



**Office of the Washington State Auditor
Pat McCarthy**

December 26, 2024

Board of Commissioners
Stilly Valley Health Connections
Arlington, 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 Stilly Valley Health Connections for the fiscal years ended December 31, 2023 and 2022. 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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Reports of Independent Auditors
and Financial Statements
with Supplementary Information

**Public Hospital District No. 3 of Snohomish
County, Washington, dba Stilly Valley Health
Connections**

December 31, 2023 and 2022



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Report of Independent Auditors

The Board of Commissioners
Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections, which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections as of December 31, 2023 and 2022, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' 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.

Auditor's 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 auditor's 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' 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 Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' 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

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 5 through 19 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on page 45 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2024, on our consideration of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington
May 13, 2024

Management's Discussion and Analysis

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

This discussion and analysis provides an overview of the financial position and activities of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections (the District). It should be read in conjunction with the financial statements and accompanying notes that follow.

Financial Highlights

The District's total net position increased by \$144,000 from 2022 to 2023 and decreased from 2021 to 2022 by \$323,000 due to the District leasing the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington, per the terms of an Affiliation Agreement effective June 1, 2016.

The District's total operating revenue was \$1.7 million in 2023 and 2022. Operating revenues primarily result from tax revenue from the maintenance and operations levy, Build America Bond (BAB) subsidies in 2021, and grants.

Overview of the Financial Statements

The District's financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the District. The statement of net position includes all the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as well as a detail of those assets available for general purposes and those restricted for a specific purpose. The statement of revenues, expenses, and changes in net position reports the revenues and expenses during the year. The statement of cash flows reports the cash provided by the District's operating activities, as well as other cash sources such as certain tax revenue, financing activities, and investment activities.

Organizational Structure

The District is a public hospital district and a municipal corporation formed under the provisions of Chapter 70.44 of the Revised Code of Washington (RCW). The District is located in the northeastern portion of the County. Arlington, the major city in the District, is located 20 miles northeast of Everett and 55 miles northeast of Seattle. The District is governed by a board of five publicly elected commissioners.

Until June 1, 2016, the District operated Cascade Valley Hospital and Clinics, which included Cascade Valley Hospital (the Hospital). The Hospital is a licensed 48-bed facility located on a campus of approximately 17 acres in the city of Arlington, Washington. In addition to the Hospital, until June 1, 2016, the District also operated a freestanding surgery center (the Cascade Valley Arlington Surgery Center) and five medical clinics. As of June 1, 2016, the District leased the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington (Skagit PHD No. 1), which does business as Skagit Regional Health. The initial term of the lease is 30 years.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

Description of the Agreement with Skagit PHD No. 1

In accordance with an affiliation agreement with Skagit PHD No. 1 (the Affiliation Agreement), which was dated December 2, 2015, Skagit PHD No. 1 began operating the Hospital on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between the District and Skagit PHD No. 1. Pursuant to the Affiliation Agreement, the District leased substantially all its assets, including the Hospital, certain other clinic facilities, and intangible assets, to Skagit PHD No. 1 for a term of 30 years. Skagit PHD No. 1 will pay the District an annual base rent of \$10.00 and is responsible for costs and expenses associated with the leased assets, including maintenance and capital improvements.

Financial Arrangement

Pursuant to the Affiliation Agreement, the District transferred all its cash and cash equivalents in excess of a retained amount to Skagit PHD No. 1 by June 2017. The retained amount is equal to the District's known and contingent liabilities and debts plus a minimum cash balance of \$1,000,000. Thereafter, the District will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point Medical Center, LLC, which is owned 50% by the District and 50% by Skagit PHD No. 1. The Smokey Point Medical Center, LLC, building is a two-story, 40,000 square foot ambulatory center. The building is leased to UW Medicine, which operates a maternal fetal medicine clinic and Skagit PHD No. 1, which operates an outpatient chemotherapy unit, an urgent care clinic, primary and specialty care clinics, and laboratory and imaging services. The District's excess property tax levy funds will be used solely for the purpose of paying the debt service on the District's outstanding unlimited tax general obligation bonds. The proceeds from the District's regular property tax levy and the Smokey Point Medical Center, LLC, lease will be used to pay the District's expenses, including the annual debt service on the District's outstanding limited tax general obligation bonds, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by the District from its regular property tax levy and the Smokey Point Medical Center, LLC, lease exceeds the District's existing obligations in any year, and the District's cash balance is equal to \$1,000,000, the excess funds will be transferred to Skagit PHD No. 1.

In accordance with the Affiliation Agreement, the transferred funds will be deposited in Pool A of the PHD No. 3 Support Fund (Pool A). The funds in Pool A will be used by Skagit PHD No. 1 to (1) support the provision of health care services rendered in Snohomish County; (2) pay for capital improvements and equipment located in Snohomish County; (3) pay for health information technology and other capital investments that may be located outside of Snohomish County if it serves both Skagit PHD No. 1 facilities and the Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to the District's usage of the capital investment shall be allocated to the District; and (4) to cover any losses incurred by Skagit PHD No. 1 in the operation of Hospital services.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

At the end of each fiscal year, Skagit PHD No. 1 will deposit into a special fund designated as Pool B of the PHD No. 3 Support Fund (Pool B) a portion of Skagit PHD No. 1's net cash flow generated from Skagit PHD No. 1's operations, calculated according to a formula set forth in the Affiliation Agreement, but in no case less than 1.5% of the annual net revenue generated by Skagit PHD No. 1's operation of the Hospital services still in operation, which will be calculated based on a three-year rolling average. The funds in Pool B may generally be used and expended by Skagit PHD No. 1 in the following order of priority: (1) to cover any Hospital operating losses, as defined in the Affiliation Agreement, to the extent the loss is not covered by any remaining funds in Pool A; (2) to reimburse Skagit PHD No. 1 for expenses incurred in prior years to cover such operating losses that were not reimbursed in prior years because there were insufficient funds in Pool A or Pool B; (3) to reimburse Skagit PHD No. 1 for expenses incurred by Skagit PHD No. 1 in prior years to fund capital improvements or equipment located at the Hospital facilities or for health information technology or other capital investments located elsewhere to the extent it serves both Skagit PHD No. 1 and Hospital facilities, but only for such portion that reasonably relates to the District's usage of the health information technology or other capital investment, to the extent that such expenses were not reimbursed in prior years because there were insufficient funds available in Pool A or Pool B; (4) to reimburse Skagit PHD No. 1 for expenses incurred by Skagit PHD No. 1 in the current year to fund Hospital capital improvements, as defined by the Affiliation Agreement; and (5) subject to certain limitations, for other expenditures that support the provision of health care services in Snohomish County.

Required Services

The Affiliation Agreement obligates Skagit PHD No. 1 to provide certain required services in North Snohomish County (identified by zip codes 98223, 98241, 98292, 98271, 98270, 98258, and 98252) for 5-, 10-, and 30-year periods. Skagit PHD No. 1 has the right to determine the appropriate level of required services to meet the needs of the residents of North Snohomish County, such as the number of medical/surgical beds, ICU beds, observation beds, emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and staffing levels, provided it does so reasonably after appropriate evaluation and analysis of any impact a reduction in level of service may have on the residents of North Snohomish County.

