the District, are susceptible to actual and alleged violations of these standards. In recent years there has been an increase in lawsuits regarding such “wage and hour” issues, often in the form of large class-actions, sometimes multi-state. For large employers such as hospitals, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to the District could have a material adverse impact on the District’s financial condition.

Health Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The Internal Revenue Service (the “IRS”) has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

Physician, Nursing and Staff Shortages. In recent years, the health care industry has suffered from a scarcity of physician specialists and sub-specialists, nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and

retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the District.

Competition. Competition from other hospitals in areas from which the District draws a significant number of patients may adversely affect revenues. Such other hospitals include (but are not necessarily limited to) Overlake Hospital Medical Center in Bellevue, Swedish Health Services in Seattle and Issaquah, Group Health-Bellevue Medical Center in Bellevue, and Providence Regional Medical Center in Everett.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

Professional Liability Claims and Insurance. In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the District if determined or settled adversely.

At times many hospitals and health care providers experience difficulty renewing or obtaining all types of commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. Insurers exert pressure to mandate lower amounts of coverage, require greater deductibles, and charge more in premium. Policies issued may not be renewed or renewable. While the insurance market is currently favorable for the District, the ability of, and the cost to, the District to continue to insure or otherwise protect itself against various claims is unknown.

Cost Increases. Cost increases without corresponding increases in revenue could result from, among other factors, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the District to increase revenues from operating its physical plants.

Epidemics, Pandemics and Natural Disasters. The occurrence of an epidemic, pandemic or natural disaster, including flood, volcano and earthquake, may damage part or all of the facilities of the District, interrupt utility service to part or all of the facilities of the District or otherwise impair the operation of part or all of the facilities of the District, result in abnormally high demand for health care services, or otherwise interrupt the generation of revenues from part or all of the facilities of the District beyond existing insurance coverages.

Construction Costs. The development and construction of new hospital facilities are susceptible to various risks and uncertainties such as: inflation of construction costs; general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences; changes and concessions required by governmental or regulatory authorities; delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and disruption of existing operations and facilities.

Impact of Economic Turmoil. The domestic and international economic turmoil of the last several years has had, and is expected to continue to have, negative repercussions upon the national and global economies, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, increase in interest rates, reduced business activity, increased unemployment rates, increased consumer and business bankruptcies, and increased bank failures. In addition, as investor confidence has waned, investments previously recognized as stable, such as tax-exempt money market funds (which are one of the largest purchasers of tax-exempt bonds), have

experienced significant withdrawals. If the current economic turmoil continues and the economy further weakens, hospitals could be materially and adversely impacted in a number of ways, including through reduced investment income, reduced access to the credit markets and increased borrowing costs.

Limitations on Remedies; Bankruptcy

Any remedies available to the owners of the Bonds upon the occurrence of a default in payment of principal of or interest on the Bonds are in many respects dependent upon judicial actions that in turn are often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the District fails to comply with its covenants under the Bond Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds. The Bonds are not subject to acceleration under any circumstances.

In addition to the limitations on remedies contained in the Bond Resolution, the rights and obligations under the Bonds and the Bond Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The proposed form of opinion of Bond Counsel is set forth in Appendix C to this Official Statement.

A municipality such as the District must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Chapter 39.64 RCW, entitled the "Taxing Relief Bankruptcy Act," permits any "taxing district" (defined to include any municipality or political subdivision of the State) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the District. Under Chapter 9, a federal bankruptcy court may not appoint a receiver for a municipality or order the dissolution or liquidation of the municipality. The federal bankruptcy courts have some discretionary powers under the Bankruptcy Code.

Risks Related to Tax-Exempt Status of Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of the Bonds, limitations on the investment earnings of proceeds of the Bonds prior to expenditure, a requirement that certain investment earnings on proceeds of the Bonds be paid periodically to the United States, and a requirement that the District file an information report with the IRS. The District has covenanted in the Bond Resolution that it will comply with such requirements. Future failure by the District to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactive to the date of issuance. In such event, the Bond Resolution does not contain any specific provision for mandatory acceleration of the Bonds nor does it provide that any additional interest will be paid to the holders of the Bonds.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

The opinion of Bond Counsel with respect to the Bonds is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of interest on the Bonds for federal income tax purposes. The District has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

The Bonds may from time to time be subject to audits by the IRS. Bond Counsel's engagement with the District in connection with the Bonds ends with the issuance of the Bonds and, unless separately engaged, Bond Counsel is not

obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little if any right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

See "TAX MATTERS."

TAX MATTERS

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance by the District with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The District is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirements to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the District's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 2% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The IRS has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

See "BONDOWNERS' RISKS−Risks Related to Tax-Exempt Status of Bonds."

Certain Other Federal Tax Consequences

*Bonds **Not** "Qualified Tax-Exempt Obligations" for Financial Institutions*. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The District is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted, could adversely affect the tax treatment, market value or marketability of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

See "BONDOWNERS' RISKS−Risks Related to Tax-Exempt Status of Bonds."

Original Issue Discount. The Bonds maturing in 2037 have been sold at a price reflecting an original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of

compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The Bonds maturing in 2031 through 2035 have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission ("SEC") Rule 15c2-12 ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the District will undertake (the "Undertaking") for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board ("MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB: (a) annual financial information and operating data of the type include in this Official Statement as generally described below ("annual financial information"); and (b) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or

sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The District also will provide to the MSRB timely notice of a failure by the District to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the District undertakes to provide will consist of: (1) annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to State local governmental units such as the District, as such principles may be changed from time to time, which statements may be unaudited, except that if and when audited financial statements are otherwise prepared and available to the District they will be provided; (2) a statement of authorized, issued and outstanding general obligation debt of the District and First Lien Revenue Bonds, if any, of the District; (3) the assessed value of the property within the District subject to *ad valorem* taxation; (4) *ad valorem* tax levy rates and amounts and percentage of taxes collected; and (5) other financial, statistical and operating data for such fiscal year in form and scope similar to the financial information and operating data included in this official statement under the captions "Facilities-*Bed Complement*," "Summary of Financial Information and Operating Data," "Medical Staff" and "Employees" under the heading 'THE DISTRICT." The annual financial information will be provided to the MSRB not later than the last day of the sixth month after the end of each fiscal year of the District (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the District's fiscal year ending December 31, 2015.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12. The District will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The District's obligations under the Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the District's obligations under the Undertaking shall terminate if those provisions of the Rule 15c2-12 which require the District to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the District, and the District provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. As soon as practicable after the District learns of any failure to comply with the Undertaking, the District will proceed with due diligence to cause such noncompliance to be corrected. No failure by the District or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the District or other obligated person to comply with the Undertaking.

Prior Compliance with Continuing Disclosure Undertakings. The District has entered into written undertakings under Rule 15c2-12 with respect to all of its obligations subject thereto. With the exceptions noted below, the District believes that, in the past five years, it has complied in all material respect with its continuing disclosure undertakings made pursuant to Rule 15c2-12.

- Rating downgrades applicable to the District's Hospital System Revenue Refunding Bonds, 1998, Series A
- Insurer and underlying rating downgrades that occurred in 2008, 2009 and 2011 applicable to the District's Limited Tax General Obligation Bonds, 2001A
- Insurer rating changes and underlying rating changes that occurred between 2008 and 2014 applicable to the District's Unlimited Tax General Obligation Bonds, 2004, and Limited Tax General Obligation Improvement and Refunding Bonds, 2006
- Rating downgrade in August 2011 applicable to the District's Limited Tax General Obligation Refunding Bonds, 2010

UNDERWRITING, LEGAL AND OTHER BOND INFORMATION

Underwriting

The Bonds are being purchased by Piper Jaffray & Co., the Underwriter, at a price of $57,602,476.45 (representing the principal amount of the Bonds plus a net original issue premium of $3,939,976.45, and less an Underwriter's discount of $337,500.00. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the initial offering prices set forth on the inside cover page of this Official Statement, and such initial offering prices may be changed from time to time by the Underwriter.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper.

Piper Jaffray & Co. has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. may purchase Bonds from Piper Jaffray & Co. at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

Rating on the Bonds

As noted on the cover page of this Official Statement, Moody's Investors Service Inc. has assigned a rating of "Aa3" to the Bonds. The rating was applied for by the District and certain information was supplied by the District to such rating agency to be considered in evaluating the Bonds. The rating reflects only the views of the rating agency and an explanation of the significance of the rating may be obtained from the rating agency. There is no assurance that the rating will be retained for any given period of time or that the rating will not be revised downward, suspended or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision, suspension or withdrawal of the rating will be likely to have an adverse effect on the market price of the Bonds.

Absence of Material Litigation

There is no controversy or litigation of any nature now pending or, to the knowledge of the District, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the District taken with respect to the issuance or sale thereof, or the validity of the levy of taxes for the payment thereof.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of Bonds by the District are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel, Seattle, Washington. The form of the opinion of Bond Counsel is attached hereto as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Certain legal matters will be passed upon for the District by its general counsel.

Independent Auditor

KPMG LLP, the District's independent auditor, currently audits the District's financial statements. The District's audited financial statements for the fiscal years ended December 31, 2014 and 2013, and December 31, 2013 and 2012 are included in Appendix D. KPMG LLP has not been engaged to perform and has not performed, since the dates of the reports, any procedures on the financial statements addressed in those reports. KPMG LLP also has not performed any procedures relating to this Official Statement.

Conflicts of Interest

All or a portion of the fees of the Underwriter and Bond Counsel are contingent upon the issuance and sale of the Bonds. Bond Counsel from time to time serves as counsel to the Underwriter with respect to issuers other than the District and transactions other than the issuance of the Bonds. None of the District's Commissioners or other officers have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

Approval of Official Statement

At the time of delivery of the Bonds, one or more officials of the District will furnish a certificate stating that to the best of his, her or their knowledge this Official Statement, as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading.

The execution and distribution of this Official Statement have been authorized by the District.

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APPENDIX A

DEFINITIONS OF CERTAIN CAPITALIZED TERMS

The following are certain defined terms from the Bond Resolution that are used in this Official Statement.

"2010 Bonds" means the District's Limited Tax General Obligation Bonds, 2010, issued pursuant Resolution No. 834-10, adopted June 15, 2010.

"2011 Bonds" means the District's Limited Tax General Obligation Refunding Bonds, 2011, issued pursuant to Resolution No. 841-11, adopted November 15, 2011.

"2015 Bonds" means the District's Limited Tax General Obligation Refunding Bonds, 2015, issued pursuant to Resolution No. 865-14, adopted October 21, 2015.

"Authorized Denomination" means $5,000 or any integral multiple thereof within a maturity.

"Beneficial Owner" means, with respect to a Bond, the owner of any beneficial interests in that Bond.

"Board" means the Board of Commissioners of the District.

"Bond Counsel" means the firm of Foster Pepper PLLC, its successor, or any other attorney or firm of attorneys selected by the District with a nationally recognized standing as bond counsel in the field of municipal finance.

"Bond Fund" means the Limited Tax General Obligation Bond Fund (140028400) created by Resolution No. 206 of the District for the purpose of paying the principal of and interest on outstanding limited tax general obligation bonds of the District.

