PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

Financial Statements

Years ended December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

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Independent Auditors' Report

The Board of Commissioners
Public Hospital District No. 1, Snohomish County, Washington dba: EvergreenHealth Monroe:

Opinions

We have audited the financial statements of the business-type activities of Public Hospital District No. 1, Snohomish County, Washington dba: EvergreenHealth Monroe (the Hospital), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital, as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

KPMG LLP

Seattle, Washington
May 29, 2024

This discussion and analysis of Snohomish County Public Hospital District No. 1, d/b/a EvergreenHealth Monroe (the Hospital or EHM) provides an overview of the Hospital's financial activities as of and for the years ended December 31, 2023 and 2022. Please read it in conjunction with the Hospital's financial statements, which follow this analysis.

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

The Hospital was formed in May of 1960 to serve the healthcare needs of the east Snohomish County. The Hospital's primary operations include an acute care hospital with 72 licensed beds and an alcohol and drug rehabilitation facility with 40 licensed beds. There are currently 62 beds available.

Type of beds	Number of beds available	License category
Medical/surgical	26	Acute
Withdrawal management	10	Rehab
Residential	26	Rehab
Total beds available	62	

The Hospital participates in the Det Norske Veritas (DNV) accreditation program approved by the US Centers for Medicare and Medicaid Services. DNV establishes national standards for hospitals and monitors process improvements through annual surveys. The Washington State Department of Health also conducts reviews of the Hospital focusing on the quality of clinical services and the safety of the facility.

The Hospital is governed by a board of 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 Hospital to the chief administrative officer/superintendent.

On March 1, 2015, the Hospital entered into a Strategic Alliance agreement with King County Public Hospital District No. 2, dba: EvergreenHealth (the District). Under the terms of this affiliation, the Public Hospital District No. 1, continues to exist but with limited governing rights. The Hospital is governed by the Alliance Governance Board, consisting of two commissioners from the Hospital, two commissioners from the District and the District CEO. Benefits to the District and Hospital include clinical and financial integration through economies of scale.

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Utilization Statistics

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

Utilization statistics	2023	2022	2021
Licensed beds	112	112	112
Acute care beds in service	26	26	26
Hospital admissions	991	739	626
Hospital patient days	4,051	3,080	2,541
Hospital – average length of stay	4.1	4.3	3.6
Occupancy	43 %	32 %	27 %
Observation days	755	594	742
Inpatient surgeries	243	145	173
Outpatient surgeries	995	865	1,026
Emergency room visits	18,952	18,498	15,208
Recovery center admissions	696	708	620
Recovery center patient days	5,780	6,319	5,549

Economic Factors Affecting the Current Environment and Future Direction of the Hospital

The future direction of EvergreenHealth Monroe is guided by its vision to "create an inclusive community health system that is the most trusted source for healthcare solutions." The Hospital takes a long-term, strategic view on the future of healthcare in the community and responds with plans that consider that perspective. Challenges and opportunities that face the Hospital are similar to those that face the healthcare industry across the country. Among those issues are:

COVID-19 Pandemic Implications

In December 2019, a novel coronavirus (COVID-19) was identified in China and began to spread to other geographical locations, including the United States. EvergreenHealth was the initial "epicenter" of COVID-19, having reported the first two coronavirus deaths in the nation known at that time. As the result of COVID-19, healthcare organizations were faced with adverse financial impacts, volume-related and otherwise, supply chain disruptions, and difficulties with access to labor.

As a result of the first known COVID-19 deaths, the Governor of the State of Washington declared a state of emergency on February 29, 2020. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and on March 13, 2020, the President of the United States declared a national emergency, which expired on May 11, 2023.

EvergreenHealth Monroe was among the first hospitals to proactively postpone elective surgeries to preserve resources and supplies for the potential COVID-19 surge, which was then mandated for all Washington hospitals by Governor Jay Inslee on March 19, 2020. The cancellation of elective and nonurgent services during this period had a significant impact on volumes and financial performance. The Hospital received government funding to aid in the reimbursement of additional expenses and the recovery of lost revenues, which were presented in the financial results for fiscal years 2022 and 2023. Throughout fiscal year 2022 and 2023, there have been several surges of COVID-19 patients. The Hospital continued efforts to treat COVID-19 patients while maintaining "normal" operations.

Other Economic Factors

- **Financial Performance:** The Hospital continues to implement service enhancement and growth plans, discussed below, which require significant capital outlays. The investment in new and expanded facilities may put initial financial constraints on the organization; however, management believes the Hospital is positioned to better serve the needs of the community.
- **Competition:** Snohomish County has experienced increased market consolidation and collaboration between healthcare providers over the past several years. In addition, competitors have opened traditional and nontraditional healthcare facilities both within and around the Hospital boundaries with the intention of drawing patients from the service area.
- **Operating Costs:** The Hospital has continued working to manage its operating costs in line with volumes. Labor and employee benefits are the most significant operating cost for the Hospital, representing over 55% of annual expenses. During 2023 and 2022, the Hospital continued to implement various cost-saving initiatives, including supply chain standardization and improved labor productivity management.
- **Regulatory Environment:** Continued focus by regulatory agencies on the healthcare industry may impact the Hospital.
- **Labor Availability:** Labor shortages continued for various positions. Due to the ongoing challenges of COVID-19, the Hospital experienced a significant Registered Nurse (RN) and Respiratory Therapy labor shortage resulting in an increase in agency personnel. Approximately 85% of the Hospital's 304 employees are members of one of three labor unions. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 97 Registered Nurses ratified a new agreement as of January 2024, which extends through May 31, 2026. The United Food and Commercial Workers (UFCW) union, which represents approximately 68 professional/technical employees ratified a new agreement as of November 1, 2023, which extends through September 30, 2025. SEIU Healthcare 1199NW, which represents approximately 92 service employees ratified a new agreement as of January 2024 and extends through May 31, 2026.
- **Contracting/Risk-Sharing Arrangements:** In collaboration with EvergreenHealth, the Hospital has two pay-for-performance hospital contracts in effect with payors as of 2023. Also, via EvergreenHealth's collaboration with Eastside Health Network, the Hospital participates in an additional seven value-based commercial contracts plus five Medicare Advantage contracts. All of these contracts are "layered" on top of existing fee-for-service arrangements between the Hospital and those payors, and there is no corresponding "downside-risk" applicable to the Hospital.