During the five-year period following affiliation (the "Five-Year Period"), Skagit PHD No. 1 had to provide OB/GYN, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which Skagit PHD No. 1 reasonably believed would appropriately serve the needs of the residents of North Snohomish County. Skagit PHD No. 1 had to continue to provide or cause to be provided primary care services at the Darrington and Granite Falls clinics during the Five-Year Period.

**Public Hospital District No. 3 of Snohomish County, Washington,
Dba Stilly Valley Health Connections
Management's Discussion and Analysis**

During the 10-year period following the affiliation (the "Ten-Year Period"), Skagit PHD No. 1 must provide inpatient and outpatient surgery, general inpatient acute services, and orthopedic general surgeons in North Snohomish County. In order to satisfy the Ten-Year Period commitment, Skagit PHD No. 1 is required to continuously maintain and operate the Hospital as a general acute care hospital duly licensed by the state of Washington and certified under the Medicare and Medicaid programs, with at least the following services: general inpatient acute services, inpatient surgery, a 24-hour emergency department, observation unit, ancillary medical services to the extent required to maintain state acute care hospital licensure, and an organized medical staff consisting, at a minimum, of primary care physicians, orthopedic surgeons, and general surgeons. Skagit PHD No. 1 is granted the right during the Ten-Year Period to modify or reduce the level of service provided at the Hospital provided: (1) it continues to provide an appropriate level of such services in North Snohomish County to meet the needs of residents; and (2) it has given notice to the District and allowed the District to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if Skagit PHD No. 1 elects to discontinue outpatient surgery services at the Hospital during the Ten-Year Period, Skagit PHD No. 1 must provide such services during the remainder of the Ten-Year Period at an alternative location within North Snohomish County at appropriate levels to meet the needs of residents.

During the 30-year period following affiliation, the District must provide a 24-hour emergency department, observation unit, ancillary medical services, and primary care physicians in North Snohomish County. After the Ten-Year Period, Skagit PHD No. 1 is entitled to relocate the required services that were subject to the Ten-Year Period commitment and that continue to be subject to the Thirty-Year period commitment to any location within North Snohomish County that it reasonably believes will appropriately meet the needs of the residents of North Snohomish County.

In the event that Skagit PHD No. 1 intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give the District 90 days' advance notice of such intent (the "Change Notice"). The Change Notice must include a detailed statement of the reasons for the intended action and must be accompanied by an analysis prepared by a qualified independent health care consultant analyzing the potential impact on the accessibility and availability of health care services for residents of North Snohomish County. The District is granted the right to determine, in its sole and absolute discretion, whether it will permit Skagit PHD No. 1 to proceed with the requested change. The District must notify Skagit PHD No. 1 within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If the District fails to respond in writing within 90 days of receipt of the Change Notice, the District will be deemed to have approved the proposed service change.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

Termination and Unwinding

The Affiliation Agreement permits termination of the Affiliation Agreement and an unwinding of the affiliation upon the happening of certain conditions. The Affiliation Agreement may be terminated: (1) by mutual written consent of the District and Skagit PHD No. 1; (2) by either the District or Skagit PHD No. 1 in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by Skagit PHD No. 1 in the event that a catastrophic event occurs that was not caused by Skagit PHD No. 1 and makes it no longer viable to continue operating Hospital services as originally contemplated; (4) by either the District or Skagit PHD No. 1 if the District requires Skagit PHD No. 1 to purchase the leased facilities and assets as set forth in a certain provision of the Affiliation Agreement governing damages to the facilities related to Skagit PHD No. 1's negligence; and (5) after six years, by Skagit PHD No. 1, if Skagit PHD No. 1 has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Hospital services.

To affect an unwind, Skagit PHD No. 1 will transfer all the facilities and assets owned by Skagit PHD No. 1 to the District following a process consistent with how they were originally transferred. In addition, Skagit PHD No. 1 will transfer to the District any remaining cash balance in Pool A or Pool B and will assign in part or grant sublicenses under any electronic health records software license, maintenance and support services agreements in effect at Hospital facilities immediately prior to termination.

All of the commitments by the District to provide any cash or similar support to Skagit PHD No. 1 will terminate after the date Skagit PHD No. 1 provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason; provided that the District will remain obligated to provide any cash or similar support on a pro rata basis for the applicable period of time prior to the notice of termination.

**Public Hospital District No. 3 of Snohomish County, Washington,
Dba Stilly Valley Health Connections
Management's Discussion and Analysis**

Statements of Net Position

The following is a presentation of certain financial information derived from the District's statements of net position (amounts in thousands):

| | 2023 | 2022 | 2021 |
|---|------------------|------------------|------------------|
| Assets | | | |
| Cash and short-term investments | \$ 4,075 | \$ 4,672 | \$ 5,033 |
| Receivables | 288 | 133 | 171 |
| Other current assets | 369 | 598 | 914 |
| Restricted cash and investments, net of amounts required for current liabilities | 6,864 | 732 | 730 |
| Net capital assets | 18,493 | 20,574 | 22,803 |
| Investment in joint venture and other | 4,209 | 4,449 | 4,655 |
| Total assets | <u>34,298</u> | <u>31,158</u> | <u>34,306</u> |
| Deferred outflow of resources | | | |
| Deferred loss on refunding | 529 | 595 | 662 |
| Total assets and deferred outflow of resources | <u>\$ 34,827</u> | <u>\$ 31,753</u> | <u>\$ 34,968</u> |
| Liabilities | | | |
| Accounts payable and other current liabilities | \$ 3,967 | \$ 3,732 | \$ 3,677 |
| Long-term debt obligations, net of current portion | 35,142 | 32,243 | 35,089 |
| OPEB liability | 646 | 814 | 878 |
| Total liabilities | <u>39,755</u> | <u>36,789</u> | <u>39,644</u> |
| Deferred inflow of resources | | | |
| Deferred lease inflows | 593 | 629 | 666 |
| Net position | | | |
| Net investment in capital assets | (5,419) | (6,079) | (5,996) |
| Restricted for debt service | 432 | 655 | 979 |
| Restricted for capital purchases | 122 | 215 | 183 |
| Unrestricted | (656) | (456) | (508) |
| Total net position | <u>(5,521)</u> | <u>(5,665)</u> | <u>(5,342)</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 34,827</u> | <u>\$ 31,753</u> | <u>\$ 34,968</u> |

The decrease in cash and investments of \$597,000 from 2022 to 2023 and the decrease in cash and investments of \$361,000 from 2021 to 2022 was due to the excess cash that was transferred to Skagit PHD No. 1 in 2022 and 2023 per the Affiliation Agreement that will be deposited in Pool A of the "PHD No. 3 Support Fund."

**Public Hospital District No. 3 of Snohomish County, Washington,
Dba Stilly Valley Health Connections
Management's Discussion and Analysis**

The increase in receivables from 2022 to 2023 of \$155,000 was due to the timing in receiving the approved cash distribution from the Smokey Point Medical Center LLC. The distribution was approved in late December 2023, and the check was received in January 2024.