"Bond Register" means the books or records maintained by the Bond Registrar for the purpose of identifying ownership of each Bond.

"Bond Registrar" means the Fiscal Agent, or any successor bond registrar selected by the District.

"Code" means the United States Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

"District" means King County Public Hospital District No. 2, King County, Washington, a municipal corporation of the State of Washington, duly organized pursuant to the provisions of chapter 70.44 RCW.

"DTC" means The Depository Trust Company, New York, New York, or its nominee.

"First Lien Revenue Bonds" means any revenue bonds of the District hereafter issued having a lien and charge on the Net Revenue of the Hospital System prior and superior to that of the Parity Bonds.

"Fiscal Agent" means the fiscal agent of the State, as the same may be designated by the State from time to time.

"Future Parity Bonds" means any and all limited tax general obligation bonds of the District hereafter issued and payable from the Bond Fund, the payment of which, both principal and interest, constitutes a lien and charge on the Regular Property Taxes and Net Revenue of the Hospital System equal in rank with the lien and charge on those taxes and revenues for the payments required to pay or secure the payment of the Outstanding Parity Bonds and the Bonds.

"Gross Revenue of the Hospital System" means all revenues, income, receipts and money received by the District in connection with the Hospital System, including but not limited to (a) proceeds with respect to or relating to the Hospital System and derived from (i) condemnation proceeds, (ii) accounts receivable, (iii) securities and other

investments, (iv) intangible property, (v) medical and hospital expense reimbursement programs and agreements, (vi) casualty and liability insurance proceeds, and (vii) contract rights and other rights and assets owned by the District, and (b) rentals received from the lease of space in the Hospital System but specifically excluding grants, donations and the proceeds of tax levies.

"Hospital" means EvergreenHealth Medical Center owned and operated by the District, located in Kirkland, Washington, and licensed pursuant to chapter 70.41 RCW.

"Hospital System" means all District hospitals or other health care facilities and services, including the Hospital, as now or hereafter owned and operated by the District and as the same may be added to, bettered or improved for so long as the Parity Bonds are outstanding.

"Letter of Representations" means the Blanket Issuer Letter of Representations between the District and DTC, dated February 11, 1998, as it may be amended from time to time, and any successor or substitute letter relating to the operational procedures of the Securities Depository.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenue of the Hospital System" means Gross Revenue of the Hospital System less Operating and Maintenance Expenses.

"Operating and Maintenance Expenses" means, for any period, all the expenses and other proper charges incurred by the District in administering and operating the Hospital System and in maintaining such Hospital System in good repair and operating condition, including the replacement of equipment, as determined in accordance with generally accepted accounting principles applicable to such hospitals and other facilities, but excluding interest, depreciation and amortization expense of the District.

"Outstanding Parity Bonds" means the 2010 Bonds, the 2011 Bonds and the 2015 Bonds.

"Owner" means, without distinction, the Registered Owner and the Beneficial Owner.

"Parity Bonds" means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

"Project Fund" means any one or more funds or accounts designated or created by the Finance Officer for the purpose of carrying out the Project Plan.

"Project Plan" means the project plan specified, adopted and ordered to be carried out under Resolution No. 871-15 and described in this Official Statement under the heading "PURPOSE AND USE OF PROCEEDS."

"RCW" means Revised Code of Washington.

"Record Date" means the Bond Registrar's close of business on the 15th day of the month preceding an interest payment date. With respect to redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar's close of business on the date on which the Bond Registrar sends the notice of redemption in accordance with the Bond Resolution.

"Registered Owner" means, with respect to a Bond, the person in whose name that Bond is registered on the Bond Register. For so long as the District utilizes the book-entry only system for the Bonds under the Letter of Representations, Registered Owner shall mean the Securities Depository.

"Regular Property Tax General Fund" means the Hospital District No. 2 General Fund 140020010 of the District heretofore created in the office of the Finance and Business Operations Division of King County, Washington.

"Regular Property Taxes" means the proceeds of annual *ad valorem* tax levies caused to be made by the District pursuant to RCW 70.44.060(6) on all taxable property within its territorial boundaries not to exceed 75 cents per 1,000 dollars of assessed value without a vote of the people, the proceeds of which are paid when collected by the Finance and Business Operations Division of King County, Washington, into the Regular Property Tax General Fund.

“Rule 15c2-12” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

“SEC” means the United States Securities and Exchange Commission.

“Securities Depository” means DTC, any successor thereto, any substitute securities depository selected by the District that is qualified under applicable laws and regulations to provide the services proposed to be provided by it, or the nominee of any of the foregoing.

“State” means the State of Washington.

“Treasurer of the District” means the Treasurer of the District in Kirkland, Washington, duly appointed, serving and acting pursuant to Resolution Nos. 218, 223, 245, 403-89, 692-02, 751-04, 821-08, 833-10, 850-12, and 861-13 as now in effect and as the same hereafter lawfully may be amended.

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APPENDIX B

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

The District is located on the northeast side of Lake Washington in King County. The District lies north and east of the City of Seattle. Its boundaries encompass most of the cities of Redmond, Kirkland, Bothell, Woodinville, Duvall and Kenmore, small portions of the cities of Bellevue, Clyde Hill, Sammamish and Lake Forest Park and the town of Yarrow Point, and adjacent unincorporated areas. This area is one of the fastest growing parts of King County, and includes a portion of the high tech corridor located in north King County and south Snohomish County.

Population

Historical population of King County and certain cities within the District's boundaries are shown below.

Historical Population

Year	Redmond	Kirkland	Kenmore	Bothell [1]	Woodinville	Duvall	King County[2]
2015	59,180	83,460	21,500	25,410	11,240	7,345	2,052,800
2014	57,700	82,590	21,370	24,610	11,240	7,325	2,017,250
2013	55,840	81,730	21,170	17,440	10,990	7,120	1,981,900
2012	55,360	81,480 [3]	21,020	17,280	10,960	6,900	1,957,000
2011	55,150	49,020	20,780	17,150	10,940	6,715	1,942,600

(1) King County portion only.
(2) Population of entire County. The District encompasses a portion of King County.
(3) Annexation of portions of unincorporated King County.

Source: Washington State Office of Financial Management.

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Major Taxpayers

The following table lists the District's top twenty taxpayers ranked according to their assessed value for the 2015 tax collection year.

Major Taxpayers

Taxpayer	2015 Collection Year Assessed Value	Percent of District's Total Assessed Value
Microsoft	$ 1,268,292,534	2.04%
AT&T Mobility LLC	494,104,769	0.79
Puget Sound Energy Elec/Gas	471,177,488	0.76
AvalonBay Community	311,727,000	0.50
Carillon Properties	153,969,315	0.25
SRI TEN RTC LLC	127,690,700	0.21
Frontier Communications NW Inc.	127,572,527	0.21
Prometheus R/E Group (Villaggio)	127,509,300	0.20
Grosvenor International (Schnitzer West)	126,888,715	0.20
Nintendo	123,615,214	0.20
Park at Forbes Creek LLC	108,779,000	0.17
Greystar (GS Canyon Creek LP)	98,892,000	0.16
Bear Creek Association	91,132,000	0.15
Essex Property Trust	90,254,000	0.15
G&I VII Redmond Towne Center	75,703,942	0.12
BRE Properties	71,796,900	0.12
Seattle SMSA Ltd Partnership (Verizon Wireless)	67,490,347	0.11
Downtown Woodinville LLC	67,127,900	0.11
Waterford LLC	61,245,000	0.10
Kilroy Realty (Plaza at Yarrow Bay Inc.)	60,028,159	0.10
Subtotal	$ 4,124,996,810	6.63%
All other Taxpayers	58,078,503,930	93.37
Total Taxpayers	$ 62,203,500,740	100.00%

Source: King County Department of Assessments.

Economic Indicators

Following are selected economic indicators for Redmond, Kirkland and King County:

New Building Permit Values (Residential)
Redmond and Kirkland[1]

	City of Redmond		City of Kirkland	
Year	Total Units	Total Value	Total Units	Total Value
2014	480	$111,736,128	671	$136,066,556
2013	656	119,955,744	425	95,031,361
2012	239	50,025,238	187	61,225,271
2011	170	35,723,193	117	37,991,395
2010	155	36,415,896	149	37,420,871

(1) Estimates with imputation by U.S. Bureau of the Census.

Source: U.S. Census Bureau.

Taxable Retail Sales
($000)

Year	City of Redmond	City of Kirkland	King County
2015[1]	$ 508,132	$ 485,134	$12,088,336
2014	2,309,237	2,034,602	49,638,174
2013	2,318,563	1,933,261	46,601,199
2012	2,145,038	1,789,374	43,506,804
2011	2,079,310	1,519,683	40,846,119
2010	2,034,489	1,455,673	39,275,353

(1) Through first quarter 2015. The taxable retail sales for the first quarter of 2014 (in $000) were $526,462 for the City of Redmond, $436,913 for the City of Kirkland and $10,943,896 for King County.

Source: Washington State Department of Revenue.

King County and State of Washington
Total Personal and Per Capita Income

	King County		State of Washington	
Year	Total Personal Income (in millions)	Per Capita Income	Total Personal Income (in millions)	Per Capita Income
2014	(1)	(1)	$350,130	$49,583
2013	$128,331	$62,770	332,655	47,717
2012	124,292	61,911	324,458	47,055
2011	113,154	57,400	303,999	44,565
2010	105,389	54,395	286,862	42,547

(1) 2014 County information not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Industry and Employment

State-wide employment figures (rounded) for major employers located primarily within the north Puget Sound region (King and Snohomish Counties) are shown in the following table:

Major Employers[1]

Company	Product or Service	Employees[2]
The Boeing Company	Aerospace	81,939
Microsoft	Software	43,031
University of Washington	Public research university	30,200
Amazon.com Inc.[3]	Online retail	24,700
Providence Health & Services	Health services	19,456
King County Government	Government	13,400
Starbucks Corp.	Retailer	11,239
Swedish Medical Center	Health services	10,726
City of Seattle	Government	10,080
Costco Wholesale Corp.	Membership retail	9,264
Nordstrom Inc.	Retail	8,982
Group Health Cooperative	Health services	7,271
Alaska Air Group Inc.	Airlines	6,139
Virginia Mason Medical Center	Health services	6,000
Seattle Public Schools	Government/Education	5,583

(1) Does not include part-time or seasonal employment figures.
(2) Employment totals as of December 31, 2013.
(3) Estimated employee count based on company square footage.

Source: Puget Sound Business Journal, December 24, 2014.

The table below shows employment by sector and unemployment for the Seattle-Bellevue-Everett Metropolitan Division.

Resident Civilian Labor Force and Employment Data

	Annual Averages (000s)				
	2015[1]	2014	2013	2012	2011
Seattle-Bellevue-Everett Metropolitan Division (King & Snohomish Counties)					
Civilian Labor Force	1,581.65	1,553.54	1,508.63	1,508.63	1,492.98
Employment	1,515.42	1,479.91	1,447.91	1,408.27	1,368.23
Unemployment	66.23	73.63	78.25	100.36	124.75
Unemployment as a Percent of Labor Force					
Seattle-Bellevue-Everett MSA	4.2	4.7	5.2%	6.7%	8.4%
Washington State	5.8	6.2	7.0	8.1	9.2
United States	5.5	6.2	7.4	8.1	8.9

(1) Annual average through June 2015.

