Office of the Washington State Auditor
Pat McCarthy

May 2, 2022

Board of Commissioners
EvergreenHealth Monroe
Monroe, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of EvergreenHealth Monroe for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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

Financial Statements and Supplementary Information

Years ended December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying 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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Public Hospital District No. 1, Snohomish County, Washington dba: EvergreenHealth Monroe, as of December 31, 2020, and the changes in financial position and their cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

The accompanying financial statements of the Hospital as of and for the year ended December 31, 2019 were audited by other auditors whose report thereon dated June 3, 2020 expressed an unmodified opinion on those basic financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 16, and the schedule of required supplementary information on page 40, be presented to supplement the basic 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 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
June 3, 2021

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 for the years ended December 31, 2020 and 2019. 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 61 beds available.

Type of beds	Number of beds available	License category
Critical care	4	Acute
Medical/surgical	23	Acute
Detox	8	Rehab
Residential	26	Rehab
Total beds available	61	

The Hospital participates in the Det Norske Veritas (DNV) accreditation program approved by the U.S. 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 District 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 District and the Hospital to the chief executive 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	2020	2019	2018
Licensed beds	112	112	112
Acute care beds in service	27	27	27
Hospital admissions	757	910	1,095
Hospital patient days	3,067	3,375	3,933
Hospital – average length of stay	4.1	3.7	3.6
Occupancy	31 %	34 %	40 %
Observation days	639	726	637
Inpatient surgeries	220	311	327
Outpatient surgeries	876	1,031	999
Emergency room visits	13,586	15,712	15,951
Recovery center admissions	276	449	393
Recovery center patient days	4,428	7,319	6,809

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.

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. While mandated, EvergreenHealth Monroe temporarily suspended all non-urgent in-office visits. The Governor modified the restrictions on elective procedures on May 18, 2020. However, the volumes did not resume to normal levels, as patients were extremely cautious to

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return to healthcare environments for fear of contracting COVID-19. Many patients delayed or chose not to pursue healthcare treatment for both chronic and acute care needs. The cancellation of elective and non-urgent services during this period had a significant impact on volumes and financial performance. Additionally, the sentiment of fear impacted emergency care, resulting in significant volume loss for the emergency department.

In addition to the decreased revenue resulting from the mandated shut down, there was an increased cost to delivering patient care due to changes in staffing ratios, requirements for highly specialized nursing staff, Personal Protective Equipment (PPE) and labor carrying costs. With an unprecedented demand for medical supplies, including PPE, testing and other supplies draining inventory through normal supply chain channels, vendors and manufacturers placed premium pricing on some necessary items that exceeded standard costs. At the same time, use of PPE by providers increased, both due to current usage and the need to prepare for surge capacities and unknown patient volumes.

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. The Hospital received nearly $6 million in CARES Act Provider Relief Fund distributions. Furthermore, the State of Washington distributed funds to healthcare providers through a Coronavirus Relief Fund, of which the Hospital received $255 thousand.

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 a period of up to six months. The accelerated payments are interest free if repaid according to the terms of the advance. The Hospital received $3 million in Medicare advance payments. The payments are excluded from adjusted days cash calculations as a restricted source of funds and represent a deferred revenue liability on the statements of net position.

The CARES Act also provided the deferral of the employer portion of social security taxes as another source of cash flow for employers in need. The Hospital deferred these taxes from June 12, 2020 through the end of the year. This resulted in a $723,000 liability which will be repaid 50% by December 31, 2021 and 50% by December 31, 2022 in accordance with the CARES Act.

The Hospital also filed insurance claims related to losses sustained due to COVID-19 and is in the process of filing for Federal Emergency Management Agency (FEMA) assistance.

The Hospital applied for and received a federal Paycheck Protection Program (PPP) loan in the amount of $4,152,500 on April 27, 2020. A determination on forgiveness of this loan has not been made so the amount of the loan has been recorded as a liability on the statement of net position.

Moving into December of 2020, the promise of two COVID-19 vaccines established a new possibility for regaining volumes and to some extent, recouping subsequent financial losses from earlier in the year. With

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COVID-19 vaccinations cleared for use by the FDA, hospitals and healthcare providers were tasked with establishing and operationalizing vaccine clinics with minimal upfront labor, financial and other resource support from the state and local government. The State of Washington's phased distribution rollout trickled with vaccine target volumes falling short due to a lack of supply. With so few of the population becoming vaccinated, the sentiment of fear and hesitancy to seek healthcare remained a concerned and continued to be reflected across practice and service line volumes.

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 is the most significant operating cost for the Hospital, representing over 61% of annual expenses. During 2020 and 2019, 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 COVID-19, the Hospital experienced a significant RN labor shortage resulting in an increase in RN agency personnel. Approximately 82% of the Hospital's 388 employees are members of one of three collective bargaining agreements. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 105 Registered Nurses, agreed to a one-year contract extension in 2020 and is next scheduled to negotiate in 2021. The United Food and Commercial Workers (UFCW) union, which represents approximately 78 professional/technical employees, last negotiated its labor contract in 2019 and is next scheduled to negotiate in 2022. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 132 service employees, agreed to a one-year contract extension in 2020 and is next scheduled to negotiate in 2021.
- **Contracting/Risk-Sharing Arrangements**: The Hospital has two pay-for-performance hospital contracts in effect with payors as of 2020. Via EvergreenHealth's (the District's) collaboration with Eastside Health Network, EvergreenHealth Monroe participates in an additional eight value-based commercial contracts plus four 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 EvergreenHealth Monroe.
- **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

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reimbursement closely and works with payors in an effort to maintain payment levels and earn value-based reimbursement model revenue.