The increase in restricted cash and investments, net of amounts required for current liabilities from 2022 to 2023 of \$6,132,000 was due to the issuance of the new Limited Tax General Obligation Bond, 2023, for \$6,200,000 in September 2023.

The decrease in net capital assets of \$2,229,000 from 2021 to 2022 and the decrease of \$2,081,000 from 2022 to 2023 is due to the annual depreciation of the capital assets held by Public Hospital District No. 3 of Snohomish County, Washington.

The net increase in the long-term obligations from 2022 to 2023 of \$2,899,000 was due to the annual payments of principal for the Unlimited Tax General Obligation and Refunding bonds, 2016, and the Limited Tax General Obligation Refunding Bond, 2021, and the addition of the new Limited Tax General Obligation Bond, 2023. The decrease in the long-term obligations from 2021 to 2022 of \$2,846,000 was due to the annual payments of principal for the Unlimited Tax General Obligation and Refunding bonds, 2016, and the Limited Tax General Obligation Refunding Bond, 2021.

The increase in total net position from 2022 to 2023 of \$144,000, and the decrease in total net position from 2021 to 2022 of \$323,000, was due to the District leasing the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington, per the terms of the Affiliation Agreement effective June 1, 2016. The majority of the change was from the accounting for the transfer of the excess cash that was transferred to Skagit PHD No. 1 in 2021, 2022, and 2023 per the Affiliation Agreement that will be deposited in Pool A of the "PHD No. 3 Support Fund."

**Public Hospital District No. 3 of Snohomish County, Washington,
Dbu Stilly Valley Health Connections
Management's Discussion and Analysis**

Statements of Revenues, Expenses, and Changes in Net Position

The following is a summary of operations in 2023 compared with 2022 and 2021 (amounts in thousands):

| | 2023 | 2022 | 2021 |
|--|--------------------------|--------------------------|--------------------------|
| Operating revenue | | | |
| Revenue from tax levies for maintenance and operations | \$ 1,617 | \$ 1,569 | \$ 1,708 |
| Lease and other revenue | 121 | 133 | 288 |
| Total operating revenue | <u>1,738</u> | <u>1,702</u> | <u>1,996</u> |
| Operating expenses | | | |
| Salaries, wages, and employee benefits | 481 | 472 | 285 |
| Purchased services | 488 | 243 | 315 |
| Depreciation | 2,085 | 2,176 | 2,284 |
| Interest | 246 | 174 | 424 |
| Other operating expenses | 203 | 139 | 221 |
| Total operating expenses | <u>3,503</u> | <u>3,204</u> | <u>3,529</u> |
| Operating loss | (1,765) | (1,502) | (1,533) |
| Net nonoperating income | <u>2,596</u> | <u>2,273</u> | <u>2,767</u> |
| Change in net position before transfers | 831 | 771 | 1,234 |
| Transfer of assets | <u>(687)</u> | <u>(1,094)</u> | <u>(1,382)</u> |
| Change in net position | 144 | (323) | (148) |
| Net position, beginning of year | <u>(5,665)</u> | <u>(5,342)</u> | <u>(5,194)</u> |
| Net position, end of year | <u><u>\$ (5,521)</u></u> | <u><u>\$ (5,665)</u></u> | <u><u>\$ (5,342)</u></u> |

As of 2023, total operating revenue includes primarily tax revenue, ground lease revenue, and grant revenue. Total operating revenue was \$48,000 higher in 2023 than 2022 as the M&O levy funds in 2023 were \$48,000 higher in 2023 than 2022. Total operating revenue was \$294,000 less in 2022 than 2021 as the M&O levy funds in 2022 were \$139,000 less in 2022 than 2021 and there was no BAB's revenue in 2022.

The increase in operating expense from 2022 to 2023 of \$299,000 is due primarily to the increase in purchased services of \$245,000. The increase was due to incurring the operating costs of \$125,000 for issuing the Limited Tax General Obligation Bond, 2023, which were paid from the bond proceeds, and the increased financial support of \$124,000 for more additional mental health counselors in the Darrington School District and the Arlington Public Schools.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

The decrease in operating expenses from 2021 to 2022 of \$325,000 is due primarily to the refinancing of the 2010B Limited Tax General Obligation bonds which reduced interest expense in 2022 by \$250,000 and purchased services by \$72,000. Depreciation on the Hospital and clinic assets that the District is leasing to Public Hospital District No. 1, Skagit County, also decreased by \$108,000 from 2021 to 2022.

Net nonoperating income includes interest income on the various cash and investment accounts, gain or loss on disposal of assets, bond amortization, the tax income and interest expense associated with the unlimited tax general obligation bonds, and the gain and/or loss from the joint venture clinic with Skagit County Public Hospital District No. 1. The increase in net nonoperating income from 2022 to 2023 of \$323,000 was due to an increase in the tax levies for the unlimited general obligation bonds and an increase in interest income on investments. The decrease in net nonoperating income from 2021 to 2022 of \$494,000 was due to a fluctuation in the revenue from the tax levies for the unlimited general obligation bonds.

Another change in net position was the transfer of assets to Skagit PHD No. 1 of \$687,000 in 2023, \$1,100,000 million in 2022, and \$1,400,000 million in 2021 per the Affiliation Agreement for the assets that were deposited in Pool A of the "PHD No. 3 Support Fund" and for the cash collected on the patient accounts receivable generated prior to June 1, 2016.

Statements of Cash Flows

The following is a summary of 2023 compared with 2022 and 2021 (amounts in thousands):

| | 2023 | 2022 | 2021 |
|--|-----------------|-----------------|-----------------|
| Cash flows from operating activities | \$ 325 | \$ 775 | \$ 1,140 |
| Net cash from capital and related financing activities | 4,102 | (2,207) | (2,783) |
| Net cash from investing activities | 867 | 762 | 704 |
| Net change in cash and cash equivalents | <u>\$ 5,294</u> | <u>\$ (670)</u> | <u>\$ (939)</u> |

The decrease in the cash flow from operating activities from 2022 to 2023 of \$450,000 was due to the increase in operating expenses from 2022 to 2023. The decrease in the cash flow from operating activities of \$365,000 from 2021 to 2022 was due to a decrease in operating revenue in 2022.

The increase of \$6,309,000 in capital and related financing activities from 2022 to 2023 is due to the proceeds from the issuance of the Limited Tax General Obligation Bond, 2023, of \$6,200,000 in September 2023. The decrease in 2022 is due to a decrease in cash paid to refund the general obligation bonds during 2021 offset by the increase in cash received from the tax levies for the unlimited general obligation bonds in 2022.

Debt

Total long-term debt as of the end of 2023 is \$38,176,855, compared with \$34,822,984 in 2022.

Public Hospital District No. 3 of Snohomish County, Washington, Dbu Stilly Valley Health Connections Management's Discussion and Analysis

In 2023, new debt of \$6,200,000 in the form of a Limited Tax General Obligation Bond, 2023, was issued to provide funds to finance the acquisition of property for the operation of an outpatient clinic and other capital improvements, and to pay the costs of issuance of the bond. The remaining principal amount at the end of 2023 was \$6,200,000.