Source: Washington State Department of Employment Security; U.S. Bureau of Labor Statistics.

The preceding table shows estimates of the area resident civilian labor force and unemployment by place of residence rather than place of work and includes self-employed, domestic and agricultural workers and reflects other adjustments. Therefore, the figures set forth therein cannot be compared directly to the figures contained in the following table relating to nonagricultural wage and salary employment, which is based upon a different methodology, generally by place of work, and encompasses a different employment base than that utilized for the tabulation by place of residence.

Nonagricultural Wage and Salary Workers
Employed in the Seattle-Bellevue-Everett Metropolitan Division
(King and Snohomish Counties)

	Annual Averages (000s)				
	2015[1]	2014	2013	2012	2011
INDUSTRY [2] [3]					
Total Nonagricultural Employment	1,585.8	1,551.5	1,506.2	1,461.9	1,423.5
Mining and Logging	0.7	0.7	0.7	0.7	0.7
Construction	85.2	77.9	71.7	65.8	63.0
Manufacturing	170.2	170.1	170.6	167.3	158.5
Trade, Transportation & Utilities	287.5	281.3	269.5	260.0	253.4
Information	92.4	91.3	88.3	86.9	85.9
Financial Activities	86.0	84.7	83.4	80.0	79.6
Professional and Business Services	238.9	231.6	224.2	215.6	205.9
Education and Health Services	204.9	201.0	194.7	191.2	188.6
Leisure and Hospitality	150.2	149.1	143.9	138.1	133.5
Other Services	56.6	56.0	54.4	53.7	52.1
Government	213.3	207.8	204.8	202.7	202.2

(1) Annual average through June 2015.

(2) Prepared in cooperation with the US Department of Labor, Bureau of Labor Statistics; aggregates may not add to indicated totals due to rounding. Area composition of annual average total is approximately: King 84%, Snohomish 16%.

(3) Excludes proprietors, self-employed, members of armed services, workers in private households and agricultural workers. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month (by place of work).

Source: State of Washington, Employment Security Department.

Other Issues

A variety of additional issues may have an effect on the District's economy, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, and limits on residential development and resulting housing costs. The effects of these issues are interdependent and cannot be quantified.

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APPENDIX C

FORM OF LEGAL OPINION

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[FORM OF APPROVING LEGAL OPINION]

Public Hospital District No. 2
King County, Washington

Re: Public Hospital District No. 2, King County, Washington, $54,000,000 Limited Tax General Obligation Bonds, 2015, Series B

We have served as bond counsel to Public Hospital District No. 2, King County, Washington (the "District"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the District pursuant to Resolution No. 871-15 (the "Bond Resolution") for general District purposes to provide the funds to carry out capital improvements to the Hospital System and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Resolution.

Reference is made to the Bonds and the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the District is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the District's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The District is a duly organized and legally existing municipal corporation under the laws of the State of Washington.

2. The Bonds have been duly authorized and executed by the District and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the District relating thereto.

3. The Bonds constitute valid and binding general obligations of the District payable from annual *ad valorem* taxes to be levied within the constitutional and statutory tax limitations provided by law without a vote of the electors of the District on all of the taxable property within the District, and from the Net Revenue of the Hospital System, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

4. Assuming compliance by the District after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX D

AUDITED FINANCIAL STATEMENTS

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

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Public Hospital District No. 2, King County, Washington, d/b/a EvergreenHealth, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 2, King County, Washington, d/b/a EvergreenHealth as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,
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("KPMG International"), a Swiss entity.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

April 30, 2015

This discussion and analysis of Public Hospital District No. 2 of King County, Washington, d/b/a EvergreenHealth (the District) provides an overview of the District's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the District's financial statements, which follow this analysis.

The District is a municipal corporation of the State of Washington formed under the provisions of Chapter 70.44 of the Revised Code of Washington. The District is considered a political subdivision of the State of Washington and is allowed by law to be its own Treasurer.

The District includes the incorporated cities of Kirkland, Redmond, Woodinville, Kenmore, and Duvall, portions of Bothell, Bellevue, Clyde Hill, Sammamish, Lake Forest Park, and the town of Yarrow Point, as well as adjacent unincorporated areas.

The District's primary operations include Evergreen Hospital Medical Center (the Medical Center), an acute care hospital with 333 licensed beds detailed as follows:

Type of beds	Number of beds	License category
Critical care	20	Acute
Family maternity	36	Acute/newborn
Acute rehabilitation	14	Acute rehab
Medical/surgical	205	Acute
NICU	43	Acute/newborn
Hospice	15	Hospice
Total beds	333	

The Medical Center is accredited by the Joint Commission, a nonprofit organization that accredits more than 19,000 healthcare organizations and programs in the United States. The Medical Center provides comprehensive tertiary medical-surgical services, maternity and neonatal services, emergency services, radiation oncology, diagnostic imaging, laboratory, and related ancillary services. The District also operates primary and specialty care group practices, a freestanding inpatient hospice unit, the Booth Gardner Parkinson's Care Center, the Multiple Sclerosis Center, a senior care clinic, and Evergreen Home Care Services, a comprehensive home health agency that serves patients throughout King and south Snohomish counties. The employed physician practices comprise 65 and 56 primary care providers and 91 and 44 specialty care providers in 2014 and 2013, respectively. Since 1972, the District's patient and family centered care philosophy, combined with its commitment to advancing medical solutions, has enabled the District to focus on providing excellent patient care.

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

Utilization Statistics

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

Utilization statistics	2014	2013	2012
Licensed beds[1]	333	333	290
Acute care admissions	14,707	14,441	15,288
Acute care adjusted admissions	32,669	31,716	32,038
Acute care patient days	54,873	52,389	51,388
Acute care adjusted patient days	121,739	115,016	107,749
Acute care average length of stay	3.7	3.6	3.3
Occupancy	47.3%	52.2%	60.9%
Outpatient surgeries	13,925	12,775	5,137
Home health episodes and admissions	10,020	9,078	8,408
Hospice program days (outpatient)	165,764	162,251	151,906
Emergency room visits	54,788	52,475	54,074

[1] Licensed beds at December 31

Sources of Patient Revenue

The District derives a substantial portion of its operating revenue from federal and state programs and insurance plans that pay for all or a portion of the healthcare services provided to its patients. As a consequence, the District's operating revenue depends to a great extent on the availability and level of reimbursement or payment under those programs and plans.

The following table sets forth the percentages of the District's gross patient revenue applicable to various programs and plans for the fiscal years ended December 31, 2014, 2013, and 2012.

	2014	2013	2012
Medicare	37.8%	37.7%	36.2%
Other third-party payors	16.7	16.6	16.7
Premera	16.6	16.5	17.7
Regence	13.3	13.3	12.5
Medicaid	9.6	7.9	7.9
First choice	4.6	5.2	5.5
Patient self-pay	1.4	2.8	3.5

District Challenges and Opportunities

Challenges and opportunities that face the District are similar to those that face the healthcare industry across the country. Among those issues are:

- Financial Health: The District continues to implement service enhancement and growth plans, discussed below, which result in significant capital outlays. The investment in new and expanded facilities may put financial constraints on the organization; however, management believes the District is positioned to better serve the needs of the community.
- Competition: The Puget Sound has experienced increased market consolidation and collaboration between healthcare providers over the past year. In addition, eastside and Seattle providers have opened healthcare facilities both within and around the District boundaries with the intention of drawing patients from the service area.
- Operating Costs: Several key volume indicators, including overall adjusted patient days, were higher than 2013. The District has continued working to manage its operating costs in line with volumes. Labor is the most significant operating cost for the District. During 2014 and 2013, the District continued to practice various cost saving initiatives including mandatory furlough days and managing to productivity labor targets.
- Regulatory Environment: Continued focus by regulatory agencies on the healthcare industry may impact the District.
- Labor Availability: Throughout 2014, the District was able to maintain reduced reliance on higher cost agency personnel as more registered nurses became available in the labor market. Labor shortages continued for various technical positions. Approximately 53% of the District's 3,895 employees are members of one of four labor unions. In 2013, the District began negotiations of its labor contract with Service Employees International Union (SEIU) employees, which represents approximately 790 employees. The contract was settled in November 2014.
- Payor Reimbursement: Reimbursement for patient services from federal, state, and private insurance payors continues to be a concern as healthcare costs continue to rise. The District monitors reimbursement closely and works with payors in an effort to keep payment levels in line with operating cost increases.
- Alliances: During 2014, the District continued to develop its strategic alliances with Seattle Cancer Care Alliance (SCCA), Virginia Mason Medical Center and Valley General Hospital of Monroe.

  SCCA – The Halvorson Cancer Center connects patients to promising new treatments with on-site access to the innovative research programs and breakthrough clinical trials of SCCA.

  The center is a unique collaboration between EvergreenHealth and SCCA, with SCCA physicians for the first time staffing a cancer clinic outside their Seattle campus. The Halvorson Cancer Center will enable the District to continue providing breakthrough care by providing the best technology, expanding access, and bringing all facets of a patient's cancer treatment together in one patient-centered location.

Virginia Mason – The District's strategic partnership with Virginia Mason continued to develop during 2014 to advance a virtual healthcare system that broadens the geographic network of both healthcare systems via clinical collaborations focused on exceptional clinical outcomes and value. Collaborations are focused on cardiology, neurosciences, home care services, infusion therapy, thoracic surgery, and Telestroke technology.

Valley General – The District's affiliation with Valley General Hospital of Monroe continues to grow. The affiliation is governed by a shared governance council. Both organizations will remain independently and separately governed, licensed, and accredited. The purpose of the affiliation is to provide Valley General the ability to better serve its community through enhanced clinical services and to adopt the District's approaches to clinical outcomes, patient safety, and patient experience. EvergreenHealth finalized the alliance agreement with Valley General Hospital in early 2015. The hospital will be named EvergreenHealth Monroe.

Other substantial changes are anticipated in the U.S. healthcare system including numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, the Affordable Care Act and uncertainty surrounding the act, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. Management will continue evaluating how it will respond to various healthcare reform components as they develop.

The District recognizes that providing the community with high-quality healthcare goes beyond offering outstanding programs and services. As the community continues to grow and age, the District must keep pace with the need for more types of services. The 2014 population within the District's boundaries is now 292,788 people. Population is projected to grow 7.4% over the next 5 years and reach 314,432 in 2019 according to the Economic and Social Research Institute. The District's Master Site Plan filed with the City of Kirkland in 2003 includes facility and service expansions based on projected needs. In 2013, the District filed its Master Campus Signage Plan, one of 3 plans that comprise the next Master Site Plan to be filed with the City of Kirkland in 2016.