- **Partnerships**: During 2020 and 2019, 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. Government 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 U.S. 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 2020 population within the Hospital's boundaries is estimated to be 105,006. The population is projected to grow 6.0% over the next five years and reach 111,289 in 2025 according to the Environmental Systems Research Institute.

  2020 Highlights:

  - Hiring of key personnel
    - Welcomed new Chief Nursing Officer, Malachi Lones, RN
    - Welcomed new Chief Operating Officer, Fawn Hutton
    - A Director of System Integration, Mark Wimley, was hired by EvergreenHealth to help facilitate integration of EvergreenHealth Monroe into the overall health system
  - Initiated or completed projects
    - Commenced planning for an urgent care clinic and expansion of primary care access
    - Completed installation of new, state-of-the-art, MRI and CT machines in the Hospital
    - Implemented Art of Caring program to focus staff on improving the patient experience

Overview of the Financial Statements

The Hospital'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. 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 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 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 Hospital is a discretely presented component unit of King County Public Hospital District No. 2, dba EvergreenHealth.

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

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Summary of Statements of Net Position

(In thousands)

		2020	2019	2018
Assets and deferred outflows of resources:				
Current assets	$	23,476	21,572	13,057
Capital assets, net		14,990	16,680	13,078
Deferred outflows of resources		—	—	365
Total assets and deferred outflows of resources	$	38,466	38,252	26,500
Liabilities:				
Current liabilities	$	10,079	13,842	6,915
Long-term debt		23,503	21,830	16,938
Other noncurrent liabilities		4,001	2,474	9,341
Deferred inflows of resources		—	—	177
Total liabilities and deferred inflows of resources		37,583	38,146	33,371
Net position:				
Net investment in capital assets		(5,201)	(4,585)	(4,535)
Restricted expendable for project fund		1,664	5,990	—
Restricted expendable for debt service		214	230	253
Unrestricted		4,206	(1,529)	(2,589)
Total net position		883	106	(6,871)
Total liabilities, deferred inflows of resources and net position	$	38,466	38,252	26,500

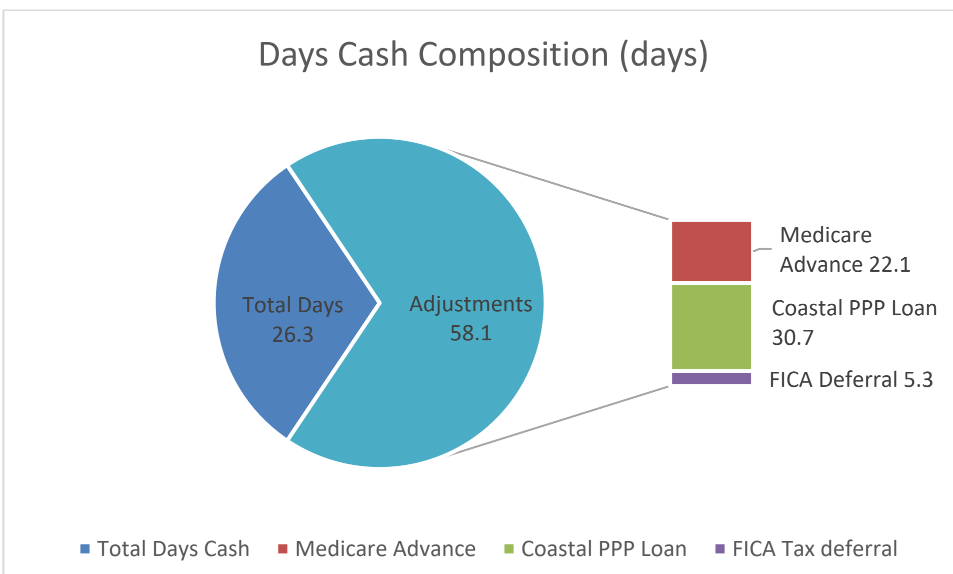
Current Assets

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

Key ratios	2020	2019	2018
Current ratio	2.3	1.6	1.9
Days in AR (net)	62.6	52.8	51.9
Days cash on hand	84.4	40.5	37.6
Adjusted days cash on hand	26.3	40.5	37.6



Total current assets were $23.5 million as of December 31, 2020, compared to $21.6 million as of December 31, 2019.

Current assets in 2020 increased by $1.9 million compared to 2019 primarily due to increases of $5.9 million in cash due to the CARES Act Medicare Advance Payment, the Paycheck Protection Program Loan and the deferral of the employer portion of social security payroll taxes. Cash increases were offset by a $4.3 million dollar decrease in restricted deposits, which were used to fund project capital. Adjusted days cash on hand decreased to 26.3 days.

Current assets in 2019 increased by $8.5 million compared to 2018 mainly due to increase in cash, restricted deposits, and net patient account receivables of $8.2 million.

Noncurrent Assets

Noncurrent assets consist of capital assets, net of accumulated depreciation. Total noncurrent assets decreased $1.7 million from $16.7 million as of December 31, 2019 to $15 million as of December 31, 2020. While the Hospital invested $1 million in capital asset additions, this was offset by $2.5 million in depreciation, disposals and retirements.

Net capital assets increased by $3.6 million during 2019 due to depreciation of $1.9 million and implementation of a PeopleSoft IT project and of construction in process of building improvements, a CT machine, and IT projects totaling $1.5 million in cash expenditures and $4 million in related payables.

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 $10.1 million as of December 31, 2020, compared to $13.8 million as of December 31, 2019.