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- **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 Hospital monitors reimbursement closely and works with payors in an effort to maintain payment levels.
- **Partnerships:** During 2023 and 2022, the Hospital continued to develop its strategic alliance with the District.

  EvergreenHealth – The Hospital's partnership with EvergreenHealth continues to grow. Both organizations remain independently and separately governed, licensed, and accredited. The purpose of the affiliation is to provide the Hospital the ability to better serve its community through enhanced clinical services and to adopt the District's approaches to clinical outcomes, patient safety, and patient experience. Governmental Accounting Standards Board (GASB) No. 14 establishes that financial statements of the reporting entity generally should allow the users to distinguish between the primary government and its component units. EHM is reported within EvergreenHealth's financial statements as a discretely presented component unit in accordance with government accounting standards.

  Other substantial changes anticipated in the US healthcare system include numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. Increasing patient obligations through high-deductible plans and increased premiums may increase bad debt. Management will continue evaluating its response to various healthcare reform components as they develop.

  The Hospital 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 Hospital must keep pace with the need for more types of services. The 2023 population within the Hospital's boundaries is estimated to be 112,286. The population is projected to grow 2.2% over the next five years and reach 114,744 in 2028 according to the Environmental Systems Research Institute.

  2023 Highlights:

  - Governance and Leadership
    - Dianne Forth appointed to Snohomish County PHD #1 Board of Commissioners
  - Initiated or completed projects
    - Opened Heart Care Clinic in October
    - Secured scholarship funding for those in need of substance use disorder treatment through collaboration with the Recovery Center and the City of Monroe
  - Recognition and Awards
    - Received Stroke Gold Plus Award from American Heart Association for Type 2 Diabetes
    - Received Lifeline Silver Award from American Heart Association for STEMI Referring

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Overview of the Financial Statements

The Hospital's financial statements consist of three components: statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital designated for specific purposes. The statements of net position include all of the Hospital'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 revenues, expenses, and changes in net position report all of the revenues, expenses, and changes in net position during the time periods indicated. The statements of cash flows report the cash provided by the Hospital'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.

The analysis presented below represents certain financial information derived from the Hospital's statements of net position.

Summary of Statements of Net Position

(In thousands)

		2023	2022	2021
Assets and deferred outflows of resources:				
Current assets	$	25,938	22,488	24,106
Capital assets, net		12,141	12,090	12,983
Right-to-use leased assets		8,166	8,773	9,340
Other assets, net		6,389	6,718	7,023
Total assets	$	52,634	50,069	53,452
Liabilities:				
Current liabilities, excluding leases	$	8,949	10,313	11,319
Current portion lease obligations		589	516	476
Long-term lease obligations, net of current portion		8,238	8,709	9,095
Long-term debt, net of current portion		16,068	17,609	19,045
Other noncurrent liabilities		—	—	845
Total liabilities		33,844	37,147	40,780
Total deferred inflows of resources		6,147	6,620	7,093

Summary of Statements of Net Position

(In thousands)

		2023	2022	2021
Net position:				
Net investment in capital assets	$	(6,151)	(6,744)	(5,840)
Restricted expendable for project fund		—	473	1,664
Restricted expendable for debt service		214	214	206
Unrestricted		18,580	12,359	9,549
Total net position		12,643	6,302	5,579
Total liabilities, deferred inflows of resources, and net position	$	52,634	50,069	53,452

Current Assets

Current assets consist of cash, restricted deposits, and other current assets that are expected to be converted to cash within one year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers. Key ratios include:

- Current ratio: This is a liquidity ratio that measures the Hospital's ability to pay short-term obligations or debts due within one year. The current ratio is calculated by dividing current assets by current liabilities.
- Days in accounts receivable: This is the number of days it takes the Hospital to collect outstanding invoices. The ratio is calculated by dividing the ending accounts receivable by the total operating revenue for the period and multiplying it by 365 days or the number of days in the period.
- Days cash on hand: This demonstrates how long in days the Hospital could meet operating expenses with the amount of cash currently available. This is calculated by totaling cash and multiplying by 365 days, then dividing the amount by total operating expenses less annual depreciation.
- Adjusted days cash on hand: This demonstrates how long in days the Hospital could meet operating expenses with the amount of cash currently available adjusted to exclude cash intended to be repaid to funding sources. This is calculated by adding cash less cash for the CARES Act deferred payment of the employer portion of social security liability and the CARES Act Medicare Accelerated and Advance

Payment Program liability, the Payroll Protection Program Loan, and multiplying by 365 days, then dividing the amount by total operating expenses less annual depreciation.

Key ratios	2023	2022	2021
Current ratio	2.6	2.0	2.0
Days in AR (Net)	70.4	83.7	69.9
Days cash on hand	75.5	65.4	84.6
Adjusted days cash on hand	75.5	65.4	65.7

Total current assets were $25.9 million as of December 31, 2023, compared to $22.5 million as of December 31, 2022.

Current assets in 2023 increased by $3.4 million compared to 2022 primarily due to an increase in cash of $2.7 million, and an increase in patient accounts receivable of $1.0 million. Days cash on hand increased to 75.5 days and all obligations for the CARES Act Medicare Accelerated and Advance Payment Program liability and deferred payment of the employer portion of social security tax liability were repaid as of December 31, 2022 resulting in no adjustments to days cash calculations in 2022 or 2023.

Current assets in 2022 decreased by $1.6 million compared to 2021 primarily due to a decrease in cash of $3.7 million, partially offset by increases of patient accounts receivable of $2.4 million.

Noncurrent Assets

Noncurrent assets consist of capital assets, net of accumulated depreciation. Total noncurrent capital assets, net of accumulated depreciation, increased $51 thousand in 2023 compared to 2022. While the Hospital invested $2.5 million in capital asset additions, this was offset by $2.4 million in depreciation and asset retirements.

Total noncurrent capital assets, net of accumulated depreciation, decreased $0.9 million in 2022 compared to 2021. While the Hospital invested $1.3 million in capital asset additions, this was offset by $2.2 million in depreciation.