In 2014, the District initiated or completed the following related projects:

- Clinic acquisitions and asset purchases, including Evergreen Women's Health Center, PLLC, Evergreen Diabetes and Endocrinology Medical Group, PLLC, Pacific Colon and Rectal Clinic, Eastside Orthopedics and Sports Medicine
- Employment agreements with physicians resulting in additional practices, including EvergreenHealth Ear, Nose, and Throat Care and EvergreenHealth Gynecological Care
- Launched the Puget Sound High Value Network with other local health care practices and systems
- Secured EvergreenHealth Partner value-based contracts with First Choice, Aetna and Cigna
- Launched a pricing transparency service that provides out-of-pocket costs to patients
- Implementation of the Ambulatory Electronic Health Record in primary care and other clinics
- Opened Café 128 that highlights healthy options

- Launched a mobile app
- Launched a 6-week *Say Yes to Your Healthiest Best* wellness series to the community to promote health and wellness
- 40 lean value stream events completed to increase efficiencies and improve patient outcomes
- Replacement of medical, surgical, and imaging equipment and upkeep of current facilities

Overview of the Financial Statements

The District's financial statements consist of three components: statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. The activities of EvergreenHealth Foundation are included with the District's financial statements. These financial statements and related notes provide information about the activities of the District, including resources held by the District designated for specific purposes. The statement of net position includes all the District's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted for a specific purpose. The statements of revenue, expenses, and changes in net position report all of the revenue, expenses, and changes in net position during the time periods indicated. The statements of cash flows report the cash provided by the District's operating activities, as well as other cash sources such as investment income and issuance of new debt, and use of cash such as cash payments for capital asset additions and improvements and repayment of debt.

Contacting the District's Financial Management

This financial report provides the reader with a general overview of the District's finances and operations. If you have questions about this report or need additional financial information, please contact the chief financial officer or director of finance at EvergreenHealth, 12040 NE 128th Street, Kirkland, Washington 98034.

Summary of Statements of Net Position

(Expressed in thousands)

	2014	2013	2012
Cash and cash equivalents	$ 21,483	16,713	12,679
Patient accounts receivable, less allowance for uncollectible accounts	65,729	60,572	53,485
Other current assets	21,609	22,956	21,360
Total current assets	108,821	100,241	87,524
Restricted as to use and board-designated cash and investments	128,981	117,001	101,577
Capital assets, net	304,225	310,282	322,128
Other assets	18,762	17,322	15,396
Total assets	560,789	544,846	526,625
Deferred outflows of resource:			
Deferred loss on refunding	2,145	2,507	526
Total assets and deferred outflows of resources	$ 562,934	547,353	527,151

Unaudited – see accompanying notes to the financial statements

Summary of Statements of Net Position

(Expressed in thousands)

		2014	2013	2012
Current portion of long-term debt and capital lease obligations	$	11,652	11,775	11,416
Other current liabilities		63,469	60,227	55,225
Total current liabilities		75,121	72,002	66,641
Long-term liabilities		195,796	209,227	219,405
Total liabilities		270,917	281,229	286,046
Net position:				
Invested in capital assets, net of related debt		101,519	93,899	95,281
Restricted		7,978	8,750	10,064
Unrestricted		182,520	163,475	135,760
Total net position		292,017	266,124	241,105
Total liabilities and net position	$	562,934	547,353	527,151

In 2014, current assets include accounts receivable (60.4% of total current assets), cash and cash equivalents (19.7%), prepaid expenses and other current assets (10.1%), and inventory and other assets. In 2014, current assets overall increased by $8.6 million primarily due to an increase of $5.2 million in net patient accounts receivable related to price and volume increases, an increase of $4.8 million in cash and cash equivalents, and an increase of $1.6 million in prepaid expenses and other current assets. These increases were partially offset by a $2.3 million decrease in third-party receivables.

The District continues to devote resources for capital projects and improvements. During 2014, the District invested approximately $23.6 million in buildings, information technology, and equipment. The increase in capital assets described above was offset by $30.0 million of depreciation expense.

Restricted as to use and board-designated cash and investments increased in 2014 primarily due to a $17.7 million increase in funded depreciation due to favorable operating results.

In 2014, current liabilities include accrued compensation (45.3% of total current liabilities), accounts payable (30.6%), current portion of long-term debt and capital lease obligations (15.5%), current portion of professional liability, accrued interest, and estimated settlements related to third-party liabilities. Current liabilities increased approximately $3.1 million compared to prior year.

In 2014, long-term liabilities of $196 million include long-term debt and capital lease obligations of $191 million as well as a reserve for professional liability of $3.6 million.

In 2013, current assets include accounts receivable (60.4% of total current assets), cash (16.7%), prepaid expenses (9.4%), and inventory and other assets. In 2013, current assets overall increased by $12.7 million primarily due to an increase of $7.1 million in net patient accounts receivable related to price and volume increases, an increase of $4.0 million in cash and cash equivalents, and an increase of $2.8 million in third-party receivables. These increases were partially offset by a $2.6 million decrease in prepaid expenses.

The District continues to devote resources for capital projects and improvements. During 2013, the District invested approximately $18.3 million in buildings, information technology, and equipment. The increase in capital assets described above was offset by $29.9 million of depreciation expense.

Restricted as to use and board-designated cash and investments increased in 2013 primarily due to a $12 million increase in funded depreciation due to favorable operating results.

In 2013, current liabilities include accrued compensation (45.5% of total current liabilities), accounts payable (29.9%), current portion of long-term debt and capital lease obligations (16.4%), current portion of professional liability, accrued interest, and estimated settlements related to third-party and professional liabilities. Current liabilities increased $5.4 million in 2013, of which $4.0 million is attributable to accrued employee compensation.

In 2013, long-term liabilities of $209.2 million include long-term debt and capital lease obligations of $204.6 million as well as a reserve for professional liability of $3.8 million. The District issued approximately $59.5 million in unlimited tax general obligation (UTGO) bonds to refund the 2004 UTGO debt of $71.2 million. This refinancing of the 2004 bonds was done to minimize interest costs for the District. The District projects it will save taxpayers approximately $9.3 million due to lower interest rates over the life of the 2013 debt.

Net Position

Investment in Capital Assets, Net of Related Debt – This classification includes the District's property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted Expendable Net Position – Restricted expendable net position represents resources that the District is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the assets.

Restricted Nonexpendable Net Position – Restricted nonexpendable net position represents resources that the District may not spend as the donor and/or external parties have placed a restriction on preservation of the assets.

Unrestricted Net Position – This category includes other funds available to the District that do not meet the definition of restricted or net investment in capital assets.

Summary of Revenue, Expenses, and Changes in Net Position

(Expressed in thousands)

		2014	2013	2012
Operating revenue:				
Net patient service revenue	$	511,862	465,288	413,667
Other operating revenue		34,701	31,378	33,568
Total operating revenue		546,563	496,666	447,235
Operating expenses:				
Salaries, wages, and employee benefits		342,071	308,149	279,820
Supplies, purchased services, and other		170,287	151,611	137,393
Depreciation and amortization		30,008	29,944	29,342
Total operating expenses		542,366	489,704	446,555
Excess of revenue over expenses from operations		4,197	6,962	680
Nonoperating income, net of expenses:				
Property taxes		24,871	24,798	24,641
Interest and amortization expense		(7,786)	(8,654)	(10,251)
Investment income (loss)		2,249	(611)	1,648
Other, net		249	328	6,594
Net nonoperating income		19,583	15,861	22,632
Excess of revenue over expenses		23,780	22,823	23,312
Capital grants and contributions		2,113	2,197	2,149
Total change in net position		25,893	25,020	25,461
Net position, beginning of year		266,124	241,104	215,643
Net position, end of year	$	292,017	266,124	241,104

Financial Highlights

Revenue

In 2014, gross patient revenue increased by approximately $132.1 million or 11.3%. Gross patient revenue is the total fees charged to patients for services. The increase was due to a targeted rate increase of 7.2% overall implemented on January 1, 2014 and increased volumes. The overall gross revenue increase due to volumes was

4.1%. Average length of stay increased from 3.6 days to 3.7 days. Surgery cases increased 7.2% in 2014 compared to 2013. Outpatient hospice volume increased 2.2% and home health volume increased 10.4%.

In 2014, net patient service revenue increased by approximately $46.6 million or 10.0%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This increase was due to volume increases, price increases, increases in reimbursement, and lower bad debt expense and charity care adjustments in 2014. Other operating revenue increased approximately $3.3 million, or 10.6%, $2.2 million of which is attributable to donations raised by the EvergreenHealth Foundation.

In 2013, gross patient revenue increased by approximately $140.0 million or 13.6%. Gross patient revenue is the total fees charged to patients for services. The increase was due to a targeted rate increase of 8.0% overall implemented on January 1, 2013 and increased volumes. The overall gross revenue increase due to volumes was 5.6%. Average length of stay increased from 3.3 days to 3.6 days. Surgery cases increased 82.1% in 2013 compared to 2012 due to the first full year of Evergreen Surgical Center being 100% owned by the District. The revenue related to the Surgical Center is recognized through net patient service revenue for the last three months of 2012, and for all of 2013, while the District's proportionate share of the earnings through September 2012 were recognized in other revenue. Hospice volume increased by an overall 6.8% and home health volume increased 8.0%.

In 2013, net patient service revenue increased by approximately $51.6 million or 12.5%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This increase was due to volume increases, price increases, increases in reimbursement, and lower charity care and administrative adjustments in 2013. Other operating revenue decreased approximately $2.2 million, or 6.5%, which is primarily attributable to decreases in joint venture revenue as well as a onetime revenue adjustment in 2012.

Operating Expenses

In 2014, salaries and wages increased approximately $26.6 million, or 10.8%, due to employee salary increases and an increase in the District's average employed full-time equivalents (FTEs). FTEs increased by 8.0% in 2014 at 3,137 compared to 2,905 FTEs in 2013.

Employee benefit expenses increased in 2014 by approximately $7.3 million, or 11.8%, over 2013. This was primarily due to increases in medical claim costs and social security.

Supplies, purchased services, and other increased in 2014 by approximately $18.7 million, or 12.3%, due to overall hospital growth, including costs associated with the various clinic acquisitions and asset purchases throughout the year.

Total operating expenses of $542.4 million include expenses related to tax-supported community programs for which the offsetting revenue is included in nonoperating income.

In 2013, salaries and wages increased approximately $25.3 million, or 11.4%, due to employee salary increases and an increase in the District's average employed FTEs. FTEs increased by 8.8% in 2013 at 2,905 compared to 2,671 FTEs in 2012.

Employee benefit expenses increased in 2013 by approximately $2.8 million, or 4.8%, over 2012. This was primarily due to pension costs, payroll taxes, and the accrual of employee vacation.

Supplies, purchased services, and other increased in 2013 by approximately $14.2 million, or 10.3%, due to overall hospital growth, including costs associated with the various clinic acquisitions throughout the year.

Total operating expenses of $489.7 million include expenses related to tax-supported community programs for which the offsetting revenue is included in nonoperating income.

Nonoperating Income, Net of Expenses

Nonoperating income, net of expenses increased $3.7 million, or 23.5%, from $15.9 million in 2013 to $19.6 million in 2014. The increase is largely driven by investment income of $2.3 million compared to investment losses of $0.6 million in 2013.