Current liabilities decreased approximately $3.8 million from 2019 to 2020. Accounts payable and current portion of related party payable decreased $6.2 million from 2019 to 2020 due to payments made, offset by an increase in accrued salaries and benefits and other accrued liabilities in the amount of $2.4 million. The change in payables is primarily due to project fund capital expenses outstanding as of December 31, 2019.

Current liabilities increased approximately $6.9 million from 2018 to 2019. Accounts payable and accrued expenses increased due to project fund capital expenses outstanding at December 31, 2019.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt and other noncurrent payables. Total noncurrent liabilities were $27.5 million as of December 31, 2020, compared to $24.3 million as of December 31, 2019.

Noncurrent liabilities increased approximately $3.2 million from 2019 to 2020 primarily due to the long-term liabilities associated with the accelerated Medicare advance payments, the payroll tax deferral and the Paycheck Protection Program loan.

Noncurrent liabilities decreased approximately $2.2 million from 2018 to 2019 primarily due to the Hospital leaving the Public Employees Benefits Board (PEBB) program which removed the OPEB liability of $6.1 million as of December 31, 2019. The decreased liability is offset by increased long-term debt.

Net Position

The current year net position increased $777 thousand from December 31, 2019 to December 31, 2020. 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.

Investment in capital assets, net of related debt decreased approximately $616 thousand, or 13%, from 2019 to 2020. The decrease is attributable to a decrease 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 $4.3 million from 2019 to 2020 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 $5.7 million from 2019 to 2020.

Net position increased $6.8 million from 2018 to 2019. Restricted net position (expendable for project fund and debt service), representing resources with temporary or permanent restrictions, increased $6 million from 2018 to 2019 due to expenditures or receipt of unexpended funds related to the project fund.

Summary of Revenues, Expenses, and Changes in Net Position

(In thousands)

		2020	2019	2018
Operating revenues:				
Net patient service revenue	$	38,857	46,431	46,053
Other operating revenues		2,637	2,855	2,261
Total operating revenues		41,494	49,286	48,314
Operating expenses:				
Salaries and wages		24,193	24,387	23,990
Employee benefits		6,892	7,606	7,121
Other operating expenses		17,538	18,467	16,822
Depreciation		2,419	1,943	1,954
Total operating expenses		51,042	52,403	49,887
Deficit of revenues over expenses from operations		(9,548)	(3,117)	(1,573)
Nonoperating income		10,288	3,424	3,729
Excess of revenues over expenses		740	307	2,156
Special item: Other postemployment benefits		—	7,211	—
Contributions for capital		37	30	249
Changes in net position	$	777	7,548	2,405

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 2020, gross patient revenue decreased by approximately $19 million, or 13.7%. Gross patient revenue is the total fees charged to patients for services. Total inpatient revenue decreased $4.2 million, or 13.3%, and total outpatient revenue decreased $12.3 million, or 12.3%. The main driver of revenue declines was related to COVID-19 and the mandated suspension of elective procedures in Spring 2020. COVID-19 negatively impacted most services lines including surgical services, emergency department visits, inpatient admissions and the Recovery Center.

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, 2020, 2019 and 2018.

	2020	**2019**	**2018**
Non-Government third-party payors	34.3%	34.3%	33.5%
Medicare	33.1	33.5	33.9
Medicaid	22.5	21.7	22.2
Patient self-pay	6.0	5.6	6.0
Other	4.1	4.9	4.4

In 2020, net patient service revenue decreased by approximately $7.6 million, or 16.3%. Net patient revenue consists of gross patient revenue less contractual adjustments, bad debt, and charity. This decrease was driven by reduced volumes due to COVID-19. Other operating revenue remained consistent from 2019 to 2020.

In 2019, net patient revenue increased by $378 thousand, or 0.8%. The increase in 2019 net patient revenue is primarily due to increases in Recovery Center, oncology and wound care hyperbaric oxygen treatments.

Operating Expenses

Labor, including contract labor, decreased approximately $0.2 million, or 0.8%, from 2019 to 2020. This decrease is due to labor flexing where possible in response to reduced volumes offset by efforts to keep staff employed with proceeds from the Paycheck Protection Program. The Hospital's average employed and contracted full-time equivalents decreased 4.4% to 280 as of December 31, 2020, compared to 293 as of December 31, 2019.

Labor increased by approximately $0.4 million, or 1.7%, from 2018 to 2019. This increase is in line with the increase in net patient revenue from 2018 to 2019.

Employee benefit expenses decreased $714 thousand, or 9.4%, from 2019 to 2020. This was primarily due to decreased medical plan expense and retirement plan costs.

Employee benefit expense increased $485 thousand, or 6.8%, from 2018 to 2019. This increase was primarily due to increases in patient volumes and labor costs.

Supplies, professional fees, purchased services, repairs and maintenance services and other operating expenses decreased approximately $453 thousand, or 2.2%, from 2019 to 2020. The decrease is due to overall decreased hospital volumes offset by costs due to COVID-19 response and mitigation.