Current Liabilities

Current liabilities consist of accounts payable, accrued salaries and benefits, and other liabilities that are expected to be paid within one year, including current portion of long-term debt and professional liabilities. Total current liabilities were $9.5 million as of December 31, 2023, compared to $10.8 million as of December 31, 2022.

Current liabilities decreased approximately $1.3 million from 2022 to 2023. Accounts payable and current portion of related-party payable decreased $2.5 million from 2022 to 2023. Accrued salaries and benefits expense increased $613 thousand primarily due to the timing of payroll and accounts payable cycles.

Current liabilities decreased approximately $1.0 million from 2021 to 2022. The decrease from 2021 to 2022 is primarily due to the repayment of the Medicare Accelerated and Advance payment in 2022.

In 2022, the GASB issued Statement No. 101 related to accounting for compensated absences. The Statement requires the recognition of liabilities for certain compensated absences and to include the employer portion of payroll taxes in calculating such liabilities. The Hospital elected to adopt the Statement retroactively to January 1, 2022 for Extended Illness Bank balances, which historically were not included as a liability. After implementation of the standard, the EIB balance is reported as a current liability based on total balances accrued and an estimated usage rate based on historical data.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt and other noncurrent payables. Total noncurrent liabilities were $24.3 million as of December 31, 2023, compared to $26.3 million as of December 31, 2022.

Noncurrent liabilities decreased approximately $2.0 million from 2022 to 2023 primarily due to scheduled debt service payments.

Noncurrent liabilities decreased approximately $2.7 million from 2021 to 2022 primarily due to scheduled debt service payments.

Net Position

The current year net position increased $6.3 million from December 31, 2022 to December 31, 2023. The change is related to net income, changes to net investment in capital assets, expenditures related to the project fund and changes to debt service, which are accounted for in the net investment in capital asset and restricted categories discussed below.

Net investment in capital assets increased approximately $593 thousand, or 8.8%, from 2022 to 2023. The increase is attributable to an increase in net capital assets and changes to debt obligations in accordance with amortization schedules.

Restricted net position (expendable for project fund and debt service), representing resources with temporary or permanent restrictions, decreased $473 thousand from 2022 to 2023 due to expenditures related to the project fund.

Unrestricted net position, which includes other funds available to the Hospital that do not meet the definition of restricted or net investment in capital assets, increased approximately $6.2 million from 2022 to 2023 primarily due to the excess of revenues over expenses.

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Net position increased $723 thousand from 2021 to 2022. Unrestricted net position increased approximately $2.5 million from 2021 to 2022 due to the excess of revenues over expenses.

Summary of Revenues, Expenses, and Changes in Net Position

(In thousands)

		2023	2022	2021
Operating revenues:				
Net patient service revenue	$	56,918	46,944	43,538
Other operating revenues		1,760	1,442	2,083
Total operating revenues		58,678	48,386	45,621
Operating expenses:				
Salaries and wages		26,280	27,163	25,528
Employee benefits		6,022	4,403	5,981
Other operating expenses		23,378	17,332	17,127
Depreciation and amortization		2,772	2,867	3,019
Total operating expenses		58,452	51,765	51,655
Excess (deficit) of revenues over expenses from operations		226	(3,379)	(6,034)
Nonoperating income		5,766	4,443	10,679
Excess of revenues over expenses		5,992	1,064	4,645
Contributions for capital		349	79	51
Changes in net position	$	6,341	1,143	4,696

Financial Highlights

Revenue

Sources of Patient Revenue

The Hospital 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 Hospital's operating revenue depends to a great extent on the availability and level of reimbursement or payment under those programs and contracts.

In 2023, gross patient revenue increased by approximately $44.9 million, or 29.6% from 2022. Gross patient revenue is the total fees charged to patients for services. The main driver of revenue increases was increased volumes compared to 2022.

In 2022, gross patient revenue increased $16.8 million, or 12.4% from 2021 driven by increased volumes.

The following table sets forth the percentages of the Hospital's gross patient revenue applicable to various programs and plans for the fiscal years ended December 31, 2023, 2022, and 2021.

	2023	2022	2021
Nongovernment third-party payors	35.6 %	35.0 %	35.0 %
Medicare	36.4	36.3	33.3
Medicaid	22.2	21.0	22.1
Patient self-pay	2.3	5.6	6.4
Other	3.5	2.1	3.2

In 2023, net patient service revenue increased by approximately $10.0 million, or 21.2% from 2022. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This increase was driven by increased volumes compared to 2022. Other operating revenue increased $318 thousand from 2022 to 2023 due to an increase in ancillary service volumes.

In 2022, net patient service revenue increased by approximately $3.4 million, or 7.8% from 2021. This increase was driven by increased volumes compared to 2021. Other operating revenue decreased $641 thousand from 2021 to 2022 due to a decrease in state grant funding.

Operating Expenses

Labor, including contract labor, decreased approximately $883 thousand, or 3.3%, from 2022 to 2023. The Hospital's average employed and contracted full-time equivalents decreased 19.0% from December 31, 2022 to December 31, 2023 due to the outsourcing of the revenue cycle and information technology functions.

Labor increased approximately $1.6 million, or 6.4%, from 2021 to 2022. The Hospital's average employed and contracted full-time equivalents decreased 7.9% from December 31, 2021 to December 31, 2022, yet salary expense increased due to increased agency costs and salary increases.

Employee benefit expenses increased $1.6 million, or 36.8%, from 2022 to 2023. This was primarily due to increased medical plan expenses.

Employee benefit expenses decreased $1.6 million, or 26.4%, from 2021 to 2022. This was primarily due to decreased medical plan expense and retirement plan costs as a result of a lower full-time equivalent employees.