Nonoperating income, net of expenses decreased $6.8 million, or 29.9%, from $22.6 million in 2012 to $15.9 million in 2013. The decrease is due to the fact that the District recognized a $3.8 million gain on sale of land and a $2.5 million gain on acquisition of the Evergreen Surgical Center in 2012. Excluding these items, nonoperating income decreased approximately $472 thousand due to decreases in investment income as well as interest and amortization expense.

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

Statements of Net Position

December 31, 2014 and 2013

(In thousands)

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	21,483	16,713
Current portion board-designated assets		1,415	2,399
Current portion of assets restricted as to use		1,199	1,221
Patient accounts receivable, less allowance for uncollectible accounts of $12,556 and $19,381, respectively		65,729	60,572
Inventory		6,207	5,922
Prepaid expenses and other current assets		11,020	9,374
Third-party payor receivable		1,768	4,040
Total current assets		108,821	100,241
Assets limited as to use, less current portion of amounts required for current liabilities:			
Board-designated cash and investments		121,279	109,314
Restricted cash and investments		7,702	7,687
		128,981	117,001
Capital assets:			
Land		4,914	4,914
Construction in process		4,856	5,337
Depreciable capital assets, net of accumulated depreciation		294,455	300,031
		304,225	310,282
Other assets		18,762	17,322
Total assets		560,789	544,846
Deferred outflows of resources:			
Deferred loss on refunding		2,145	2,507
Total assets and deferred outflows of resources	$	562,934	547,353

(Continued)

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

Statements of Net Position

December 31, 2014 and 2013

(In thousands)

Liabilities and Net Position		2014	2013
Current liabilities:			
Accounts payable and accrued expenses	$	22,966	21,521
Accrued compensation and related liabilities		34,013	32,769
Accrued interest payable		705	746
Current portion of long-term debt and capital lease obligations		11,652	11,775
Third-party payor payable		4,252	4,170
Estimated current portion of professional liability		1,533	1,021
Total current liabilities		75,121	72,002
Long-term estimated professional liability		3,570	3,816
Other noncurrent liabilities		1,172	803
Long-term debt and capital lease obligations, net of current portion		191,054	204,608
Total liabilities		270,917	281,229
Net position:			
Investment in capital assets, net of related debt		101,519	93,899
Restricted:			
Expendable for specific activities		5,592	6,627
Expendable for debt service		719	957
Nonexpendable permanent endowments		1,667	1,166
Unrestricted		182,520	163,475
Total net position		292,017	266,124
Total liabilities and net position	$	562,934	547,353

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended December 31, 2014 and 2013

(In thousands)

		2014	2013
Net patient service revenue (net of provision for bad debts of $16,797 and $25,895, respectively)	$	511,862	465,288
Other operating revenue		34,701	31,378
Total operating revenue		546,563	496,666
Expenses:			
Salaries and wages		272,839	246,245
Employee benefits		69,232	61,903
Supplies		73,985	65,274
Professional fees		12,265	11,495
Other purchased services		42,115	38,201
Repairs and maintenance		13,284	11,963
Other operating expenses		28,638	24,679
Depreciation and amortization		30,008	29,944
Total operating expenses		542,366	489,704
Excess of revenue over expenses from operations		4,197	6,962
Nonoperating income, net of expenses:			
Property taxes		24,871	24,798
Interest and amortization expense		(7,786)	(8,654)
Investment income (loss)		2,249	(611)
Other, net		249	328
Net nonoperating income		19,583	15,861
Excess of revenue over expenses		23,780	22,823
Capital grants and contributions		2,113	2,197
Total change in net position		25,893	25,020
Net position, beginning of year		266,124	241,104
Net position, end of year	$	292,017	266,124

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Cash received from and on behalf of patients	$	537,287	481,098
Payments to suppliers and contractors		(172,105)	(147,659)
Payments to employees		(340,827)	(304,113)
Income distributions received from joint ventures		6,473	6,437
Net cash provided by operating activities		30,828	35,763
Cash flows from noncapital financing activities:			
Noncapital distributions		—	(1,228)
Property taxes received for community programs		5,285	4,920
Net cash provided by noncapital financing activities		5,285	3,692
Cash flows from capital and related financing activities:			
Purchases of capital assets		(20,833)	(16,228)
Net proceeds from sale of capital assets		13	—
Principal payments on long-term debt and capital lease obligations		(11,784)	(79,794)
Proceeds from issuance of long-term debt		—	59,460
Proceeds from premium from issuance of long-term debt		—	11,383
Payment of issuance costs		(95)	(433)
Payment of deferred loss		—	(2,388)
Proceeds from property taxes related to debt service		19,586	19,878
Cash paid for interest on long-term debt, net of capitalized interest		(9,505)	(10,476)
Net cash used in capital and related financing activities		(22,618)	(18,598)
Cash flows from investing activities:			
Purchases of board-designated assets and assets restricted as to use		(47,523)	(52,312)
Proceeds from sale of board-designated assets and assets restricted as to use		36,549	36,100
Investment income (loss)		2,249	(611)
Net cash used in investing activities		(8,725)	(16,823)
Net increase in cash and cash equivalents		4,770	4,034
Cash and cash equivalents, beginning of year		16,713	12,679
Cash and cash equivalents, end of year	$	21,483	16,713

(Continued)

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

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands)

		2014	2013
Reconciliation of excess of revenue over expenses from operations to net cash provided by operating activities:			
Excess of revenue over expenses from operations	$	4,197	6,962
Adjustments to reconcile excess of revenue over expenses from operations to net cash provided by operating activities:			
Depreciation and amortization		30,008	29,944
Provision for bad debts		16,797	25,896
Other		(523)	(365)
Changes in operating assets and liabilities:			
Patient accounts receivable, less provision for bad debt		(21,954)	(32,982)
Inventory		(285)	(613)
Prepaid expenses and other assets		(2,359)	1,270
Accounts payable and accrued expenses, net of amounts related to construction in progress		381	5,684
Accrued compensation and related liabilities		1,244	1,387
Third-party payor settlements, net		2,354	(2,168)
Professional liability and other noncurrent liabilities		968	748
Net cash provided by operating activities	$	30,828	35,763
Supplemental disclosures of noncash investing, capital, and financing activities:			
Change in capital asset additions included in accounts payable and accrued expenses	$	1,064	2,186
Capital lease additions		152	600

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Public Hospital District No. 2, King County, Washington, d/b/a EvergreenHealth (the District) is a municipal corporation established under Chapter 70.44 of the Revised Code of the State of Washington (RCW). The purpose of the District is to own and operate hospitals and other healthcare facilities and provide healthcare services to area residents. The District's primary operations include Evergreen Hospital Medical Center (the Medical Center), an acute care hospital; Evergreen Home Health Services, a home health agency; Evergreen Hospice Services, a program serving the terminally ill; EvergreenHealth Medical Group, a primary care group consisting of family practice physicians, physician assistants, and certified nurse practitioners; and EvergreenHealth Foundation (the Foundation). Affiliated organizations are evaluated for inclusion in the reporting entity as component units based on the significance of their relationship with the District.

Component units are legally separate organizations for which the District is financially accountable. These entities may be reported in the financial statements of the primary government in one of two ways: the component units' amounts may be blended with the amounts reported by the primary government, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. The District has one component unit, the Foundation, which meets the criteria for blending.

The Foundation is a separate nonprofit foundation. The purpose of the Foundation is to (a) receive grants, bequests, donations, and contributions on behalf of; (b) provide fund-raising and other support to; and (c) make contributions to the District. Consequently, the net financial position and the results of operations of the Foundation are included in the accompanying financial statements. For the years ended December 31, 2014 and 2013, the Foundation raised approximately $2.7 million and $3.0 million in contributions and its assets comprise 1.6% and 1.7% of total assets, respectively.

(b) Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The District reports its financial information in a form, which complies with the pronouncements of the GASB and the Audit and Accounting Guide for Healthcare Organizations of the American Institute of Certified Public Accountants.

(c) Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the District, the primary government, and its component unit, the Foundation. The Foundation meets the requirement of a blended component unit and has been included in the financial statements.

(d) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the District's financial statements include patient accounts receivable alllowances, third-party payor settlements, professional liabilities, and the fair value of investments.

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less, excluding assets restricted as to use and board-designated assets. Deposits of up to $250 thousand are covered by the federal deposit insurance corporation and any deposits in excess of $250 thousand are covered by collateral held in a multifinancial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(f) Patients Accounts Receivable

Receivables arising from revenue for services to patients are reduced by an allowance for estimated uncollectible accounts based on recent collection experience and other circumstances, which may affect the ability of patients to meet their obligations. There are various factors that can impact the collection trends and the estimation process, such as changes in the economy, the increased burden of copays, and deductibles to be made by patients and business practices related to collection efforts. Accounts deemed uncollectible are charged against this allowance.

(g) Assets Limited as to Use

Assets limited as to use include assets designated by the Board of Commissioners (the Board) for capital improvements and community service programs. The Board retains control of the assets and may, at its discretion, subsequently change the use for other purposes. Assets limited as to use include certain assets of the Foundation that are restricted by donor stipulations. Assets limited as to use also include unexpended proceeds and income generated from certain outstanding bond series restricted for the payment of principal, interest, and expenditures for construction and equipment costs. The assets of the Supplemental Executive Retirement Plan (SERP) are also recorded as assets limited as to use. The SERP is a postretirement plan covering the executive management team. Amounts required to meet related current liabilities have been classified as current assets in the accompanying statements

of net position. These assets are carried at fair value with changes in fair value reported as investment income.

(h) Inventory

Inventory consists of pharmaceutical, medical-surgical, and other supplies used in the operation of the District. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

(i) Capital Assets

Capital assets are recorded at cost. In accordance with governmental accounting standards, the District has established a capitalization threshold of $3 thousand and a life of three years or more above which asset acquisitions are added to the capital asset accounts. Donated items are recorded at fair value at the date of the contribution. Depreciation expense is computed using the straight-line method based on the following estimated useful lives of the assets:

Land improvements	10–20 years
Buildings	25–40 years
Equipment	3–20 years

Maintenance and repairs are expensed as incurred. Expenditures that materially increase values, change capacities, or extend useful lives of plant and equipment are capitalized.

Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying statements of revenue, expenses, and changes in net position.

(j) Compensated Absences

The District's employees earn vacation days at varying rates depending on years of service. Accrued vacation is reported as a current liability as employees utilize their vacation days within the following year.

(k) Debt Issuance Costs

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65), debt issuance costs are recognized as an expense in the period incurred. GASB No. 65 is effective for years beginning after December 15, 2012. Debt issuance costs recognized as an expense in 2014 associated with the issuance of the 2015 Limited General Obligation Bonds (LTGO) bonds were $95 thousand. Debt issuance costs recognized as an expense in 2013 associated with the issuance of the 2013 UTGO bonds were $433 thousand.