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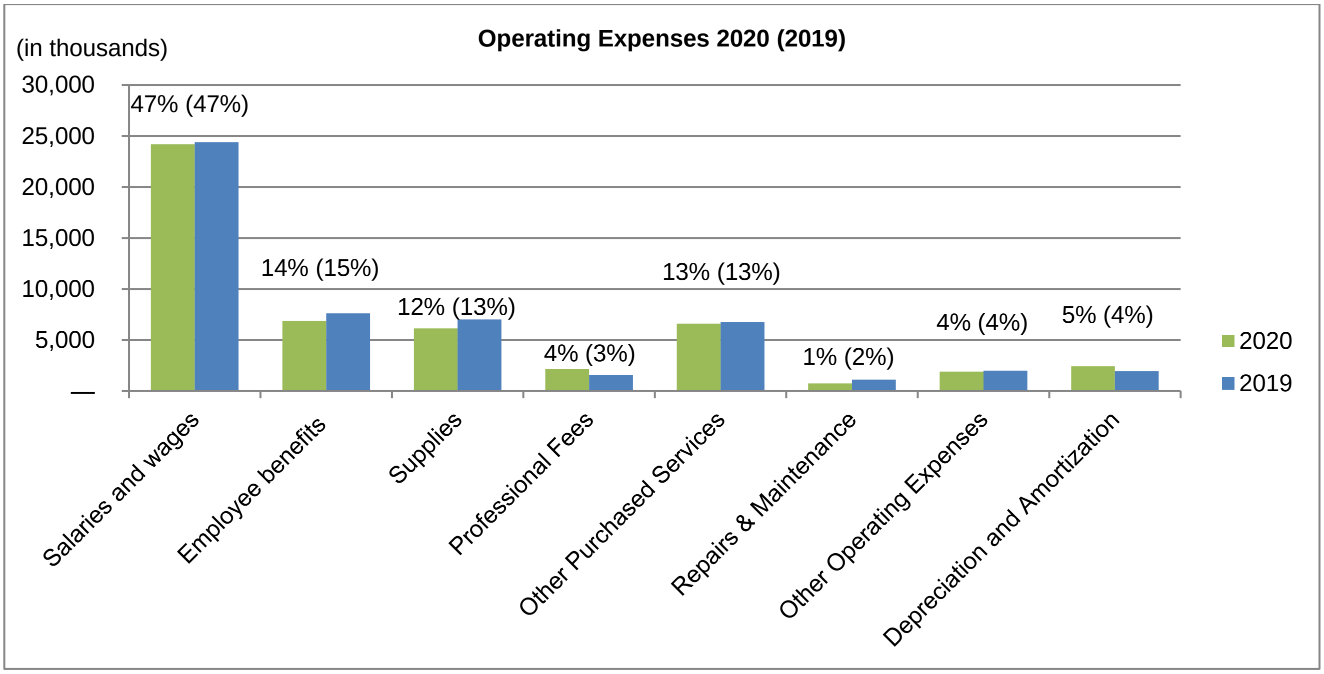
Supplies, repairs and maintenance and other operating expenses increase approximately $1.6 million from 2018 to 2019. The increase was due to an increase in patient volumes.

Total operating expenses in 2020 and 2019 were $51.0 million and $52.4 million, respectively.



Nonoperating Income, Net of Expenses

In 2020, nonoperating income net of expenses increased $6.9 million, or 200%, from $3.4 million in 2019 to $10.3 million in 2020. The increase is due to the recognition of $6.2 million of CARES Act Provider Relief Funds.

Nonoperating income net of expenses consisted primarily of property taxes levied by the Hospital and interest expense in 2018 and 2019. The total nonoperating income was fairly consistent from 2018 to 2019.

Future Economic Factors

Today, EvergreenHealth Monroe and health systems across the United States continue to incur significant unforeseen costs due to the ongoing pandemic. With COVID-19 vaccinations now available, hospitals and healthcare providers have been tasked with establishing and operationalizing vaccine clinics with minimal upfront labor, financial and other resource support from the state and local government.

While marketing efforts were on hold during March through December of 2020, attempts to bring patients back to the Hospital have ramped up. Many patients were fearful of seeking care out of concern of contracting COVID-19 and efforts are being made to communicate and educate regarding the safety of healthcare environments. There are three campaigns in market with a goal to regain volumes and to expand service lines.

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, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash	$	11,430,686	5,572,967
Patient accounts receivable, net		7,698,855	7,735,332
Other receivables		745,670	171,803
Inventory		1,017,164	1,133,210
Prepaid expenses		401,410	333,029
Estimated third-party settlements receivable		212,255	371,216
Restricted deposits		1,970,106	6,254,216
Total current assets		23,476,146	21,571,773
Capital assets:			
Land		1,878,610	1,878,610
Construction in progress		201,524	4,508,526
Depreciable capital assets, net		12,910,319	10,292,918
Total capital assets		14,990,453	16,680,054
Total assets	$	38,466,599	38,251,827
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	1,528,742	6,453,477
Current portion of related party payable		1,437,648	2,749,649
Accrued salaries and benefits		3,230,100	2,819,127
Accrued interest		55,313	33,198
Current portion of long-term debt		2,504,768	1,372,466
Other accrued liabilities		1,322,143	414,261
Total current liabilities		10,078,714	13,842,178
Noncurrent liabilities:			
Other noncurrent liabilities – CARES Act		2,332,071	—
Long-term debt, net of current portion		23,502,982	21,829,851
Related party payable, net of current portion		1,669,827	2,473,927
Total noncurrent liabilities		27,504,880	24,303,778
Total liabilities		37,583,594	38,145,956
Net position:			
Net investment in capital assets		(5,201,120)	(4,585,012)
Restricted expendable for project fund		1,663,678	5,989,669
Restricted expendable for debt service		213,996	230,057
Unrestricted		4,206,451	(1,528,843)
Total net position		883,005	105,871
Total liabilities and net position	$	38,466,599	38,251,827