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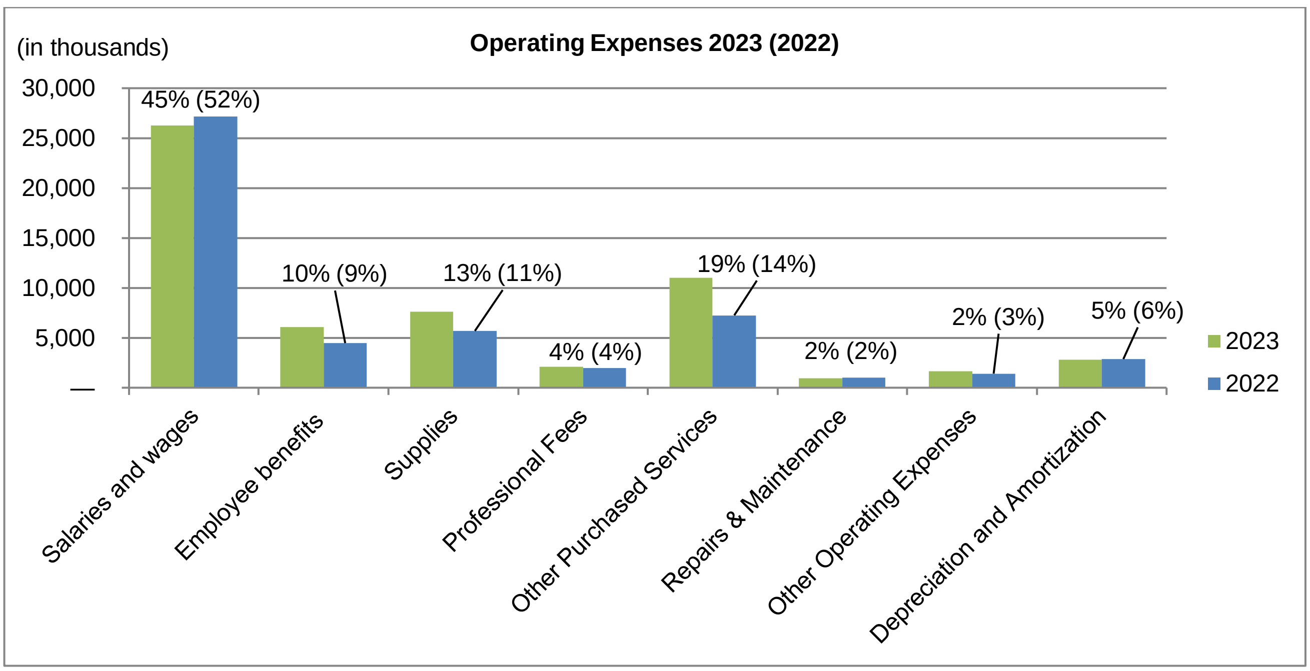
Supplies, professional fees, purchased services, repairs and maintenance services, and other operating expenses increased approximately $6.0 million, or 34.9%, from 2022 to 2023. The increase is driven by supply expense related to increased volumes and further impacted by an increase in the corporate allocation for the outsourced revenue cycle and information technology functions between EvergreenHealth Kirkland and EvergreenHealth Monroe.

Supplies, professional fees, purchased services, repairs and maintenance services, and other operating expenses increased approximately $205 thousand, or 1.2%, from 2021 to 2022. The increase is due to overall increased hospital volumes requiring additional supplies and other related expenses.

Total operating expenses in 2023 and 2022 were $58.5 million and $51.8 million, respectively.



Nonoperating Income, Net of Expenses

In 2023, nonoperating income net of expenses increased $1.3 million, or 29.8%, from $4.4 million in 2022 to $5.8 million in 2023. The Hospital recognized $1.3 million in FEMA reimbursement related to COVID-19 expenses incurred during the Public Health Emergency during the year ended December 31, 2023.

In 2022, nonoperating income net of expenses decreased $6.2 million, or 58.4%, from $10.7 million in 2021 to $4.4 million in 2022. The Hospital recognized $6.1 million in Paycheck Protection Program loan forgiveness in 2021, and no additional funding was received in 2022.

Contacting the Hospital's Financial Management

This financial report provides the reader with a general overview of the Hospital's finances and operations. If you have questions about this report or need additional financial information, please contact the Financial Officer at EvergreenHealth Monroe, 14701 179th Avenue SE, Monroe, Washington 98272.

PUBLIC HOSPITAL DISTRICT NO. 1, SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

Statements of Net Position

December 31, 2023 and 2022

(In thousands)

Assets		2023	2022
Current assets:			
Cash	$	11,514	8,775
Patient accounts receivable, net		12,108	11,092
Other receivables		525	517
Inventory		911	935
Prepaid expenses		303	306
Estimated third-party settlements receivable		300	120
Restricted deposits		277	743
Total current assets		25,938	22,488
Capital assets:			
Land		1,879	1,879
Construction in progress		1,653	1,199
Depreciable capital assets, net		8,609	9,012
Total capital assets		12,141	12,090
Right-to-use leased assets		8,166	8,773
Other assets, net		6,389	6,718
Total assets	$	52,634	50,069

PUBLIC HOSPITAL DISTRICT NO. 1, SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

Statements of Net Position

December 31, 2023 and 2022

(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position		2023	2022
Current liabilities:			
Accounts payable	$	2,789	3,559
Current portion of related-party payable		583	2,320
Accrued salaries and benefits		3,083	2,470
Accrued interest		45	48
Current portion of lease obligations		589	516
Current portion of long-term debt		1,563	1,459
Other accrued liabilities		886	457
Total current liabilities		9,538	10,829
Noncurrent liabilities:			
Long-term lease obligations, net of current portion		8,238	8,709
Long-term debt, net of current portion		16,068	17,609
Total noncurrent liabilities		24,306	26,318
Total liabilities		33,844	37,147
Total deferred inflows of resources related to leases		6,147	6,620
Net position:			
Net investment in capital assets		(6,151)	(6,744)
Restricted expendable for project fund		—	473
Restricted expendable for debt service		214	214
Unrestricted		18,580	12,359
Total net position		12,643	6,302
Total liabilities, deferred inflows of resources and net position	$	52,634	50,069

See accompanying notes to financial statements.