In 2021, new debt of \$9,295,000 in the form of Limited Tax General Obligation Refunding Bond, 2021, was issued to provide the funds with which to pay the cost of advance refunding of the District's 2010B Limited Tax General Obligation bonds and paying the administrative costs of such refunding and the costs of issuance and the sale of the bonds. The District contributed \$1,200,000 as an equity contribution in the refunding of the 2010B Limited Tax General Obligation bonds. The remaining principal amount at the end of 2023 and 2022 was \$7,610,000 and \$8,170,000, respectively.

In 2016, new debt of \$35,015,000 in the form of Unlimited Tax General Obligation Refunding Bonds, 2016, was issued to provide the funds with which to pay the cost of advance refunding the District's Unlimited Tax General Obligation Bonds, 2007, and paying the administrative costs of such refunding and the costs of issuance and sale of the bonds. The remaining principal amount at the end of 2023 and 2022 was \$22,260,000 and \$24,280,000, respectively.

In 2010, new debt of \$12,180,000 in the form of 2010B Limited Tax General Obligation bonds (federally taxable Build America Bonds) was issued for the purpose of constructing and operating a clinic. In 2021, the 2010B Limited Tax General Obligation Bonds (federally taxable Build America Bonds) were advance refunded with the issuance of the Limited Tax General Obligation Refunding Bond, 2021. These bonds were refunded in 2021.

The District in 2024 and Beyond

The District will continue to levy and collect its regular tax levy and its portion of the rental income on the Smokey Point Medical Center, LLC, building co-owned with Skagit PHD No. 1. These items are recorded as revenues.

The District will use this income to pay its operating expenses and to make the principal and interest payments on the Limited Tax General Obligation Refunding Bond, 2021, and the Limited Tax General Obligation Bond, 2023. Operating expenses, bond interest and depreciation expense on the buildings and equipment owned and utilized by the District and the depreciation on the buildings and equipment leased to Skagit PHD No. 1 are recorded as expenses.

The District will maintain a minimum cash balance of \$1,000,000, plus an amount sufficient to pay operating expenses, plus principal and interest on bond payments for the coming year. All cash in excess of those amounts is transferred to Skagit PHD No. 1 to be used for Cascade Valley Hospital and Clinic capital purchases.

In addition, the District will levy and collect property taxes annually in a sufficient amount to make principal and interest payments on the Unlimited Tax General Obligation and Refunding Bond, 2016. These transactions will be recorded on the District's books as separate line items.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

Now that the operations of Cascade Valley Hospital and Clinics have transitioned to Skagit Regional Health, Public Hospital District No. 3 of Snohomish County, has primarily become a landlord and is offering other medical services within Snohomish County as defined and allowed in the Affiliation Agreement.

The following is the current Strategic Plan for Public Hospital District No. 3 of Snohomish County, dba, Stilly Valley Health Connections as revised and approved by the Board of Commissioners at their March 16, 2022, PHD #3 board meeting:

Vision – The District envisions a community where residents achieve optimal health and wellness.

Mission – The District will provide and promote programs and resources that support a healthier community.

Strategic Direction

Continual Learning, Evaluation, and Improvement
Leadership in Providing and Developing Programs
Marketing, Communication, and Community Engagement
Outreach and Education
Partnerships and Collaborations
Resource Development

Areas of Focus

Drug Abuse Prevention
Health and Wellness
Mental Health

Strategies

Connect people to resources and offer support services
Collaborate with partners and organizations
Develop needed programs and services
Promote internal and external programs and activities
Fund programs, activities, and events for our community

Strategic Plan Accomplishments

Mental Health:

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

The District started our mental health program development and outreach in 2018. Arlington Public Schools identified a need for elementary age students to have access to mental health counseling. The District put together a pilot program to bring a mental health counselor into a local elementary school starting in April 2018 through the end of the summer. The program was successful for the students, parents, and teachers and continues to grow. In 2023, we provided funding to support mental health counselors in seven of the eight schools in the Arlington Public Schools district one day a week at each school and two days a week for both schools in the Darrington School District. As there are no mental health counselors available in the Darrington area, we also support online mental health counseling at no cost for any adult residing in the Darrington School District.

Our work with mental health also includes community outreach and education. In March 2023, we hosted a guest speaker, Kevin Hines, to talk about suicide prevention for the two middle schools and the two high school in the Arlington Public Schools. Kevin also spoke at an evening presentation called "A Community Conversation About Hope and Resiliency" for the Arlington community. During the year, we offered online Wellness Wednesdays classes that focused on self-care, meditation, and somatic stress relief. We also provided in-person QPR trainings, and online presentations such as "Food and Your Mood: The Link Between Nutrition and Mental Health", NAMI's "Ending-the-Silence", our series, "Self-Care During the Holiday Season", and "Navigating Anxiety and Depression with Children". We provided space for on-site counseling provided by Cocoon House for teens, and for the WSU Extension to provide sessions of adult and youth "Mental Health First Aid" trainings.

Looking ahead to 2024, we plan to continue offering a variety of classes, workshops, and presentations that educate individuals living with mental health issues, as well as provide understanding and support to their families, friends, and the community. We are looking to maintain and expand our mental health counselors in our school counseling program, as well as organizing a suicide prevention and mental health awareness event in the fall. Homage will be using our space to run a depression and anxiety support group and provide individual counseling for our senior population. WSU Extension is scheduled to offer four sessions of youth and adult "Mental Health First Aid" training. We are also exploring opportunities to provide additional mental health support groups to our community members.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

Health & Wellness:

In 2023, as the COVID-19 restrictions were no longer a barrier, we were able to use our space for a variety of in-person classes and presentations, as well as providing the classes and presentations online, hybrid or as a recording, depending on the instructor and subject material. We continued to offer our monthly Cooking & Nutrition presentations, Babysitting and Child Safety Certification training, Preventing Diabetes series, Stop the Bleed trainings, and certified car seat checks. In addition, we co-hosted a monthly online presentation called, "Produce Pick of the Month". In the summer, we created a series called "Getting to Know Our Community Resources", which was a weekly online presentation where we invited an outside organization to share with our community the services and resources they provided. The programs were recorded and shared with the community. Featured organizations included local food banks, resource centers, libraries, free medical services, and the McKinney-Vento Program in the Arlington schools. We also hosted two sessions of a family program for the WSU Extension office called "Strengthening Families". This program takes place one evening a week for seven weeks and both parents and their children attend the program. In May, we collaborated with the Arlington Farmer's Market to organize a "Kids Health and Safety Fair". We partnered with Safe Kids Snohomish County to provide 200 life jackets to youth in our community. We also provided funding for a dental van to visit the Darrington School District for the second year in a row to provide preventative and corrective dental care to students, as well as funded a dental van to park at the Darrington Clinic and provide free dental care for noninsured adults experiencing acute dental issues. In addition, we also added a fall prevention program called "Otago" that provides training and strengthening for our senior population. We also engaged with the community by attending local events such as the Stilly Valley Health Fair, Arlington Street Fair, Arlington Farmer's Market, Arlington Night out Against Crime, back to school events in Arlington and Darrington, and the Stronger Together community event.