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

Years ended December 31, 2020 and 2019

		2020	2019
Operating revenues:			
Net patient service revenue, net of provision for bad debts of $4,421,061 in 2020 and $5,017,754 in 2019	$	38,856,931	46,431,231
Other operating revenues		2,637,110	2,855,237
Total operating revenues		41,494,041	49,286,468
Operating expenses:			
Salaries and wages		24,193,471	24,387,418
Employee benefits		6,892,322	7,606,228
Supplies		6,133,176	7,013,745
Professional fees		2,143,814	1,569,773
Other purchased services		6,609,672	6,752,891
Repairs and maintenance		750,372	1,122,660
Other operating expenses		1,900,866	2,007,953
Depreciation		2,418,830	1,943,048
Total operating expenses		51,042,523	52,403,716
Deficit of revenues over expenses from operations		(9,548,482)	(3,117,248)
Nonoperating income, net of expenses:			
Property taxes		4,920,663	4,844,391
Interest and amortization expense		(806,619)	(1,105,280)
CARES Act		6,198,186	—
Other, net		(24,054)	(314,625)
Net nonoperating income		10,288,176	3,424,486
Excess of revenues over expenses		739,694	307,238
Special item:			
Other postemployment benefits		—	7,211,195
Contributions for capital		37,440	30,000
Total change in net position		777,134	7,548,433
Net position – beginning of year		105,871	(6,870,354)
Change in accounting principle		—	(572,208)
Net position – beginning of year, restated		105,871	(7,442,562)
Net position – end of year	$	883,005	105,871

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Cash received from and on behalf of patients	$	39,052,369	44,763,283
Payments to suppliers and contractors		(16,799,597)	(16,832,568)
Payments to employees		(31,085,793)	(31,249,186)
Other cash receipts		2,063,243	2,881,160
Net cash used in operating activities		(6,769,778)	(437,311)
Cash flows from noncapital financing activities:			
Property taxes received for community programs		4,920,663	4,844,391
Receipts from CARES Act		6,198,186	—
Net cash provided by noncapital financing activities		11,118,849	4,844,391
Cash flows from capital and related financing activities:			
Purchase of capital assets		(4,808,435)	(1,490,021)
Principal paid on long-term debt		(1,372,466)	(17,608,680)
Proceeds from issuance of long-term debt		4,152,500	23,008,459
Payments for interest on long-term debt		(784,501)	(1,462,174)
Capital contributions		37,440	30,000
Net cash provided by capital and related financing activities		(2,775,462)	2,477,584
Net increase in cash, cash equivalents and restricted deposits		1,573,609	6,884,664
Cash, cash equivalents and restricted deposits, beginning of year		11,827,183	4,942,519
Cash, cash equivalents and restricted deposits, end of year	$	13,400,792	11,827,183
Reconciliation of cash to the Statements of Net Position:			
Cash	$	11,430,686	5,572,967
Restricted deposits		1,970,106	6,254,216
Total	$	13,400,792	11,827,183

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

Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Reconciliation of operating loss to net cash used in operating activities:			
Deficit of revenue over expenses from operations	$	(9,548,482)	(3,117,248)
Adjustments to reconcile deficit of revenue over expenses from operations to net cash used in operating activities:			
Depreciation		2,418,830	1,943,048
Provision for bad debts		4,421,061	5,017,754
Amortization of bond discounts		25,400	190,059
Other		24,056	—
Change in operating assets and liabilities:			
Patient accounts receivable		(4,384,584)	(6,375,362)
Other receivables		(597,922)	25,923
Inventory and prepaid expenses		47,665	11,990
Estimated third-party payor settlements		158,961	(310,340)
Deferred outflows of resources		—	(1,797,205)
Accounts payable		(872,317)	227,070
Accrued liabilities		3,650,925	533,544
Related party payable		(2,113,371)	671,791
Net other postemployment benefits liability		—	2,655,697
Deferred inflows of resources		—	(114,032)
Net cash used in operating activities	$	(6,769,778)	(437,311)
Supplemental disclosure of noncash investing and financing activities:			
Change in capital asset additions included in accounts payable and accrued expenses	$	(4,052,418)	4,052,418
Change in capital assets included in related party payable		(2,730)	2,730

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 detox 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 Government 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) 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 multifinancial institution collateral pool administered by the Washington Public Deposit Protection Commission.

(Continued)

(e) 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, and deductibles to be made by patients and business practices related to collection efforts. Accounts deemed uncollectible are charged against this allowance.

(f) Restricted Deposits

Restricted deposits 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. Restricted deposits 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. Amounts required to meet related current liabilities have been classified as current assets in the accompanying statements of net position.

(g) 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, determined on a first-in, first-out basis, or net realizable value.

(h) Capital Assets

Capital assets are recorded at cost. In accordance with government accounting standards, the Hospital has established a capitalization threshold of $5,000 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	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.

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.

(Continued)

(i) 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.

(j) 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. 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.

(k) Operating Revenue and Expenses

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

(l) 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.

(m) 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 $386,214 and $337,225 for 2020 and 2019, respectively. Because the Hospital does not pursue collection of amounts

(Continued)

determined to qualify as charity care, associated charges are not included in net patient service revenue.

(n) 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, \$798,035 and \$1,105,280 were used for interest payments for the years ended December 31, 2020 and 2019, respectively. The property taxes received are reflected in nonoperating income. Interest expense related to long-term debt is included in nonoperating expenses.

Coronavirus Aid Relief and Economic Security (CARES) Act income includes distributions from both the Federal and State level related to COVID-19 relief programs.

(o) 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.