PUBLIC HOSPITAL DISTRICT NO. 1, SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

Statements of Revenues, Expenses, and Changes in Net Position

December 31, 2023 and 2022

(In thousands)

		2023	2022
Operating revenues:			
Net patient service revenue, net of provision for bad debts of $8,576 in 2023 and $7,277 in 2022	$	56,918	46,944
Other operating revenues		1,760	1,442
Total operating revenues		58,678	48,386
Operating expenses:			
Labor		26,280	27,163
Employee benefits		6,022	4,403
Supplies		7,639	5,688
Professional fees		2,120	1,955
Other purchased services		10,988	7,253
Repairs and maintenance		964	1,029
Other operating expenses		1,667	1,407
Depreciation and amortization		2,772	2,867
Total operating expenses		58,452	51,765
Excess (deficit) of revenue over expenses from operations		226	(3,379)
Nonoperating income, net of expenses:			
Property taxes		5,214	5,115
Interest and amortization expense		(755)	(772)
Federal funding		1,307	100
Net nonoperating income		5,766	4,443
Excess of revenues over expenses		5,992	1,064
Contributions for capital		349	79
Total change in net position		6,341	1,143
Net position – beginning of year (note 1)		6,302	5,159
Net position – end of year	$	12,643	6,302

See accompanying notes to financial statements

PUBLIC HOSPITAL DISTRICT NO. 1, SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

Statements of Cash Flows

December 31, 2023 and 2022

(In thousands)

	2023	2022
Cash flows from operating activities:		
Cash received from and on behalf of patients	$ 55,721	44,757
Payments to suppliers and contractors	(26,120)	(19,822)
Payments to employees	(32,381)	(31,630)
Other cash receipts	2,083	1,586
Net cash used in operating activities	(697)	(5,109)
Cash flows from noncapital financing activities:		
Property taxes received for community programs	5,214	5,115
Receipts from Federal Funding	1,307	100
Net cash provided by noncapital financing activities	6,521	5,215
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,165)	(1,216)
Principal paid on long-term debt and leases	(1,459)	(1,392)
Principal paid on lease obligations	(517)	(513)
Payments for interest on long-term debt and leases	(759)	(776)
Capital contributions	349	79
Net cash used in capital and related financing activities	(3,551)	(3,818)
Net increase (decrease) in cash, cash equivalents, and restricted deposits	2,273	(3,712)
Cash, cash equivalents, and restricted deposits, beginning of year	9,518	13,230
Cash, cash equivalents, and restricted deposits, end of year	$ 11,791	9,518
Reconciliation of cash to the statements of net position:		
Cash	$ 11,514	8,775
Restricted deposits	277	743
Total	$ 11,791	9,518

(Continued)

PUBLIC HOSPITAL DISTRICT NO. 1, SNOHOMISH COUNTY, WASHINGTON
DBA: EVERGREENHEALTH MONROE

Statements of Cash Flows

December 31, 2023 and 2022

(In thousands)

		2023	2022
Reconciliation of operating gain (loss) to net cash provided by (used in) by operating activities:			
Excess (deficit) of revenue over expenses from operations	$	226	(3,379)
Adjustments to reconcile deficit of revenue over expenses from operations to net cash provided by (used in) operating activities:			
Depreciation and amortization		2,772	2,867
Provision for bad debts		8,576	7,277
Amortization of bond discounts		23	23
Change in operating assets and liabilities:			
Patient accounts receivable		(9,592)	(9,628)
Other receivables		(7)	(160)
Other assets		329	305
Inventory and prepaid expenses		27	253
Estimated third-party payor settlements		(180)	164
Accounts payable		(1,704)	875
Accrued liabilities		570	(3,807)
Related-party payable		(1,737)	101
Net cash used in operating activities	$	(697)	(5,109)
Supplemental disclosures of noncash investing and financing activities:			
Change in capital asset additions included in accounts payable and accrued expenses	$	934	53
Change in assets additions acquired by lease		119	139

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Public Hospital District No. 1, Snohomish County, Washington dba: EvergreenHealth Monroe (the Hospital) is organized as a municipal corporation pursuant to the laws of the State of Washington. The purpose of the Hospital is to own and operate the Hospital and other healthcare facilities and provide healthcare services to the residents of Monroe, Washington, and the surrounding communities. The Hospital's primary operations include EvergreenHealth Monroe, an acute care hospital, and EvergreenHealth Monroe Addiction Recovery Center. The Hospital is licensed for 72 acute beds and the Recovery Center is licensed for 10 withdrawal management and 30 residential treatment facility beds. The financial statements of the Hospital include the healthcare and financing activities of the Hospital and the Recovery Center.

(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 Hospital prepares and presents its financial information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), known as the "Reporting Model" statement. GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the reporting entity in the form of "management's discussion and analysis." This reporting model also requires the use of a direct method cash flow statement.

(c) 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 Hospital's financial statements include patient accounts receivable allowances, third-party payor settlements, and professional liabilities.

(d) Recently Issued Accounting Standards

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* (GASB 101). This Statement requires the recognition of liabilities for certain compensated absences and to include the employer portion of payroll taxes in calculating such liabilities. The overall objective is to better meet the information needs of financial statement users by updating the recognition and measurement guidance under a unified model for compensated absences and by amending certain previously required disclosures. This Statement is effective for fiscal years beginning after December 15, 2023. The Hospital has applied the Statement retroactively to January 1, 2022. The statement of net position, statement of revenues, expenses and changes in net position, and the statement of cash flows for 2022 have been restated to conform with the requirements of this statement and the current year

(Continued)

presentation. The impact of the restatement results in a decrease to employee benefits expense of $64 thousand in 2022 and an increase to the overall liability of $64 thousand in 2023 based on accrued balance as of December 31, 2023.

(e) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less. Deposits of up to $250,000 are covered by the Federal Deposit Insurance Corporation and any deposits in excess of $250,000 are covered by collateral held in a multi financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(f) Patient Accounts Receivable

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

(g) Restricted Deposits

Restricted deposits include assets designated by the Board of Commissioners (the Board) for capital improvements. The Board retains control of the assets and may, at its discretion, subsequently change the use for other purposes. Restricted deposits include unexpended proceeds and income generated from certain outstanding bond series restricted by the Public Hospital District No. 1, Snohomish County Board of Commissioners for the payment of principal, interest, and expenditures for construction and equipment costs. Amounts required to meet related current liabilities have been classified as current assets in the accompanying statements of net position.

(h) Inventory

Inventory consists of pharmaceutical, medical-surgical, and other supplies used in the operation of the Hospital. Inventory is stated at the lower of cost or net realizable value.