In 2024, we plan to continue hosting the Strengthening Families program in the winter and fall, as well as several sessions of Otago. We will offer another "Getting to Know" series, featuring local organizations that provide services to our community members. We will continue to grow our cooking and nutrition classes with some short series and book clubs. One large event already being planned is called "Healthy Living in the Stilly Valley" to be held in downtown Arlington on May 18th. We are organizing the event and will have over 25 local organizations, including Skagit Regional Health, Smokey Point Behavioral Hospital, Arlington Police Department, North County Fire District, Snohomish County Health Department and Community Transit attending, that provide local health and wellness services in our community. We also plan to expand the dental program in Darrington, and add services, such as registering people for Apple Health, host SAIL Instructor training and ARC Sibling Workshops, provide a parenting support group, and presentations from hospice organizations.

Drug Abuse Prevention:

For drug abuse prevention, we offered several learning opportunities. The Washington Poison Center provided education on three sessions of "Preventing Poisoning at Home", "Trends in Adolescent Substance Use", and "Cannabis & Vaping: Current Evidence and Considerations". Snohomish County Human Services also provided both online and in-person Narcan training.

Public Hospital District No. 3 of Snohomish County, Washington, Dba Stilly Valley Health Connections Management's Discussion and Analysis

In partnership with Arlington Public Schools, we organized an event in October 2023 called, "Building Awareness: A Look into Substance Use and Our Youth". The event was held at Weston High School in Arlington, and featured speakers from Arlington Public Schools and Snohomish County Department of Health. Following the event, we offered several related presentations at our facility or online with the Arlington Police Department, Washington Poison Center, Snohomish County Health, and Social Services Departments.

In 2024, we plan to explore spearheading the creation of a youth coalition for the Arlington community, which would focus on substance abuse prevention. In recognition of the crisis with fentanyl overdoses, our building is participating in a Snohomish County Human Services program to have Naloxone and fentanyl test strips on hand available to distribute to our area residents. We also participate in the Darrington Prevention Intervention Community Coalition, will revisit efforts to help assist our residents with nicotine cessation programs, vaping education, and promoting awareness of the dangers of nicotine, focusing on children and teens, as well as educating parents.

COVID-19:

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and spread to other countries, including the U.S. On March 22, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. declared a state of emergency. On March 23, 2020, Washington's Governor Inslee announced a statewide order, the "Stay Home, Stay Healthy" order, which required everyone in the state to stay home. The order required every Washingtonian to stay home unless they needed to pursue an essential activity. Since that time, we continue to follow the guidelines and phase restrictions as outlined by our state and county governments. Now that anyone is allowed to get the Coronavirus vaccination and most of the state and county restrictions were lifted in 2022, we were able to offer in person classes, programs, and support groups in 2022 and 2023 in our building. In the future, if a pandemic happens again, we will follow guidelines and recommendations as provided by our state and county governments.

Stilly Valley Health Connections Foundation:

On January 31, 2022, the State of Washington Secretary of State approved our Articles of Incorporation for the establishment of our Stilly Valley Health Connections Foundation. The Stilly Valley Health Connections Foundation was created as a nonprofit corporation under Chapter 24.03A RCW for the primary purpose of soliciting charitable donations and raising funds on behalf of Public Hospital District No. 3 of Snohomish County, dba Stilly Valley Health Connections. The sole Member of the Foundation is Public Hospital District No. 3 of Snohomish County. The District submitted their application for 501(c)3 status from the Internal Revenue Service in the fall of 2023 and received our 501(c)3 status in the first quarter of 2024. Now that we have received our 501(c)3 status, the next steps will be to open a bank account, set up accounting processes and procedures, and apply for grants to support the programs and services of the District.

**Public Hospital District No. 3 of Snohomish County, Washington,
Dba Stilly Valley Health Connections
Management's Discussion and Analysis**

Contacting the District

This financial report is designed to provide residents, taxpayers, and creditors with a general overview of the District's finances. If you have questions or need additional financial information, contact the District's Superintendent at Public Hospital District No. 3, 3405 173rd Place NE, Arlington, WA 98223.

Financial Statements

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections**

**Statements of Net Position
December 31, 2023 and 2022**

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------------|-----------------------------|
| ASSETS AND DEFERRED OUTFLOW OF RESOURCES | | |
| CURRENT ASSETS | | |
| Cash | \$ 626,918 | \$ 1,174,840 |
| Short-term investments | 3,448,100 | 3,497,293 |
| Other receivables | 214,595 | 67,468 |
| Taxes receivable from tax levies for maintenance and operations | 48,016 | 41,777 |
| Prepaid expenses | 25,021 | 20,620 |
| Current portion of lease receivable | 25,465 | 24,226 |
| Restricted cash and investments required for current liabilities | <u>344,352</u> | <u>575,864</u> |
| Total current assets | <u>4,732,467</u> | <u>5,402,088</u> |
| RESTRICTED CASH AND INVESTMENTS, net of amounts required for current liabilities | <u>6,864,029</u> | <u>732,381</u> |
| CAPITAL ASSETS | | |
| Land | 766,473 | 766,473 |
| Construction in progress | 2,300 | - |
| Depreciable capital assets, net of accumulated depreciation | <u>17,724,484</u> | <u>19,807,726</u> |
| | <u>18,493,257</u> | <u>20,574,199</u> |
| OTHER ASSETS | | |
| Long-term lease receivable, net of current portion | 596,786 | 622,251 |
| Investment in joint venture | <u>3,611,954</u> | <u>3,826,652</u> |
| | <u>4,208,740</u> | <u>4,448,903</u> |
| Total assets | 34,298,493 | 31,157,571 |
| DEFERRED OUTFLOW OF RESOURCES | | |
| Deferred loss on refunding | <u>528,644</u> | <u>595,420</u> |
| Total assets and deferred outflow of resources | <u><u>\$ 34,827,137</u></u> | <u><u>\$ 31,752,991</u></u> |

See accompanying notes.

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections
Statements of Net Position
December 31, 2023 and 2022**

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------------|-----------------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 110,077 | \$ 32,417 |
| Other payables | 338,842 | 670,956 |
| Accrued liabilities | | |
| Wages and benefits | 60,788 | 45,509 |
| Interest | 114,473 | 98,817 |
| Other | 15,901 | 12,183 |
| Estimated third-party payor settlements | 292,374 | 292,374 |
| Current portion of long-term debt obligations | <u>3,035,000</u> | <u>2,580,000</u> |
| Total current liabilities | 3,967,455 | 3,732,256 |
| LONG-TERM DEBT OBLIGATIONS, net of current portion | 35,141,855 | 32,242,984 |
| OPEB LIABILITY | <u>646,187</u> | <u>813,550</u> |
| Total liabilities | <u>39,755,497</u> | <u>36,788,790</u> |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred lease inflows | <u>592,937</u> | <u>629,374</u> |
| NET POSITION | | |
| Net investment in capital assets | (5,419,414) | (6,078,785) |
| Restricted for | | |
| Debt service | 431,935 | 654,626 |
| Capital projects | 122,262 | 215,190 |
| Unrestricted | <u>(656,080)</u> | <u>(456,204)</u> |
| Total net position | <u>(5,521,297)</u> | <u>(5,665,173)</u> |
| Total liabilities, deferred inflows of resources, and net position | <u><u>\$ 34,827,137</u></u> | <u><u>\$ 31,752,991</u></u> |

See accompanying notes.