(l) Net Position

Net position of the District is classified in five components. Investment in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes expendable for specific activities and expendable for debt service and must be used for a particular purpose, as specified by grantors or contributors external to the District. Restricted nonexpendable net position equals the principal portion of permanent endowments. Unrestricted net position does not meet the definition of investment in capital, net of related debt or restricted. The District will first apply restricted resources when an expense is incurred for purposes for which both unrestricted and restricted net position is available.

(m) Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services – the District's principal activity. Nonoperating income includes property taxes received or grants and contributions received for purposes other than capital asset acquisition. Operating expenses are all expenses incurred to provide healthcare services.

Other operating revenue includes tenant lease receipts, income from joint ventures, outreach laboratory service revenue, retail revenue such as gift shop and pharmacy, educational offerings, grant funds to support specific programs, restricted donations, and other services.

(n) Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(o) Charity Care

The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to an established policy of the District. The estimated cost of charity care is determined by calculating the ratio of operating costs to charges, and then applying this ratio to total charity care charges. The estimated costs of charity care provided by the District were $2.2 million and $4.3 million for 2014 and 2013, respectively. Because the District does not pursue collection of amounts determined to qualify as charity care, associated charges are not included in net patient service revenue.

(Continued)

(p) Nonoperating Income, Net of Expenses

The District received property taxes of approximately $24.9 million in 2014 and $24.8 million in 2013. These property taxes represented regular levy proceeds and voter approved excess levies. These funds were used as follows:

		2014	2013
Amount used for tax supported programs	$	5,285	4,920
Amounts used for debt service on general obligation bonds		19,586	19,878
	$	24,871	24,798

Of the amount used for debt service on general obligation bonds, $9.0 million and $9.7 million as of December 31, 2014 and 2013, respectively, is related to interest payments. The property taxes received are reflected in nonoperating income. Interest expense related to long-term debt is included in nonoperating expenses.

Investment income includes interest income and unrealized gains and losses on board-designated assets and earnings on cash deposits.

(q) Federal Income Taxes

No provision has been made for federal income taxes, as the District is a municipal corporation exempt from federal tax, under Section 115 of the Internal Revenue Code.

The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(r) Recently Adopted Accounting Standards

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB No. 70), which requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The District adopted the above GASB statement for the reporting period beginning January 1, 2014, and found there was no

(Continued)

impact to its financial statements as the District has not extended or received any nonexchange financial guarantees.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB No. 69), which provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The new standard explains how governments should measure the amounts for the assets and liabilities that are a part of a merger between two or more governments or are acquired by one government from another, as well as the date on which the measurement should take place. The merger and acquisition guidance also applies to transactions involving a government and a nongovernmental entity, such as a not-for-profit organization or a business. Specific guidance is provided for governments that dispose of one or more of their services by transferring or selling them to another entity. GASB No. 69 also identifies information that governments should disclose in the notes to their financial statements about their mergers, acquisitions, and disposals of operations. The requirements of the statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Governments are encouraged to implement earlier. As of January 1, 2012, the District adopted the above GASB statement and accounted for the Evergreen Surgical Center acquisition according to its provisions.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65), effective for years beginning after December 15, 2012. GASB No. 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District has adopted the above GASB statement and prepared its financial statements as of and for the period ending December 31, 2014 according to its provisions. The impact of this statement was an adjustment to 2011 opening net position of $625,000.

(2) Net Patient Service Revenue

The District has arrangements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis related groups (DRGs). Each DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that DRG. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final

settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2011. The District recognized interim and final cost report settlements resulting in increased net patient service revenue by $306 thousand and $684 thousand in 2014 and 2013, respectively. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). Centers for Medicare and Medicaid Service (CMS) assigns individual services (Healthcare Common Procedure Coding System (HCPCS) codes) to APCs based on similar clinical characteristics and similar costs.

(b) Medicaid

In the spring of 2005, the Washington State Legislature and Centers for Medicare and Medicaid Services approved a Medicaid Certified Public Expenditures (CPE) program for inpatient reimbursement. The CPE program uses public expenditures by certain public hospitals to earn federal matching funds. Certified public expenditures are qualifying expenditures made by the hospital to serve Medicaid eligible or uninsured patients. The program was designed to preserve a significant amount of federal match funding for the State of Washington (the State) and maintain the same level of reimbursement to the affected hospitals that they would have received prior to the implementation of the program.

The CPE program uses three payment mechanisms to reimburse hospitals for inpatient care: inpatient hospital claims payments, disproportionate share (DSH) payments, and state grants. Under the program, hospitals are paid an interim payment based on an estimate of the cost to provide services to Medicaid recipients. For each payment to a hospital in the program, only the federal matching portion of the payment is remitted to the hospital; the state portion is funded through DSH payments and state grants. The American Recovery and Reinvestment Act of 2011 temporarily increased the matching percentage from approximately 50% to approximately 62%.

The intent of the legislature is that hospitals in the program receive no less in combined federal and state payments than the hospital would have received under the methodology that was in place during fiscal year 2005. Any differences between the federal matching and state DSH components on the CPE program payments and this baseline amount are to be paid to the hospitals with state grant funds. To the extent that state grant funds allocated at the start of the year are insufficient to meet the hold harmless provision of the program, additional legislative appropriations may be required.

Interim state payments based on prospectively estimated experience are retrospectively reconciled to "hold harmless" after actual claims are repriced using the applicable methods. This process takes place at least six months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid Program. State inpatient claim and DSH payments are subject to retrospective determination of actual costs once the District's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete. To date, no CPE program year has had a final settlement. The District recognized interim settlements resulting in an

adjustment to decrease net patient service revenue by $1.9 million and $1.6 million in 2014 and 2013, respectively.

Inpatient Medicaid charges represented approximately 10.0% and 9.6% of total inpatient charges for the District in fiscal years 2014 and 2013, respectively.

The Medicaid CPE program continues through the State's fiscal year 2015. As of December 31, 2014 and 2013, the District has recorded a payable of $2.5 million and $2.3 million for estimated overpayments for state fiscal years 2015, 2014, and 2013, respectively, which is included in third-party payor payable in the statements of net position.

Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District's allowable operating expenses to total allowable revenue.

In the July 2009 legislative session, the Washington State legislature enacted the Hospital Safety Net Assessment to help mitigate an estimated $400 million reduction in hospital Medicaid payments. Under this law, nongovernmental Washington hospitals are assessed a fee on all non-Medicare patient days. The fees are used to obtain new federal Medicaid matching funds.

The safety net assessment was subject to approval by the Centers of Medicare and Medicaid Services (CMS) before it took effect. In 2010, CMS approved the two amendments required to fully enact the safety net assessment program. The District is not subject to the assessment but is a recipient of grant dollars through the program. The District received safety net payments totaling $903 thousand and $210 thousand for 2014 and 2013, respectively.

The existing safety net program expired in June 2013 and the State passed a new safety net assessment program that was approved by CMS in April 2014. The new law is retroactive to July 1, 2013 and will sunset on June 30, 2017.

(c) Other Third-Party Reimbursement

The District has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The following are the components of net patient service revenue for the years ended December 31:

		2014	2013
Gross patient service charges	$	1,304,415	1,172,291
Adjustments to patient service charges:			
Contractual adjustments		761,288	664,325
Provision for bad debts		16,797	25,895
Charity care		5,366	10,484
Administrative adjustments		9,102	6,299
		792,553	707,003
Net patient service revenue	$	511,862	465,288

Percentage of gross patient service charges:

	2014	2013
Medicare	37.8%	37.7%
Other third-party payors	16.7	16.6
Premera	16.6	16.5
Regence	13.3	13.3
Medicaid	9.6	7.9
First choice	4.6	5.2
Patient self-pay	1.4	2.8

(Continued)

(3) Assets Limited as to Use

Board-designated assets represent unrestricted resources that have been designated by the Board for funded depreciation and community service programs. In addition, the Board has the authority to establish a regular property tax levy within statutory restrictions, with the proceeds being used for purposes designated by the Board. Board-designated assets are as follows:

Board-Designated Assets

	December 31, 2014		
		Investment maturities (in years)	
Investment type	**Carrying amount**	**Less than 1**	**1–5**
U.S. Treasuries	$ 55,836	—	55,836
U.S. government agencies	9,801	—	9,801
Mutual Fund – Bonds	909	909	—
U.S. government agency – mortgage backed	8,052	1,544	6,508
King County Investment Pool	888	888	—
Total investments	75,486	$ 3,341	72,145
Cash and cash equivalents	45,772		
Total cash and investments	121,258		
Property tax, interest receivable, and other	1,436		
Total board-designated assets	$ 122,694		

Board-Designated Assets

	December 31, 2013		
		Investment maturities (in years)	
Investment type	Carrying amount	Less than 1	1–5
U.S. Treasuries	$ 33,655	—	33,655
U.S. government agencies	15,904	—	15,904
Mutual Fund – Bonds	238	238	—
U.S. government agency – mortgage backed	6,456	1,447	5,009
King County Investment Pool	1,850	1,850	—
Total investments	58,103	$ 3,535	54,568
Cash and cash equivalents	52,533		
Total cash and investments	110,636		
Property tax, interest receivable, and other	1,077		
Total board-designated assets	$ 111,713		

Maturities for mortgage backed securities are based on the weighted average maturity date, or reset date for adjustable rate mortgages.

Assets restricted as to use are as follows:

Assets Restricted as to Use

Investment type	December 31, 2014 Carrying amount	December 31, 2014 Investment maturities (in years) Less than 1
King County Investment Pool	$ 806	806
Mutual Fund – Bonds	916	916
Mutual Fund – Equity	1,703	1,703
Total investments	3,425	$ 3,425
Cash and cash equivalents	3,311	
Total cash and investments	6,736	
Property tax, interest receivable, and other	2,165	
Total assets restricted as to use	$ 8,901	

Assets Restricted as to Use

Investment type	December 31, 2013 Carrying amount	December 31, 2013 Investment maturities (in years) Less than 1
King County Investment Pool	$ 797	797
Mutual Fund – Bonds	877	877
Mutual Fund – Equity	1,133	1,133
Total investments	2,807	$ 2,807
Cash and cash equivalents	4,190	
Total cash and investments	6,997	
Property tax, interest receivable, and other	1,911	
Total assets restricted as to use	$ 8,908	

(Continued)

Interest Rate Risk – The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Shares of mutual funds with portfolios consisting of only U.S. government bonds or U.S. government bonds issued by federal agencies must have average maturities of less than four years. Unless matched to a specific cash flow, the District does not invest in securities maturing more than five years from the date of purchase. However, assets whose use is limited may be invested in securities exceeding 10 years if the maturity of such investments is timed to coincide with the expected use of funds.

Credit Risk – Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, public funds investment accounts, state, or local government bonds with one of the three highest credit ratings of a nationally recognized agency, money markets with investments in authorized securities, and mutual funds of only U.S. government bonds and agencies. The U.S. Treasury, agency, and agency mortgage backed are considered to be of high quality; and the U.S. Treasury carry the long-term sovereign rating of the United States of America. The District's policy requires that all certificates of deposit be collateralized.