(i) Capital Assets

Capital assets are recorded at cost. In accordance with government accounting standards, the Hospital has established a capitalization threshold of $5 thousand and a life of two 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	5 to 40 Years
Buildings and improvements	5 to 40 Years
Fixed equipment	5 to 20 Years
Movable equipment	4 to 15 Years

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

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

(j) Compensated Absences

The Hospital's employees earn Paid Time Off (PTO) days at varying rates depending on years of service. Accrued PTO is reported as a current liability as employees utilize their PTO days within the following year.

(k) Net Position

Net position of the Hospital is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose established by an outside party. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

(l) Operating Revenue and Expenses

The Hospital's statements of revenues, 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 Hospital'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 revenues includes lease receivable receipts, outreach laboratory service revenue, retail revenue such as cafeteria and pharmacy, educational offerings, grant funds to support specific programs, and other services.

(Continued)

(m) Net Patient Service Revenue

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

(n) Charity Care

The Hospital 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 Hospital. 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 Hospital were $416 thousand and $356 thousand for 2023 and 2022, respectively. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, associated charges are not included in net patient service revenue.

(o) Nonoperating Income, Net of Expenses

The Hospital received property taxes from regular levy proceeds.

Of the amount used for debt service on general obligation bonds, $610 thousand and $675 thousand were used for interest payments for the years ended December 31, 2023 and 2022, respectively. The property taxes received are reflected in nonoperating income. Interest expense related to long-term debt is included in nonoperating expenses.

Federal funding includes distributions from both the Federal and State level related to COVID-19 relief programs.

(p) Federal Income Tax

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

(2) Novel Coronavirus and CARES Act

On March 27, 2020, the Coronavirus Aid Relief and Economic Security (CARES) Act was enacted. The CARES Act authorized $100 billion in a Provider Relief Fund for hospitals and healthcare providers. Funding was intended to compensate hospitals and other healthcare providers for lost revenue and increased expenses incurred in order to respond to the COVID-19 impact. Provider Relief Fund distributions are not required to be repaid, so long as the payment can be substantiated by lost revenue and the incremental costs incurred related to responding to the pandemic and certain terms and conditions are met.

(Continued)

In addition to direct payments to healthcare providers, the CARES Act provided opportunities to increase cash flow. The CARES Act allowed inpatient acute care hospitals to receive accelerated Medicare payments for up to six months of estimated revenue. The accelerated payments are interest free if repaid according to the terms of the advance. The Hospital received $3 million in Medicare advance payments in April 2020 and recorded these amounts as unearned revenue. The Hospital fully repaid the advance in 2023.

The Hospital also filed applications for reimbursement of additional expenses from the Federal Emergency Management Agency (FEMA) based on criteria due to the national emergency declaration made due to COVID-19. The Hospital received $1.3 million in reimbursement in 2023 related to FEMA funding. The Hospital continues to complete applications to receive funding related to previously incurred costs.

(3) Net Patient Service Revenue

The Hospital has arrangements with third-party payors that provide for payments to the Hospital 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 Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital’s cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2022. The Hospital recognized interim and final cost report settlements and a Net Payment Reconciliation Award payment from Centers for Medicare and Medicaid Service (CMS) resulting in increased net patient service revenue by $159 thousand and $171 thousand in 2023 and 2022, respectively. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). CMS assigns individual services (Healthcare Common Procedure Coding System codes) to APCs based on similar clinical characteristics and similar costs.

(b) Medicaid

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

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

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

Interim state payments based on prospectively estimated experience are retrospectively reconciled to “hold harmless” after actual claims are repriced using the applicable methods. This process takes place at least six months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid Program. State inpatient claim and DSH payments are subject to retrospective determination of actual costs once the Hospital’s Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete.

Inpatient Medicaid charges represented approximately 22.7% and 18.6% of total inpatient charges for the Hospital in fiscal years 2023 and 2022, respectively.

The Medicaid CPE program continues through the State’s fiscal years 2023 and 2022. The Hospital has not identified any overpayments for state fiscal years 2023 and 2022.

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

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

The safety net assessment was subject to approval by CMS before it took effect. In 2010, CMS approved the two amendments required to fully enact the safety net assessment program. The initial safety net program expired in June 2013 and the State passed a new safety net assessment program that was approved by CMS in April 2014. The new law is retroactive to July 1, 2013 and will sunset on July 1, 2025. The Hospital is not subject to the assessment but is a recipient of funding through the program. The Hospital received safety net payments totaling $102 thousand and $120 thousand for 2023 and 2022, respectively, which is included in other operating revenues.

(c) Other Third-Party Reimbursement

The Hospital has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital 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, 2023 and 2022 (in thousands):

		2023	2022
Gross patient service revenue	$	196,561	151,687
Adjustments to patient service revenue:			
Contractual discounts		129,668	96,423
Provision for bad debts		8,576	7,277
Charity care		1,399	1,043
Net patient service revenue	$	56,918	46,944

(4) Restricted Deposits

Restricted deposits include board-designated cash and restricted cash.

Board-designated cash represents unrestricted resources that have been designated by the Board for designated capital projects. 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.

Deposits are made up of the following as of December 31 (in thousands):

		2023	2022
Restricted deposits:			
Deposits restricted for debt service fund	$	214	214
Deposits restricted for project fund		—	473
Employee flexible spending savings		63	56
Total restricted deposits	$	277	743

The Hospital has established debt service funds required under its bond resolutions. These funds are to be used to service the Hospital's tax general obligation bonds. The Hospital has also established a project fund for purchase of various capital projects of the Hospital.

As a political subdivision of the state, the Hospital categorizes deposits to give an indication of the risk assumed at year-end. Category 1 includes deposits that are insured, registered, or held in the Hospital's name. Category 2 includes uninsured and unregistered deposits that are held by a broker's or dealer's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by a broker or dealer, or its trust department or agent, but not in the Hospital's name. At December 31, 2023 and 2022, all deposits of the Hospital were categorized as Category 1.

(a) Credit Risk

Credit risk is the risk that an issuer or other counterparty to a deposit will not fulfill its obligations. The Hospital's investment policy limits the types of securities to those authorized by statute and, therefore, credit risk is very limited.