(p) Recently Issued Accounting Standards

In January 2017, the GASB issued Statement No. 84, *Fiduciary Duties* (GASB No. 84). This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The District has adopted and considered the above GASB statement noting no financial statement implications or impact to the current year financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB No. 88). This Statement clarifies which liabilities governments should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. The Hospital has adopted and considered the above GASB statement noting no financial statement implications or impact to the current year financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB No. 87). This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Therefore, it establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB No. 95 delayed the implementation of this Statement to fiscal years beginning after June 15, 2021. The Hospital has started implementation work but will adopt on the postponed effective date. The quantitative and qualitative effects on the Hospital's future financial statements of these changes and related retrospective adjustments have not yet been determined.

(2) Novel Coronavirus and CARES Act

In December 2019, a novel coronavirus (COVID-19) was identified in China and began to spread to other geographical locations, including the United States. 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.

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. The Hospital received $6,176,326 in CARES Act distributions recorded to other nonoperating income. Furthermore, the State of Washington distributed funds to healthcare providers through a Coronavirus Relief Fund of which the Hospital received $21,860 recorded to other nonoperating income.

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 a period of up to six months. The accelerated payments are interest free if repaid according to the terms of the advance. The Hospital received $3,000,000 in Medicare advance payments in April 2020 and is recorded as unearned revenue. The 2021 portion of the liability is reflected on the statement of net position as an other accrued liability and the portion to be repaid in 2022 is reflected as an other noncurrent liability.

The CARES Act also provided the deferral of the employer portion of social security taxes as another source of cash flow for employers in need. The Hospital deferred these taxes from March 27, 2020 through the end of the year. This resulted in a $723,054 liability which will be repaid 50% by December 31, 2021 and 50% by December 31, 2022 in accordance with the CARES Act. The 2021 portion of the liability is reflected on the statement of net position as an other accrued liability and the portion to be repaid by 2022 is reflected as an other noncurrent liability – CARES Act.

The Paycheck Protection Program (PPP) is an emergency disaster loan program administered by the Small Business Administration (SBA) designed to provide funds to small businesses with under 500 employees who were affected by the 2020 Coronavirus pandemic. PPP loans can be eligible for forgiveness if certain conditions are met. Any amounts that are not forgiven convert to a term loan at 1%

interest. Loans made prior to June 5, 2020 must be repaid within two years. Loans made after that date can be repaid in five years. The Hospital applied for and received a PPP loan in the amount of $4,152,500 on April 27, 2020. A determination on forgiveness of this loan has not been made so the amount of the loan has been recorded as a liability on the statement of net position.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Hospital’s financial condition, liquidity and future operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce.

(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 2016. 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 $113,967 and $8,290 in 2020 and 2019, 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. Final settlement of $1,112,350 has been recognized in 2020 as net patient service revenue in the statements of revenues, expenses and changes in net position related to state fiscal years 2014, 2015 and 2016.

Inpatient Medicaid charges represented approximately 17.4% and 17.0% of total inpatient charges for the Hospital in fiscal years 2020 and 2019, respectively.

The Medicaid CPE program continues through the State's fiscal years 2020 and 2019. As of December 31, 2020 and 2019, the Hospital has recorded a payable of $0 and $6,793 for estimated overpayments for state fiscal years 2020 and 2019, respectively, which is included in accounts 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 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, 2021. The Hospital is not subject to the assessment but is a recipient of funding through the program. The Hospital received safety net payments totaling $163,776 and $216,567 for 2020 and 2019, respectively, which is included in other operating revenue.

(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, 2020 and 2019:

		2020	2019
Gross patient service revenue	$	120,472,762	139,542,700
Adjustments to patient service revenue:			
Contractual discounts		76,285,439	87,183,416
Provision for bad debts		4,421,061	5,017,754
Charity care		909,331	910,299
Net patient service revenue	$	38,856,931	46,431,231

(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 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.

Deposits are made up of the following as of December 31:

		2020	2019
Restricted deposits:			
Deposits restricted for debt service fund	$	213,996	230,057
Deposits restricted for project fund		1,663,678	5,989,669
Employee flexible spending savings		92,432	34,490
Total restricted deposits	$	1,970,106	6,254,216

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.

(Continued)

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, 2020 and 2019, 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 in not exposed to interest rate risk, as all deposits are liquid.

(Continued)

(5) Capital Assets

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

	Balance January 1, 2020	Additions	Transfers	Retirements	Balance December 31, 2020
Nondepreciable capital assets:					
Land	$ 1,878,610	—	—	—	1,878,610
Construction in progress	4,508,526	109,869	(4,416,871)	—	201,524
Total nondepreciable capital assets	6,387,136	109,869	(4,416,871)	—	2,080,134
Depreciable capital assets:					
Land improvements	1,233,752	—	—	—	1,233,752
Buildings and improvements	27,174,511	10,880	2,927,296	—	30,112,687
Fixed equipment	2,730,524	21,861	—	(20,982)	2,731,403
Movable equipment	19,541,875	719,470	1,489,575	(2,368,626)	19,382,294
Total depreciable capital assets	50,680,662	752,211	4,416,871	(2,389,608)	53,460,136
Less accumulated depreciation:					
Land improvements	(883,098)	(55,263)	—	—	(938,361)
Buildings and improvements	(20,660,080)	(1,131,057)	—	—	(21,791,137)
Fixed equipment	(2,412,944)	(70,156)	—	19,683	(2,463,417)
Movable equipment	(16,431,622)	(1,162,354)	—	2,237,074	(15,356,902)
Total accumulated depreciation	(40,387,744)	(2,418,830)	—	2,256,757	(40,549,817)
Total depreciable capital assets, net	10,292,918	(1,666,619)	4,416,871	(132,851)	12,910,319
Total capital assets, net	$ 16,680,054	(1,556,750)	—	(132,851)	14,990,453