The District utilizes an investment adviser as well as the King County Investment Pool (the Pool), an external investment pool. The Pool is not registered with the SEC as an investment company. Oversight of the Pool is provided by the King County Executive Finance Committee pursuant to RCW 36.29.020. Participation in this pool is voluntary. The intent of this policy is to balance reasonable security with reasonable investment return, seeking to maximize both while meeting the daily cash flow requirements of the District and conforming to all applicable laws and regulations governing the investment of public funds.

Concentration of Credit Risk – The District investment policy requires that no more than 20% of the District's total investment portfolio be invested in a single security type of a single financial institution with the exception of U.S. Treasury and agency securities, U.S. government funds, and authorized pools. The following table sets forth the percentages by investment type of the District's total investment portfolio as of December 31.

	2014	2013
U.S. Treasuries	46%	30%
Mutual fund/U.S. government securities	38	46
Federal Home Loan Mortgage Corporation	9	7
Federal National Mortgage Association	5	15
King County Investment Pool	1	2
Government National Mortgage Association	1	—

(4) Capital Assets

The schedule of capital asset activity for the years ended December 31, 2014 and 2013 is as follows:

		January 1, 2014	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2014
Assets at cost:						
Nondepreciable capital assets:						
Land	$	4,914	—	—	—	4,914
Construction in process		5,337	23,620	—	(24,101)	4,856
Total nondepreciable capital assets		10,251	23,620	—	(24,101)	9,770
Depreciable capital assets:						
Land improvements		14,564	(34)	—	117	14,647
Buildings		310,736	641	—	7,484	318,861
Equipment		328,567	(65)	(153)	16,500	344,849
Equipment and property under capital lease		17,055	—	—	—	17,055
Total depreciable capital assets		670,922	542	(153)	24,101	695,412
Less accumulated depreciation:						
Land improvements		9,773	575	—	—	10,348
Buildings		119,845	11,292	—	—	131,137
Equipment		235,274	17,367	(153)	—	252,488
Equipment under capital lease		5,999	985	—	—	6,984
Total accumulated depreciation		370,891	30,219	(153)	—	400,957
Depreciable capital assets, net		300,031	(29,677)	—	24,101	294,455
Capital assets, net	$	310,282	(6,057)	—	—	304,225

(Continued)

		January 1, 2013	Additions and adjustments	Sales and retirements	Account transfers	December 31, 2013
Assets at cost:						
Nondepreciable capital assets:						
Land	$	4,914	—	—	—	4,914
Construction in process		4,295	16,531	—	(15,489)	5,337
Total nondepreciable capital assets		9,209	16,531	—	(15,489)	10,251
Depreciable capital assets:						
Land improvements		14,371	—	—	193	14,564
Buildings		307,580	489	—	2,667	310,736
Equipment		334,456	628	(19,146)	12,629	328,567
Equipment and property under capital lease		16,398	657	—	—	17,055
Total depreciable capital assets		672,805	1,774	(19,146)	15,489	670,922
Less accumulated depreciation:						
Land improvements		9,197	576	—	—	9,773
Buildings		108,635	11,209	—	1	119,845
Equipment		237,836	16,264	(18,825)	(1)	235,274
Equipment under capital lease		4,218	1,781	—	—	5,999
Total accumulated depreciation		359,886	29,830	(18,825)	—	370,891
Depreciable capital assets, net		312,919	(28,056)	(321)	15,489	300,031
Capital assets, net	$	322,128	(11,525)	(321)	—	310,282

(5) Other Assets

Evergreen Radia, LLC

During 2003, the District formed a limited liability company with a local radiology group for the purpose of providing outpatient diagnostic imaging services to individuals within the community. The District has a 50% interest in this joint venture at December 31, 2014 and 2013, which is accounted for using the equity method of accounting. During the years ended December 31, 2014 and 2013, the District recognized a gain of $974 thousand and $790 thousand, respectively, for its share of the Evergreen Radia, LLC's net income, which is recorded as other operating revenue. The District's recorded investment in Evergreen Radia, LLC was $3.6 million and $3.2 million, respectively, as of December 31, 2014 and 2013, and is included in other assets in the District's statements of net position.

(Continued)

PacLab, LLC

Effective January 1, 2004, the District became a member in PacLab, LLC to provide outreach laboratory and testing services in order to further its own congruent mission of providing accurate, timely, and integrated laboratory testing series for patients, physicians, and other healthcare professionals in the community. The District's ownership interest was approximately 11% as of December 31, 2014 and 2013. This percentage interest is equivalent to the ratio of the gross billed revenue generated by the District from its outreach laboratory testing business to other members' volumes. For the years ended December 31, 2014 and 2013, the District recognized a loss of $89 thousand and $113 thousand, respectively, for its share of the net loss realized by PacLab, LLC, which is recorded within other operating revenue. Due to the nature of the investment, the District recorded distributions of excess cash from PacLab, LLC in other operating revenue of $2.5 million and $2.6 million for the years ended December 31, 2014 and 2013, respectively. The District records its investment in PacLab, LLC using the equity method of accounting. The investment balance was $724 thousand and $575 thousand as of December 31, 2014 and 2013, respectively, and is included in other assets in the District's statements of net position.

The following represents the summary financial information of Evergreen Radia, LLC and PacLab, LLC as of December 31, 2014:

		Evergreen Radia, LLC (Unaudited)	PacLab, LLC (Unaudited)
Current assets	$	3,551	4,332
Noncurrent assets, net		1,915	3,238
	$	5,466	7,570
Current liabilities	$	2,008	65
Long-term liabilities		896	—
Equity		2,562	7,505
	$	5,466	7,570
Revenue	$	9,302	163
Expenses		8,192	1,106
Net income (loss)	$	1,110	(943)

(6) Long-Term Debt and Capital Lease Obligations

	2014	2013
Unlimited Tax General Obligation Refunding Bonds, Series 2004 (fixed rate), payable semiannually through 2023, interest at 2.50% to 5.00%	$ —	5,675
Limited Tax General Obligation Bonds, Series 2006 (fixed rate), payable annually through 2031, interest at 4.00% to 5.00%	65,730	68,180
Limited Tax General Obligation Bonds, Series 2010 (fixed rate), payable annually through 2028, interest at 2.00% to 5.25%	29,020	30,445
Limited Tax General Obligation Bonds, Series 2011 (fixed rate), payable annually through 2030, interest at 2.00% to 5.00%	25,175	26,305
Unlimited Tax General Obligation Refunding Bonds, Series 2013 (fixed rate), payable semiannually through 2023, interest at 3.00% to 5.00%	59,460	59,460
Capital lease obligations, $10,719 (fixed rate), payable monthly including interest at 0.18% to 10.0%, collateralized by equipment	11,641	12,593
	191,026	202,658
Plus bond discounts and premiums	11,680	13,725
	202,706	216,383
Less current portion	(11,652)	(11,775)
	$ 191,054	204,608

(Continued)

Long-term debt and capital lease obligations activity summary for 2014 and 2013 is as follows:

		January 1, 2014	Additions	Reductions	December 31, 2014	Amounts due within one year
Limited general obligation bonds:						
2006 series	$	68,180	—	2,450	65,730	2,570
2010 series		30,445	—	1,425	29,020	1,485
2011 series		26,305	—	1,130	25,175	1,165
Unlimited general obligation bonds:						
2004 series		5,675	—	5,675	—	—
2013 series		59,460	—	—	59,460	5,510
Total long-term debt		190,065	—	10,680	179,385	10,730
Capital lease obligations		12,593	152	1,104	11,641	922
Total long-term debt and capital lease obligations		202,658	152	11,784	191,026	11,652
Bond discounts and premiums		13,725	—	2,045	11,680	—
Total long-term debt and capital lease obligations	$	216,383	152	13,829	202,706	11,652

(Continued)

		January 1, 2013	Additions	Reductions	December 31, 2013	Amounts due within one year
Limited general obligation bonds:						
2006 series	$	70,515	—	2,335	68,180	2,450
2010 series		31,820	—	1,375	30,445	1,425
2011 series		27,400	—	1,095	26,305	1,130
Unlimited general obligation bonds:						
2004 series		76,760	—	71,085	5,675	5,675
2013 series		—	59,460	—	59,460	—
Total long-term debt		206,495	59,460	75,890	190,065	10,680
Capital lease obligations		13,239	600	1,246	12,593	1,095
Total long-term debt and capital lease obligations		219,734	60,060	77,136	202,658	11,775
Bond discounts and premiums		7,639	11,383	5,297	13,725	—
Total long-term debt and capital lease obligations	$	227,373	71,443	82,433	216,383	11,775

A summary of future maturities on long-term debt for the next five years and thereafter as of December 31, 2014 for both principal and interest is presented below:

		Principal		Interest
2015	$	10,730		8,458
2016		11,150		8,044
2017		11,660		7,522
2018		12,225		6,968
2019		12,835		8,364
Amounts due 2020–2024		65,455		20,173
Amounts due 2025–2029		42,485		8,985
Amounts due 2030–2034		12,845		866
		179,385	$	69,380
Plus amount representing net unamortized bond discounts and premiums		11,680		
	$	191,065		

UTGO bonds are secured by the irrevocable pledge of the District to levy taxes annually, without limitation as to rate or amount based on a vote of the electors, on all taxable property within the District. LTGO are secured by the irrevocable pledge of the District to levy taxes annually, within the constitutional and statutory limitations provided by law without a vote of the electors, upon property in the District, as well as the net revenue of the District for amounts that exceed that available through the levy.

In May 2013, the District issued $59.5 million in UTGO bonds to refund the callable portion of the 2004 UTGO debt. On December 1, 2014, the District paid the final debt service payment related to the noncallable portion of the 2004 UTGO debt.

Capital Leases

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

		Amount
Year(s) ending December 31:		
2015	$	1,423
2016		1,325
2017		1,359
2018		1,394
2019		1,382
2020–2024		6,369
2025–2029		1,511
Total minimum lease payments		14,763
Less amount representing interest		(3,122)
Total capital lease payments	$	11,641

(7) Tenant and Equipment Capital Lease Receipts

The District owns and operates the Evergreen Professional Center (EPC), the Evergreen Surgical and Physicians Center (ES&PC), and the DeYoung Pavilion, which contain approximately 97,340 total square feet of space for physician offices available for lease. As of December 31, 2014 and 2013, the District had space under operating lease terms from 5 to 15 years.

Future minimum rent receipts on noncancelable operating leases are as follows:

		Amount
Year ending December 31:		
2015	$	4,886
2016		4,176
2017		3,916
2018		3,394
2019		2,859
Thereafter		8,394
	$	27,625

Rental income related to the EPC, ES&PC, and the DeYoung Pavilion leases was approximately $2.9 million and $3.9 million in 2014 and 2013, respectively, and is included in other operating revenue.

(8) Commitment and Contingencies

(a) Leases

The District leases various equipment and facilities under operating leases. Total rental expense in 2014 and 2013 for all operating leases and various rental agreements was approximately $9.9 million and $10.0 million, respectively.