(b) Deposits

All of the Hospital's deposits are either insured or collateralized. The Hospital's insured deposits are covered by the Federal Deposit Insurance Corporation. Collateral protection is provided by the Washington Public Deposit Protection Commission.

(c) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Hospital will not be able to recover the value of the deposits that are in the possession of an outside party. The Hospital is not exposed to custodial credit risk.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. The Hospital is not exposed to concentration of credit risk, as all deposits are insured or collateralized.

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of a deposit. The Hospital is not exposed to interest rate risk, as all deposits are liquid.

(5) Capital Assets

The schedule of capital asset activity for the years ended December 31 were as follows (in thousands):

	January 1, 2023	Additions	Transfers	Retirements	December 31, 2023
Nondepreciable capital assets:					
Land	$ 1,879	—	—	—	1,879
Construction in progress	1,199	2,483	(1,635)	(394)	1,653
Total nondepreciable capital assets	3,078	2,483	(1,635)	(394)	3,532
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings and improvements	30,405	—	10	—	30,415
Fixed equipment	2,731	—	—	—	2,731
Movable equipment	19,684	7	1,625	(5)	21,311
Total depreciable capital assets	54,054	7	1,635	(5)	55,691
Less accumulated depreciation:					
Land improvements	(1,064)	(62)	—	—	(1,126)
Buildings and improvements	(24,036)	(1,097)	—	—	(25,133)
Fixed equipment	(2,545)	(28)	—	—	(2,573)
Movable equipment	(17,397)	(858)	—	5	(18,250)
Total accumulated depreciation	(45,042)	(2,045)	—	5	(47,082)
Total depreciable capital assets, net	9,012	(2,038)	1,635	—	8,609
Total capital assets, net	$ 12,090	445	—	(394)	12,141

	Balance January 1, 2022	Additions	Transfers	Retirements	Balance December 31, 2022
Nondepreciable capital assets:					
Land	$ 1,879	—	—	—	1,879
Construction in progress	219	1,100	(120)	—	1,199
Total nondepreciable capital assets	2,098	1,100	(120)	—	3,078
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings and improvements	30,336	—	69	—	30,405
Fixed equipment	2,731	—	—	—	2,731
Movable equipment	19,465	168	51	—	19,684
Total depreciable capital assets	53,766	168	120	—	54,054
Less accumulated depreciation:					
Land improvements	(1,001)	(63)	—	—	(1,064)
Buildings and improvements	(22,906)	(1,130)	—	—	(24,036)
Fixed equipment	(2,512)	(33)	—	—	(2,545)
Movable equipment	(16,462)	(935)	—	—	(17,397)
Total accumulated depreciation	(42,881)	(2,161)	—	—	(45,042)
Total depreciable capital assets, net	10,885	(1,993)	120	—	9,012
Total capital assets, net	$ 12,983	(893)	—	—	12,090

Depreciation and amortization recognized in operating expenses were $2.8 million and $2.9 million for the years ended December 31, 2023 and 2022, respectively. Included in these amounts were $726 thousand and $705 thousand related to right-to-use lease asset amortization for the years ended December 31, 2023 and 2022, respectively.

(6) Long-Term Debt and Lease Obligations

(a) Long-Term Debt

Long-term debt obligations of the Hospital consist of the following (in thousands):

		December 31 2023	December 31 2022
Limited Tax General Obligation Refunding Bonds (LTGO) Series 2019 (fixed rate), payable semiannually through 2034, interest at 2.95%	$	13,935	14,825
LTGO Series 2019 (fixed rate), payable semiannually through 2029, interest at 3.25%		3,828	4,397
Total long-term debt		17,763	19,222
Plus bond discounts		(132)	(154)
Less current portion		(1,563)	(1,459)
Long-term debt, net of current portion	$	16,068	17,609

Long-term debt obligations 2023 and 2022 activity summary for the Hospital is as follows (in thousands):

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

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

A summary of the Hospital future maturities on long-term debt for the next five years and thereafter as of December 31, 2023 for both principal and interest is presented below (in thousand

		Principal		Interest
2024	$	1,563		535
2025		1,637		488
2026		1,707		437
2027		1,782		385
2028		1,863		331
2029–2033		7,615		890
2034–2037		1,596		47
Total		17,763	$	3,113
Less amount representing net unamortized bond discounts		(132)		
Total	$	17,631		

(b) Leases

(i) Lessee

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

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

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

Certain leases require the Hospital to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, or other payments based on performance or usage. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Variable lease payments are recognized within other expenses in the statements of revenues, expenses, and changes in net position when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were $203 thousand and $188 thousand during the fiscal years ended December 31, 2023 and 2022, respectively.

Right-to-Use Leased Assets

The summary of the Hospital’s right-to-use leased assets and related accumulated amortization for the years ended December 31, 2023 and 2022 is presented below (in thousands):

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

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

Lease Liabilities

Changes in the Hospital's lease liabilities for the years ended December 31, 2023 and 2022 is presented below (in thousands):

	Beginning balance	Additions	Deductions	Ending balance	Due within one year
Year ended:					
December 31, 2023	$ 9,225	119	(517)	8,827	589
December 31, 2022	9,571	139	(485)	9,225	516

Lease Maturities

The following schedule shows future annual lease payments, for the next five years and in five-year increments thereafter, as of December 31, 2023 for both principal and interest (in thousands):

	Leases	
	Principal	**Interest**
2024	$ 589	349
2025	624	320
2026	666	285
2027	671	246
2028	693	215
Amounts due 2029–2033	2,864	620
Amounts due 2034–2038	2,720	209
	$ 8,827	2,244

(ii) Lessor

Fairfax Behavioral Health (Fairfax), a 34-bed Psychiatric Unit, rents approximately 16,000 square feet of space located on the first and second floors of the building located at 14701 179th Avenue SE, Monroe, Washington. The effective date of the lease was April 1, 2015. The term of the lease is 10 years with the option to extend it for up to two periods of five years each. For leases with terms greater than 12 months, the Hospital recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term using the Hospital’s incremental borrowing rate.