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections**
Statements of Revenue, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|------------------------------|------------------------------|
| OPERATING REVENUES | | |
| Revenue from tax levies for maintenance and operations | \$ 1,616,673 | \$ 1,569,388 |
| Lease and other revenue | 121,258 | 132,274 |
| Total operating revenues | <u>1,737,931</u> | <u>1,701,662</u> |
| OPERATING EXPENSES | | |
| Salaries and wages | 516,697 | 423,774 |
| Employee benefits | (36,102) | 47,971 |
| Purchased services | 487,607 | 243,153 |
| Professional fees | 181,979 | 73,977 |
| Supplies | (33,538) | 11,912 |
| Utilities | 18,685 | 19,878 |
| Other expenses | 12,279 | 9,744 |
| Insurance | 24,430 | 23,955 |
| Depreciation | 2,084,950 | 2,175,637 |
| Interest | 246,023 | 173,905 |
| Total operating expenses | <u>3,503,010</u> | <u>3,203,906</u> |
| Operating loss | <u>(1,765,079)</u> | <u>(1,502,244)</u> |
| NONOPERATING INCOME (EXPENSE) | | |
| Revenue from tax levies for general obligation bonds | 2,763,961 | 2,646,325 |
| Interest income | 219,321 | 86,549 |
| Interest expense for general obligation bonds, net | (814,980) | (909,514) |
| Other expense | (4,853) | (42,708) |
| Income from investment in Smokey Point Medical Center, LLC | 432,802 | 492,850 |
| Net nonoperating income, net | <u>2,596,251</u> | <u>2,273,502</u> |
| CHANGE IN NET POSITION BEFORE TRANSFERS | 831,172 | 771,258 |
| TRANSFER OF ASSETS | <u>(687,296)</u> | <u>(1,094,081)</u> |
| CHANGE IN NET POSITION | 143,876 | (322,823) |
| NET POSITION, beginning of year | <u>(5,665,173)</u> | <u>(5,342,350)</u> |
| NET POSITION, end of year | <u><u>\$ (5,521,297)</u></u> | <u><u>\$ (5,665,173)</u></u> |

See accompanying notes.

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Connections
Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|----------------------------|
| Increase (Decrease) in Cash and Cash Equivalents | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from revenue, net | \$ 1,610,434 | \$ 1,571,787 |
| Payments to suppliers and contractors | (614,465) | (423,098) |
| Payments to employees and vendors | (632,679) | (528,770) |
| Other receipts and payments, net | (38,080) | 155,451 |
| Net cash from operating activities | <u>325,210</u> | <u>775,370</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of capital assets | (11,430) | - |
| Principal payments on long-term debt obligations | (2,580,000) | (2,435,000) |
| Interest payments on long-term debt obligations | (1,244,700) | (1,291,530) |
| Proceeds from issuance of general obligation bonds | 6,075,000 | - |
| Cash paid for bond issuance costs | 125,000 | - |
| Cash from tax levies for general obligation bonds | 2,755,140 | 2,652,815 |
| Cash paid in transfer of assets | (1,019,410) | (1,143,438) |
| Other | 2,569 | 10,702 |
| Net cash from capital and related financing activities | <u>4,102,169</u> | <u>(2,206,451)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Distribution from joint venture | 647,500 | 675,000 |
| Interest received | 219,321 | 86,549 |
| Net cash from investing activities | <u>866,821</u> | <u>761,549</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 5,294,200 | (669,532) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>5,901,616</u> | <u>6,571,148</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u><u>\$ 11,195,816</u></u> | <u><u>\$ 5,901,616</u></u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION | | |
| Cash | \$ 626,918 | \$ 1,174,840 |
| Cash equivalents included in short-term investments | 3,448,100 | 3,497,293 |
| Cash equivalents included in restricted cash | 7,120,798 | 1,229,483 |
| Total cash and cash equivalents | <u><u>\$ 11,195,816</u></u> | <u><u>\$ 5,901,616</u></u> |

See accompanying notes.

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections**
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| Increase (Decrease) in Cash and Cash Equivalents | | |
| RECONCILIATION OF OPERATING LOSS TO NET CASH | | |
| FROM OPERATING ACTIVITIES | | |
| Operating loss | \$ (1,765,079) | \$ (1,502,244) |
| Adjustments to reconcile operating loss to net cash | | |
| from operating activities | | |
| Net change in OPEB liability | (167,363) | (65,628) |
| Interest expense considered a capital financing activity | 246,023 | 173,905 |
| Depreciation | 2,084,950 | 2,175,637 |
| Amortization of deferred lease inflows | (36,437) | (36,437) |
| Change in assets and liabilities | | |
| Other receivables | (153,366) | 38,966 |
| Prepaid expenses | (4,401) | (576) |
| Lease receivable | 24,226 | 23,047 |
| Accounts payable | 77,660 | (41,653) |
| Accrued liabilities | 18,997 | 10,353 |
| | <u> </u> | <u> </u> |
| NET CASH FROM OPERATING ACTIVITIES | <u>\$ 325,210</u> | <u>\$ 775,370</u> |

See accompanying notes.

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections
Notes to Financial Statements**

Note 1 – Organization

Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections (the District), serving Arlington, Washington, and surrounding communities, is organized as a municipal corporation pursuant to the laws of the state of Washington.

The District and PHD No. 1 entered into an Affiliation Agreement regarding the Lease and Operation of Cascade Valley Hospital and Clinics, dated December 4, 2015 (the Affiliation Agreement). In accordance with the Affiliation Agreement, PHD No. 1 began operating the District on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between PHD No. 1 and the District. PHD No. 1 leased substantially all of its assets, certain other clinic facilities, the District's interest as lessor in certain leases, and intangible assets to PHD No. 1 for a term of 30 years. PHD No. 1 will pay the District an annual base rent of \$10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, the District transferred all of its cash and cash equivalents in excess of a retained amount to PHD No. 1 in June 2017. The retained amount is equal to the District's known and contingent liabilities and debts plus a minimum cash balance of \$1,000,000. Thereafter, the District will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point Medical Center, LLC. Smokey Point Medical Center, LLC, is owned 50% by the District and 50% by PHD No. 1. The proceeds from the District's regular property tax levy and the Smokey Point Medical Center, LLC, lease will be used to pay the District's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by the District from its regular property tax levy and the Smokey Point Medical Center, LLC, lease exceeds the District's existing obligations in any year, and the District cash balance is equal to \$1,000,000, the excess funds will be transferred to PHD No. 1 annually. Cash transferred by the District to PHD No. 1 totaled \$1,019,410 and \$1,114,438 for the years ended December 31, 2023 and 2022, respectively. Due to the transfer of operations in 2016, revenues and expenses related to its hospital and clinic operations will no longer be received or incurred. The District recorded a loss on transfer of assets of \$687,296 and \$1,094,081 for the years ended December 31, 2023 and 2022, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Note 2 – Summary of Significant Accounting Policies

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Accrual basis – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipts or disbursement of cash.

Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections

Notes to Financial Statements

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – The District defines cash on deposit, investments in the local government investment pool (LGIP) included in short-term investments and restricted cash and investments, and other highly liquid investments with initial maturity periods of three months or less to be cash and cash equivalents for purposes of the statements of cash flows.

Short-term investments – Investments include assets set aside by the Board of Commissioners for future capital improvements, other uses over which the Board retains control, and bond funds. The Snohomish County Treasurer is the ex-officio treasurer of the District. Excess cash is invested in certificates of deposit, a county investment pool, or a state government investment pool. Cash and pooled investments are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). These investments are not considered to be cash and cash equivalents or restricted assets and are reported at fair value. Investment interest, dividends, and unrealized and realized gains and losses are included in nonoperating income when earned.

Restricted cash and investments – Certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. These funds are invested in a county investment pool or a state government investment pool in accordance with state guidelines. Amounts required to meet current liabilities have been classified as current assets in the accompanying statements of net position.

Leases receivable and deferred lease inflows – The District engages in right-to-use leases in the capacity of the lessor for contracts that convey the control of the right to use the District's asset to another party and have a term exceeding one year. At the contract inception, the lease receivable and deferred inflow of resources are measured at the present value of payments expected during the contract term. The District uses a discount rate that is explicitly stated in the contract, or alternatively, the District's borrowing rate at the start of the contract. Revenue is recognized over the term of the contract.

Capital assets – Capital asset acquisitions are recorded at cost. Donated assets are recorded at fair market value at the date of contribution, which is thereafter treated as cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows:

| | |
|-------------------|-------------|
| Land improvements | 5–12 years |
| Buildings | 10–31 years |
| Fixed equipment | 5–20 years |
| Movable equipment | 3–20 years |

**Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections**
Notes to Financial Statements

Expenditures for maintenance and repairs are charged to operations as incurred. Betterments and major renewals are capitalized. Expenditures that materially increase value, change capacities, or extend useful lives of buildings and equipment are capitalized. The District's capitalization policy is \$1,000 and a useful life of three years.

The District evaluates capital assets for impairment in accordance with GASB statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Assets to be disposed of would be recognized at the lower of carrying value or fair value less the estimated cost of disposal. Assets that are held and in use are reviewed for impairment whenever indicators of impairment exist. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses. No impairments have been identified as of December 31, 2023 and 2022

Investment in joint venture – The District has an investment in a joint venture that provides health care services (Note 7). The District accounts for this investment using the equity method, under which its share of net income is reported in nonoperating income.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Postemployment benefits other than pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Any material deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates.

Net position – Net position of the District 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 outstanding balances of the 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 particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with the county treasurer as required by bond indentures. The unrestricted component of net position is the remaining net amount of assets and liabilities that is not included in the determination of net investment in capital assets or the restricted component of net position.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues primarily result from tax revenue from maintenance and operations levy, and grants. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred by the District, other than financing costs paid by specific tax proceeds.

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Property taxes are levied by the county on the District's behalf and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values. Tax levy proceeds used to fund operating costs of the District are reported as operating revenue. Voter-approved, excess tax levy proceeds pledged for repayment of general obligation bonds are reported as nonoperating income.

The District's estimates of final settlements to or from Medicare and Medicaid have been recorded in the accompanying statements of net position. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement.

From prior to affiliation, when reimbursement settlements are received, or when information becomes available regarding changes in recorded reimbursement, variations from amounts previously established as preliminary settlements are accounted for as a contractual adjustment in the period the settlements are received, or when information regarding reimbursement changes becomes available.

Federal income tax – No provision has been made for federal income taxes, because the District is a municipal corporation and is exempt from federal income tax.

Newly adopted accounting pronouncement – The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The District did not have any such arrangements as of December 31, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the year ending December 31, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The impact of the adoption was not considered material to the financial statements.

Reclassifications – The District reclassified certain amounts relating to its prior period results to conform to its current period presentation within the financial statements. These reclassifications have not changed the result of operations of prior periods.

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Note 3 – Deposits and Investments

Under resolution, the District pledges to levy taxes annually in an amount sufficient to pay the principal of and interest on the unlimited tax general obligation bonds. Upon collection, the funds are to be deposited in the bond fund restricted for debt service on the unlimited general obligation bonds.

Under resolution, the District established and deposited funds into a project fund to acquire and construct an ambulatory health care facility to be owned by Smokey Point Medical Center, LLC, and improvements to other health care facilities of the District, as well as acquire, construct, and install all necessary furniture, equipment, apparatus, fixtures, and appurtenances in the foregoing.

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool, eligible bankers' acceptances, and repurchase agreements (up to 30 days).

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

At December 31, 2023 and 2022, all deposits and investments of the District are categorized as Category 1 and, including limited use taxes receivable, consist of the following:

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------------|----------------------------|
| Unrestricted cash | <u>\$ 626,918</u> | <u>\$ 1,174,840</u> |
| Short-term investments | | |
| Local government investment pool | <u>3,448,100</u> | <u>3,497,293</u> |
| Restricted cash and investments | | |
| Restricted for capital improvements | | |
| Local government investment pool | 6,776,446 | 653,619 |
| Restricted for debt service on general obligation bonds | | |
| Local government investment pool | 344,352 | 575,864 |
| Taxes receivable | <u>87,583</u> | <u>78,762</u> |
| | <u>7,208,381</u> | <u>1,308,245</u> |
| Total deposits, investments, and taxes receivable | <u><u>\$ 11,283,399</u></u> | <u><u>\$ 5,980,378</u></u> |

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The District participates in the Washington State Local Government Pool and Snohomish County Investment Pools (LGIP). The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST, and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the FDIC. Collateral protection is provided by the PDPC.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments that will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

Note 4 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457 and §401(a). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 7% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

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Under the §401(a) plan, the District contributes up to 7% of the employee's eligible compensation as long as the employee contributes a minimum of 3%. The District contributes up to 7%, not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The District's contributions to the employee plans totaled approximately \$37,000 and \$38,000 in 2023 and 2022, respectively. Contributions made by employees to the benefit plans totaled approximately \$50,000 and \$31,000 in 2023 and 2022, respectively. For more information on the plans, contact the District's office.