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

Notes to Financial Statements

December 31, 2020 and 2019

	Balance January 1, 2019	Additions	Transfers	Retirements	Balance December 31, 2019
Nondepreciable capital assets:					
Land	$ 1,878,610	—	—	—	1,878,610
Construction in progress	414,416	5,049,027	(954,917)	—	4,508,526
Total nondepreciable capital assets	2,293,026	5,049,027	(954,917)	—	6,387,136
Depreciable capital assets:					
Land improvements	1,145,662	—	88,090	—	1,233,752
Buildings and improvements	26,880,105	—	294,406	—	27,174,511
Fixed equipment	2,601,202	6,507	122,815	—	2,730,524
Movable equipment	18,602,634	489,635	449,606	—	19,541,875
Total depreciable capital assets	49,229,603	496,142	954,917	—	50,680,662
Less accumulated depreciation:					
Land improvements	(821,486)	(61,612)	—	—	(883,098)
Buildings and improvements	(19,765,878)	(894,202)	—	—	(20,660,080)
Fixed equipment	(2,336,990)	(75,954)	—	—	(2,412,944)
Movable equipment	(15,520,342)	(911,280)	—	—	(16,431,622)
Total accumulated depreciation	(38,444,696)	(1,943,048)	—	—	(40,387,744)
Total depreciable capital assets, net	10,784,907	(1,446,906)	954,917	—	10,292,918
Total capital assets, net	$ 13,077,933	3,602,121	—	—	16,680,054

(6) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations of the Hospital consist of the following:

	December 31 2020	December 31 2019
Limited Tax General Obligation Refunding Bonds (LTGO) Series 2019 (fixed rate), payable semiannually through 2034, interest at 2.95%	$ 16,459,999	17,235,000
LTGO Series 2019 (fixed rate), payable semiannually through 2029, interest at 3.25%	5,482,614	6,000,000
Paycheck Protection Program (PPP) Loan Coastal Bank any amounts not forgiven convert to a term loan payable monthly beginning August 2021 through 2022, interest at 1%	4,152,500	—
Capital Lease Obligations, $7,389 (fixed rate) payable monthly including interest at 6.7%, collateralized by equipment	113,778	193,858
Total long-term debt	26,208,891	23,428,858
Plus bond discounts	(201,141)	(226,541)
Less current portion	2,504,768	1,372,466
Long-term debt, net of current portion	$ 23,502,982	21,829,851

Long-term debt and capital lease obligations 2020 and 2019 activity summary for the Hospital is as follows:

	January 1, 2020	Additions	Reductions	December 31, 2020	Amounts due within one year
LTGO refunding bonds, 2019	$ 17,235,000	—	(775,001)	16,459,999	795,000
LTGO bonds, 2019	6,000,000	—	(517,386)	5,482,614	534,202
LTGO bonds, PPP Loan Coastal Bank	—	4,152,500	—	4,152,500	1,091,011
Capital lease obligations	193,858	—	(80,080)	113,778	84,555
	23,428,858	4,152,500	(1,372,467)	26,208,891	2,504,768
Unamortized discounts 2019 bond	(226,541)	—	25,400	(201,141)	—
Total long-term debt	$ 23,202,317	4,152,500	(1,347,067)	26,007,750	2,504,768

	January 1, 2019	Additions	Reductions	December 31, 2019	Amounts due within one year
LTGO improvement and refunding bonds, 2009	$ 17,510,000	—	(17,510,000)	—	—
LTGO refunding bonds, 2019	—	17,235,000	—	17,235,000	775,000
LTGO bonds, 2019	—	6,000,000	—	6,000,000	517,386
Capital lease obligations	292,538	—	(98,680)	193,858	80,080
	17,802,538	23,235,000	(17,608,680)	23,428,858	1,372,466
Unamortized discounts 2009 bond	(190,059)	190,059	—	—	—
Unamortized discounts 2019 bond	—	—	(226,541)	(226,541)	—
Total long-term debt	$ 17,612,479	23,425,059	(17,835,221)	23,202,317	1,372,466

A summary of the Hospital future maturities on long-term debt for the next five years and thereafter as of December 31, 2020 for both principal and interest is presented below:

		Principal		Interest
2021	$	2,420,213		679,240
2022		4,028,603		641,491
2023		1,883,938		580,758
2024		1,562,997		535,472
2025		1,637,107		487,599
2026–2030		8,617,255		1,641,550
2031–2034		5,945,000		448,990
Total		26,095,113	$	5,015,100
Less amount representing net unamortized bond discounts		(201,141)		
Total	$	25,893,972		

Capital Leases

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

		Amount
Year ending December 31:		
2021	$	88,665
2022		29,555
2023		—
Total		118,220
Less amount representing interest		(4,442)
Present value of capital lease payments	$	113,778

The limited tax general obligation bonds, 2019, have a required spending schedule in which the Hospital must expend 10% of the proceeds within the first six months, 45% within the first year, 75% within 18 months, and 100% of all funds within two years. Management believes that it is in compliance with this spending schedule.

(7) Commitment and Contingencies

(a) Leases

The Hospital leases various equipment and facilities under operating leases. Total rental expense in 2020 and 2019 for all operating leases and various rental agreements was approximately $1,184,621 and $1,030,000, respectively. This expense is recorded as other operating expense in the statements of revenues, expenses, and changes in net position.