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

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

(Continued)

Revenue from leases for the years ended December 31, 2023 and 2022 are as follows (in thousands):

		December 31	
		2023	2022
Lease revenue	$	305	279
Interest revenue		206	215
Total	$	511	494

The following schedule shows future annual lease receipts, for the next five years and thereafter, as of December 31, 2023 for both principal and interest (in thousands):

		Leases	
		Principal	Interest
Year ending December 31:			
2024	$	329	197
2025		355	187
2026		383	176
	$	1,067	560

(7) Commitment and Contingencies

(a) Purchased Services Agreement

Fairfax and the Hospital have entered into a purchased services agreement under which the Hospital is to provide: emergency department services, outpatient clinical services, hospitalist services, physician services, medical staff, ancillary services, employee leasing, information technology, marketing and communications, dietary services, housekeeping services, and other operational services. The effective date of the agreement was April 2, 2015.

For the years ended December 31, 2023 and 2022, the Hospital recognized approximately $435 thousand and $344 thousand, respectively, of revenue for purchased services provided to Fairfax. This revenue is recorded as other operating revenue in the statements of revenues, expenses, and changes in net position. Fairfax owed approximately $38 thousand and $36 thousand to the Hospital for purchased services provided at December 31, 2023 and 2022, respectively. This receivable is recorded as other receivables in the statements of net position. Management believes that the receivable represents the net realizable value of the amount it expects to collect from Fairfax.

(b) Litigation

The Hospital 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 Hospital's future financial position or results from operations.

(c) Compliance with Laws and Regulations

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

(d) Risk Management

The Hospital 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, professional and general claims, and natural disasters. The Hospital maintains commercial insurance coverage designed to provide for claims arising from such matters.

(8) Retirement Plans

The Hospital has a defined-contribution retirement plan covering substantially all eligible employees. The Hospital makes a matching contribution of up to a maximum of 5% of the employee's eligible compensation. All matching contributions vest over a four-year schedule or upon the death, disability, or attainment of age 65. Forfeited contributions, if any, are applied against future employer obligations.

In addition to the retirement plan, the Hospital maintains a voluntary employee deferred compensation program under the provision of Section 457 of the Internal Revenue Service Code. Under this program, the Hospital employees can defer a portion of their income until withdrawn in future years.

Retirement plan expense, incurred and reflected in employee benefits, was approximately $531 thousand and $437 thousand in 2023 and 2022, respectively. Both plans are administered by the Hospital under recordkeeping and trust agreements with third parties.

(Continued)

(9) Concentration of Credit Risk

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

	Receivables	
	2023	**2022**
Nongovernment third-party payors	47.7 %	56.0 %
Medicare	20.4	23.9
Patient self-pay	13.0	10.3
Medicaid	18.9	9.8
	100.0 %	100.0 %

(10) Property Taxes

The 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 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 to the Hospital by the County Treasurer.

The Hospital is permitted by law to levy up to $0.75 per $1 thousand of assessed valuation for general Hospital purposes. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The Hospital may also levy taxes at a lower rate. Further amounts of tax need to be authorized by a vote of the people.

For 2023 and 2022, the Hospital’s regular tax levy was $0.157 and $0.204 per $1 thousand on a total assessed valuation of $32.8 billion and $24.5 billion for a total regular levy of $5.1 million and $5.0 million, respectively. The Hospital’s tax revenue was not reduced due to abatement under tax increment financing arrangements.

Property taxes are recorded as receivables when levied. Because state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made. Property taxes receivable of $99 thousand and $103 thousand were included in other receivables at December 31, 2023 and 2022, respectively.

(11) Related-Party Affiliation

On March 1, 2015, the Hospital entered into a strategic alliance agreement with King County Public Hospital District No. 2 dba: EvergreenHealth (the District). Under the terms of this affiliation, the Public Hospital District No. 1, Snohomish County Board continues to exist, but with limited governing rights. Benefits to the District and Hospital include clinical services to be offered by EvergreenHealth on the

EvergreenHealth Monroe campus, access to tertiary services offered at the EvergreenHealth campus, consultative and management services by EvergreenHealth to help the Hospital stabilize operations and improve clinical and financial performance, and economies of scale to improve the Hospital's cost structure. An Alliance Governance Board (AGB), consisting of two commissioners from EvergreenHealth, two commissioners from EvergreenHealth Monroe and the CEO of EvergreenHealth, has been established and provides oversight and direction to the Hospital.

The related parties were involved in various transactions during the years ended December 31, 2023 and 2022. Following is a summary of related-party transactions in 2023 and 2022 (in thousands):

		2023	2022
Related-party transactions summary:			
Shared employees compensation and benefits expenses	$	2,547	2,281
Contracted labor expenses		653	440
Other expenses		9,060	2,264
Reimbursement for fixed assets		144	46
Related-party note payment		928	785
Total related-party transactions	$	13,332	5,816

The related party shared various employees during 2023 and 2022 for the Hospital's use. Amounts incurred for these services were reported as salaries and wages. At the end of 2022 and throughout 2023, the Hospital outsourced the revenue cycle and information technology functions to the District and the amounts incurred for these shared services were reported as other expense.

Following is a breakout of the related-party payable as of December 31 (in thousands):

		2023	2022
Related-party transactions summary:			
Shared employees compensation and benefits	$	419	977
Contracted labor		56	106
Other		89	363
Fixed assets		19	29
Related-party note		—	845
Total related-party payable	$	583	2,320

The breakout of current and noncurrent related-party payable as of December 31 is as follows (in thousands):

		2023	2022
Related-party payable summary:			
Current portion	$	583	2,320
Noncurrent portion		—	—
Total related-party payable	$	583	2,320

In 2019, the Hospital entered into a note payable with the District to repay $4.0 million of their related-party payable over a term of five years beginning in January 2019. The note is payable in 60 monthly installments of $71 thousand and bears interest at 2.5% per annum. The liability was reflected on the statements of net position in current portion of related-party payable and related-party payable, net of current portion and was repaid in full during calendar year 2023.

(12) Collective Bargaining Agreement

At December 31, 2023, the Hospital had a total of approximately 304 employees. Of this total, 257 employees are covered by collective bargaining agreements. There are three collective bargaining agreements; UFCW Local 3000 ratified a new agreement as of November 1, 2023, which extends through September 30, 2025; SEIU 1199NW Healthcare RN and SEIU 1199NW Healthcare Support Services ratified a new agreement as of January 2024, which extends through May 31, 2026.