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

		Payments	Receipts
Year ending December 31:			
2015	$	6,042	2,908
2016		6,154	2,184
2017		5,719	1,907
2018		5,256	1,588
2019		4,666	1,124
Thereafter		28,504	3,931
	$	56,341	13,642

(b) Insurance Coverage

The District holds professional liability insurance coverage through an independent insurance company. The insurance coverage is based on a claims-made policy. The District is self-insured for

professional liability tail and expected claims payout on this coverage. The policy's self-insured retention limit is $1.0 million per claim and $3.5 million per aggregate.

The District records its actuarial estimate for professional claims liability at its best estimate of the ultimate losses and costs associated with settling claims. The professional liability expense was $3.2 million and $2.4 million for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the estimated professional claims liability was $5.1 million and $4.8 million, respectively.

The District is self-insured for various programs, including employee medical benefits and workers' compensation. The estimated ultimate costs of claims under these programs are accrued when the incidents occur that give rise to the claims. Accrued amounts for these programs of approximately $7.1 million at December 31, 2014 and $6.5 million at December 31, 2013 are reported as part of accrued compensation and related liabilities in the accompanying statements of net position. The accrued amounts include known liabilities of the programs and estimated incurred but not reported claims.

(c) Litigation

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

(d) Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion by healthcare providers, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

(e) Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. The District maintains commercial insurance coverage designed to provide for claims arising from such matters.

(9) Retirement Plans

The District has a defined-contribution retirement plan covering substantially all eligible employees. The District makes a matching contribution of up to a maximum of 8% of the employee's eligible compensation. All contributions vest over a five-year schedule.

In addition to the retirement plan, the District maintains a voluntary employee deferred compensation program under the provision of Section 457 of the Internal Revenue Service Code. Under this program, the District employees can defer a portion of their income until withdrawn in future years. All assets are required to be held in trust for the exclusive benefit of participants and their beneficiaries. The District also contributes up to 4% of compensation as base pension depending on years of service.

Retirement plan expense incurred and reflected in employee benefits was approximately $13.6 million in 2014 and $12.1 million in 2013. Contributions made by employees to the benefit plans totaled approximately $19.4 million in 2014 and $17.3 million in 2013. Both plans are administered by the District under record-keeping and trust agreements with third parties.

The District has a postemployment benefit plan covering the executive management team. The District makes annual contributions to the SERP. The SERP is recorded under assets limited as to use and under noncurrent liabilities on the statements of net position. At December 31, 2014 and 2013, the SERP balance was $1.2 million and $0.8 million, respectively.

(10) Concentration of Credit Risk

The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of Hospital receivables at December 31 was as follows:

	Receivables	
	2014	2013
Medicare	28.0%	25.2%
Premera	16.7	12.8
Other third-party payors	15.8	15.5
Patients self-pay	12.9	16.9
Medicaid	12.1	10.3
Regence	9.0	13.8
First choice	5.5	5.5
	100.0%	100.0%

(11) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents – The carrying value approximates fair value because of the short maturity of those instruments.

Assets Limited as to Use – The carrying value approximates fair value of investments. The fair values are estimated based on quoted market prices for those or similar investments.

Long-Term Debt – The fair value and carrying value of its long-term debt are $198.6 million and $191.1 million as of December 31, 2014 and $204.2 million and $203.8 million as of December 31, 2013, respectively.

(12) Property Taxes

The King County treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31. Assessed values are established by the King County assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly by the county treasurer.

The District is permitted by law to levy up to $0.75 per $1,000 of assessed valuation for general district purposes. The Washington State Constitution and Washington State Law, RCW 84.55.100, limit the rate. The District may also levy taxes at a lower rate. Additional amounts of tax need to be authorized by a vote of the residents of the District.

For 2014, the District's regular levy request was $0.30 per $1,000 on a total assessed valuation of the property within the District of $53.1 billion for a total regular levy of $16.2 million. Excess levies totaled $8.7 million in 2014 related to debt service, mainly due to the hospital-based emergency department and patient facility, which opened in 2007.

For 2013, the District's regular levy request was $0.33 per $1,000 on a total assessed valuation of the property within the District of $48.4 billion for a total regular levy of $15.8 million. Excess levies totaled $9.2 million in 2013 related to debt service, mainly due to the hospital-based emergency department and patient facility, which opened in 2007.

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

(Continued)

(13) Blended Component Units

Condensed combining statements for the District and its blended component unit, the Foundation, are shown below:

	Statements of Net Position – December 31, 2014			
	Combined entities	Eliminations/ reclassifi-cations	District	Foundation
Assets:				
Current assets:				
Total current assets	$ 108,821	(711)	104,368	5,164
Noncurrent assets:				
Total other assets	149,888	721	145,527	3,640
Capital assets, net	304,225	—	304,225	—
Total assets	$ 562,934	10	554,120	8,804
Liabilities:				
Total current liabilities	$ 75,121	10	74,930	181
Total noncurrent liabilities	195,796	—	195,796	—
Total liabilities	270,917	10	270,726	181
Net position:				
Invested in capital assets, net of related debt	101,519	—	101,519	—
Restricted:				
Nonexpendable	1,667	—	—	1,667
Expendable	6,311	—	159	6,152
Unrestricted	182,520	—	181,716	804
Total net position	292,017	—	283,394	8,623
Total liabilities and net position	$ 562,934	10	554,120	8,804

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

Notes to Financial Statements

December 31, 2014 and 2013

(In thousands)

	Statements of Net Position – December 31, 2013			
	Combined entities	**Eliminations/ Reclassifi-cations**	**District**	**Foundation**
Assets:				
Current assets:				
Total current assets	$ 100,241	(4,773)	99,441	5,573
Noncurrent assets:				
Total other assets	136,830	4,582	128,733	3,515
Capital assets, net	310,282	—	310,282	—
Total assets	$ 547,353	(191)	538,456	9,088
Liabilities:				
Total current liabilities	$ 72,002	830	70,981	191
Total noncurrent liabilities	209,227	(1,021)	210,248	—
Total liabilities	281,229	(191)	281,229	191
Net position:				
Invested in capital assets, net of related debt	93,899	—	93,899	—
Restricted:				
Nonexpendable	1,166	—	—	1,166
Expendable	7,584	—	475	7,109
Unrestricted	163,475	—	162,853	622
Total net position	266,124	—	257,227	8,897
Total liabilities and net position	$ 547,353	(191)	538,456	9,088

(Continued)

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

Notes to Financial Statements

December 31, 2014 and 2013

(In thousands)

	Statements of revenue, expenses, and changes in net position – year ended December 31, 2014		
	Combined entities	District	Foundation
Revenue:			
Operating revenue:			
Net patient service revenue	$ 511,862	511,862	—
Other operating revenue	34,701	33,113	1,588
Total operating revenue	546,563	544,975	1,588
Expenses:			
Operating expenses:			
Other operating expenses	512,358	509,211	3,147
Depreciation and amortization	30,008	30,008	—
Total operating expenses	542,366	539,219	3,147
Operating income (loss)	4,197	5,756	(1,559)
Nonoperating income, net of expenses:			
Property taxes	24,871	24,871	—
Interest and amortization expense	(7,786)	(7,786)	—
Other nonoperating revenue	2,498	2,256	242
Net nonoperating income	19,583	19,341	242
Excess (deficit) of revenue over expenses	23,780	25,097	(1,317)
Capital grants and contributions	2,113	1,070	1,043
Total change in net position	25,893	26,167	(274)
Net position, beginning of year	266,124	257,227	8,897
Net position, end of year	$ 292,017	283,394	8,623

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

Notes to Financial Statements

December 31, 2014 and 2013

(In thousands)

	Statements of revenue, expenses, and changes in net position – year ended December 31, 2013		
	Combined entities	District	Foundation
Revenue:			
Operating revenue:			
Net patient service revenue	$ 465,288	465,288	—
Other operating revenue	31,378	28,289	3,089
Total operating revenue	496,666	493,577	3,089
Expenses:			
Operating expenses:			
Other operating expenses	459,760	454,311	5,449
Depreciation and amortization	29,944	29,944	—
Total operating expenses	489,704	484,255	5,449
Operating income (loss)	6,962	9,322	(2,360)
Nonoperating income, net of expenses:			
Property taxes	24,798	24,798	—
Interest and amortization expense	(8,654)	(8,654)	—
Other nonoperating (expense) revenue	(283)	(570)	287
Net nonoperating income	15,861	15,574	287
Excess (deficit) of revenue over expenses	22,823	24,896	(2,073)
Capital grants and contributions	2,197	1,212	985
Total change in net position	25,020	26,108	(1,088)
Net position, beginning of year	241,104	231,119	9,985
Net position, end of year	$ 266,124	257,227	8,897

(Continued)

	Statements of cash flows – year ended December 31, 2014		
	Combined entities	District	Foundation
Net cash provided by (used in):			
Operating activities	$ 30,828	31,453	(625)
Noncapital financing activities	5,285	4,784	501
Capital and related financing activities	(22,618)	(22,618)	—
Investing activities	(8,725)	(8,214)	(511)
Net increase in cash and cash equivalents	4,770	5,405	(635)
Cash and cash equivalents, beginning of year	16,713	11,781	4,932
Cash and cash equivalents, end of year	$ 21,483	17,186	4,297

	Statements of cash flows – year ended December 31, 2013		
	Combined entities	District	Foundation
Net cash provided by (used in):			
Operating activities	$ 35,763	36,948	(1,185)
Noncapital financing activities	3,692	3,661	31
Capital and related financing activities	(18,598)	(18,598)	—
Investing activities	(16,823)	(18,722)	1,899
Net increase in cash and cash equivalents	4,034	3,289	745
Cash and cash equivalents, beginning of year	12,679	8,492	4,187
Cash and cash equivalents, end of year	$ 16,713	11,781	4,932

(14) Subsequent Events

In January 2015, the District refinanced $62.7 million of the 2006 bonds from an original bond amount of more than $76.9 million. The new bonds, to which Moody's Investor Service gave an Aa3 rating, will mature in December 2031. The bond closing was January 7, 2015. The difference between the reacquisition price of the new debt and the net carrying amount of the old debt is approximately $3.7 million, which is accounted for as a deferred outflow of resources.

(Continued)

The District and Snohomish County Public Hospital District No. 1, a Washington public hospital district d/b/a Valley General Hospital, have entered into a strategic alliance, effective March 1, 2015. On March 1, 2015, Valley General Hospital's name was changed to EvergreenHealth Monroe. Primary operations of EvergreenHealth Monroe include an acute care hospital and addiction recovery center. The acute care hospital is licensed for 72 acute care beds and the addiction recovery center is licensed for 8 detox and 32 residential treatment beds. The alliance will provide an opportunity to combine efforts on important initiatives that will benefit patients and the community. Beginning in the fiscal year ending December 31, 2015, EvergreenHealth Monroe will be presented as a component unit of EvergreenHealth.

APPENDIX E

DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The District makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com (which website is not incorporated by reference).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Bond Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

11. The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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KING COUNTY PUBLIC HOSPITAL DISTRICT NO. 2 (EVERGREENHEALTH), KING COUNTY, WASHINGTON • LIMITED TAX GENERAL OBLIGATION BONDS, 2015, SERIES B

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