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

		Amount
Year(s) ending December 31:		
2021	$	750,498
2022		756,572
2023		725,363
2024		321,346
2025		327,802
2026–2030		1,709,481
Total	$	4,591,062

(b) Purchased Services Agreement

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.

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, 2020 and 2019, the Hospital recognized approximately $873,108 and $838,000, respectively, of revenue for lease and purchased services provided to Fairfax. This revenue is recorded as other operating revenue in the statements of revenues, expenses, and changes in net assets. Fairfax owed approximately $986 and $0 to the Hospital for purchased services provided at December 31, 2020 and 2019, 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.

(c) 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.

(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, 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.

(e) 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 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 $527,000 and $525,000 in 2020 and 2019, respectively. Both plans are administered by the Hospital under record-keeping and trust agreements with third parties. The retirement committee is the Fiduciary and Fidelity acts as a directed trustee to hold plan assets.

(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 receivables at December 31 was as follows:

	Receivables	
	2020	**2019**
Non-Government third-party payors	57.3 %	56.8 %
Medicare	23.1	23.6
Patient self-pay	11.9	11.8
Medicaid	7.7	7.8
	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 $1,000 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 2020 and 2019, the Hospital’s regular tax levy was $0.233 and $0.247 per $1,000 on a total assessed valuation of $20,357,118,504 and $18,688,609,591, for a total regular levy of $4,751,489 and $4,628,063, 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 $107,282 and $125,223 were included in other receivables at December 31, 2020 and 2019, 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, 2020 and 2019. Following is a summary of related party transactions in 2020 and 2019:

		2020	2019
Related party transactions summary:			
Shared employees compensation and benefits expenses	$	2,691,518	1,809,256
Clinic subsidy expenses		1,248,547	1,558,312
Contracted labor expenses		587,800	490,400
Other expenses		807,825	608,154
Reimbursement for fixed assets		596,784	2,730
Related party note payment		856,776	856,766
Total related party transactions	$	6,789,250	5,325,618

The related party shared various employees during 2020 and 2019 for the Hospital's use. Amounts incurred for these services were reported as salaries and wages.

Following is a breakout of the related party payable as of December 31:

		2020	2019
Related party transactions summary:			
Shared employees compensation and benefits	$	399,299	1,308,764
Clinic subsidy		(34,743)	4,318
Contracted labor		70,200	132,800
Other		182,807	86,587
Fixed assets		15,985	432,913
Related party note		2,473,927	3,258,194
Total related party payable	$	3,107,475	5,223,576

The breakout of current and noncurrent related party payable as of December 31 is as follows:

		2020	2019
Related party payable summary:			
Current portion	$	1,437,648	2,749,649
Noncurrent portion		1,669,827	2,473,927
Total related party payable	$	3,107,475	5,223,576

In 2019, the Hospital entered into a note payable with EvergreenHealth to repay $4,023,117 of their related party payable over a term of five years beginning in January 2019. The note is payable in 60 monthly installments of $71,398 and bears interest at 2.5% per annum. The liability is reflected on the statement of net position in current portion of related party payable and related party payable, net of current portion.

(12) OPEB Disclosure

As of December 31, 2018, the Hospital reported the total OPEB liability using measurement date December 31, 2017, one year prior to the balance sheet date, as allowed by GASB Statement No. 75. As of December 31, 2019, management elected a change in accounting principle to use a measurement date equal to the balance sheet date of December 31, 2019. The change in accounting principle is preferable because the Hospital ceased participation in the OPEB plan as of December 31, 2019. The beginning net position as of January 1, 2019 was restated to reflect the cumulative effect of this change in accounting principle in the period adopted. The changes in the Hospital’s statements of net position as of January 1, 2019 as a result of the change in accounting principle resulted in a decrease of $572,208 from $(6,870,354) to $(7,442,562).

(13) Collective Bargaining Agreement

At December 31, 2020, the Hospital had a total of approximately 388 employees. Of this total, 315 employees are covered by collective bargaining agreements. There are three collective bargaining agreements; one of which ratified a new agreement as of February 2020 and extends through September 2022; labor agreements with the other two bargaining units ratified December 2018 and extend through August 2020. Those agreements were then extended by mutual agreement to August 2021.

(14) Subsequent Events

Subsequent to year-end, the Company received a second loan signed on January 27, 2021 in the amount of $2,000,000 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the federal Paycheck Protection Program. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.

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

Required Supplementary Information

Other Postemployment Benefits (Unaudited)

December 31, 2020

		2020	2019	2018	2017
Total OPEB liability:					
Service cost	$	—	400,367	408,009	418,128
Interest on total OPEB liability		—	256,585	207,408	184,098
Effect on plan changes		—	—	—	—
Effect on economic/demographic gains or losses		—	—	—	—
Effect on assumptions changes or inputs		—	2,063,000	408,891	(225,034)
Expected benefit payments		—	—	(40,501)	(33,517)
Special item: other postemployment benefits		—	(8,609,569)	—	—
Net change in total OPEB liability		—	(5,889,617)	983,807	343,675
Total OPEB liability – beginning		—	6,082,811	5,099,004	4,755,329
Change in accounting principle		—	(193,194)	—	—
Total OPEB liability – ending	$	—	—	6,082,811	5,099,004
Covered-employee payroll	$	—	21,644,176	21,847,523	20,517,868
Hospital's OPEB liability as a percentage of covered-employee payroll		0.00%	0.00%	27.84%	24.85%

See accompanying notes to financial statements.