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Notes to Financial Statements

Note 5 – Capital Assets

The schedule of capital asset activity for the years ended December 31, 2023 and 2022, was as follows:

| | Beginning Balance January 1, 2023 | Additions | Retirements | Ending Balance December 31, 2023 |
|--|---|-----------------------|--------------------|--|
| ASSETS AT COST | | | | |
| NONDEPRECIABLE CAPITAL ASSETS | | | | |
| Land | \$ 766,473 | \$ - | \$ - | \$ 766,473 |
| Construction in progress | - | 2,300 | - | 2,300 |
| DEPRECIABLE CAPITAL ASSETS | | | | |
| Land improvements | 3,672,675 | - | - | 3,672,675 |
| Buildings | 34,574,678 | - | - | 34,574,678 |
| Equipment | 29,522,356 | 9,130 | (429,158) | 29,102,328 |
| LESS ACCUMULATED DEPRECIATION | | | | |
| Land improvements | 2,682,076 | 139,070 | - | 2,821,146 |
| Buildings | 21,233,226 | 833,559 | - | 22,066,785 |
| Equipment | 24,046,681 | 1,112,321 | (421,736) | 24,737,266 |
| DEPRECIABLE CAPITAL ASSETS, net | 19,807,726 | (2,075,820) | (7,422) | 17,724,484 |
| CAPITAL ASSETS, net | \$ 20,574,199 | \$ (2,073,520) | \$ (7,422) | \$ 18,493,257 |
| | | | | |
| | Beginning Balance January 1, 2022 | Additions | Retirements | Ending Balance December 31, 2022 |
| ASSETS AT COST | | | | |
| NONDEPRECIABLE CAPITAL ASSETS | | | | |
| Land | \$ 766,473 | \$ - | \$ - | \$ 766,473 |
| DEPRECIABLE CAPITAL ASSETS | | | | |
| Land improvements | 3,672,675 | - | - | 3,672,675 |
| Buildings | 34,581,076 | - | (6,398) | 34,574,678 |
| Equipment | 30,214,089 | - | (691,733) | 29,522,356 |
| LESS ACCUMULATED DEPRECIATION | | | | |
| Land improvements | 2,538,204 | 143,872 | - | 2,682,076 |
| Buildings | 20,383,701 | 855,390 | (5,865) | 21,233,226 |
| Equipment | 23,509,162 | 1,176,375 | (638,856) | 24,046,681 |
| DEPRECIABLE CAPITAL ASSETS, net | 22,036,773 | (2,175,637) | (53,410) | 19,807,726 |
| CAPITAL ASSETS, net | \$ 22,803,246 | \$ (2,175,637) | \$ (53,410) | \$ 20,574,199 |

Note 6 – Lease Receivable

The District is engaged as a lessor for two tenants who lease ground space from the District. The lease agreements are recorded at the net present value of the agreements at an imputed interest rate of 5%, with monthly minimum payments due as stipulated in the underlying contracts. As a result, lease receivable and a deferred inflow of resources are reflected in the statements of net position.

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The following is a summary of changes in lease receivable for the years ended December 31, 2023 and 2022:

| | Beginning Balance January 1, 2023 | Increases | Decreases | Ending Balance December 31, 2023 | Amounts Due Within One Year |
|------------------|--|-------------|--------------------|---|-----------------------------------|
| Lease receivable | <u>\$ 646,477</u> | <u>\$ -</u> | <u>\$ (24,226)</u> | <u>\$ 622,251</u> | <u>\$ 25,465</u> |

| | Beginning Balance January 1, 2022 | Increases | Decreases | Ending Balance December 31, 2022 | Amounts Due Within One Year |
|------------------|--|-------------|--------------------|---|-----------------------------------|
| Lease receivable | <u>\$ 669,524</u> | <u>\$ -</u> | <u>\$ (23,047)</u> | <u>\$ 646,477</u> | <u>\$ 24,226</u> |

Future receipts under these leases as of year ended December 31, 2023, are as follows:

| | Principal | Interest | Total Receipts |
|-----------|-------------------|-------------------|-------------------|
| 2024 | \$ 25,465 | \$ 30,534 | \$ 55,999 |
| 2025 | 26,768 | 29,231 | 55,999 |
| 2026 | 28,138 | 27,862 | 56,000 |
| 2027 | 29,577 | 26,422 | 55,999 |
| 2028 | 31,091 | 24,909 | 56,000 |
| 2029-2033 | 181,004 | 98,994 | 279,998 |
| 2034-2038 | 212,498 | 48,095 | 260,593 |
| 2039-2042 | 87,710 | 5,904 | 93,614 |
| | <u>\$ 622,251</u> | <u>\$ 291,951</u> | <u>\$ 914,202</u> |

Note 7 – Investment in Joint Venture

Smokey Point Medical Center, LLC – Together with PHD No. 1, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns buildings, land, and equipment leased to operate the Skagit Regional Clinics – Smokey Point. The District has a 50% interest in SPMC at December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, the District recognized income of \$432,802 and \$492,850, respectively, for its share of the net income realized by Smokey Point Medical Center, LLC. The District's recorded investment in Smokey Point Medical Center, LLC, was \$3,611,954 and \$3,826,652 at December 31, 2023 and 2022, respectively. The District received dividends of \$647,500 and \$675,000 in the years ending December 31, 2023 and 2022, respectively.

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Unaudited financial information for the District's joint venture is summarized below:

| | 2023 | 2022 |
|------------------------|----------------------|----------------------|
| Current assets | \$ 23,101 | \$ 22,785 |
| Noncurrent assets, net | 18,474,819 | 19,999,321 |
| | <u>\$ 18,497,920</u> | <u>\$ 20,022,106</u> |
| Current liabilities | \$ 6,588 | \$ 4,602 |
| Equity | 18,491,332 | 20,017,504 |
| | <u>\$ 18,497,920</u> | <u>\$ 20,022,106</u> |
| Revenue | \$ 1,402,620 | \$ 1,430,853 |
| Expenses | 499,226 | 509,104 |
| Net income | <u>\$ 903,394</u> | <u>\$ 921,749</u> |

Note 8 – Long-Term Debt Obligations

Interest rates and maturities of long-term debt obligations of the District at December 31, 2023 and 2022, consisted of the following:

| | 2023 | 2022 |
|--|----------------------|----------------------|
| Unlimited Tax General Obligation Refunding Bonds, 2016, 3.00% to 5.00%, due serially on December 1, in amounts from \$2,175,000 in 2024 to \$3,385,000 in 2031, plus interest paid semiannually, net of unamortized premium of \$2,106,855 and \$2,372,984 in 2023 and 2022, respectively. | \$ 24,366,855 | \$ 26,652,984 |
| Limited Tax General Obligation Refunding Bond, 2021, 2.00%, due serially on December 1, in amounts from \$570,000 in 2024 to \$700,000 in 2035, plus interest paid semiannually. | 7,610,000 | 8,170,000 |
| Limited Tax General Obligation Bond, 2023, 4.84%, due serially on December 1, in amounts from \$290,000 in 2024 to \$565,000 in 2038, plus interest paid semiannually. | <u>6,200,000</u> | <u>-</u> |
| Long-term debt | 38,176,855 | 34,822,984 |
| Less current portion | <u>3,035,000</u> | <u>2,580,000</u> |
| Long-term portion | <u>\$ 35,141,855</u> | <u>\$ 32,242,984</u> |

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During 2023, the District issued the Limited Tax General Obligation Bond, 2023, to finance the acquisition of property for the operation of an outpatient clinic and other capital improvements. The new bond proceeds increased the District's aggregate debt service payments by \$6,200,000 over the next 15 years.

Changes in the District's long-term debt obligations and other noncurrent liabilities during the years ended December 31, 2023 and 2022, are summarized below:

| | Beginning Balance January 1, 2023 | Additions | Reductions | Ending Balance December 31, 2023 | Amounts Due Within One Year |
|---|--|---------------------|---------------------|---|-----------------------------------|
| LONG-TERM DEBT | | | | | |
| Unlimited Tax General Obligation Refunding Bonds, 2016 | \$ 26,652,984 | \$ - | \$ 2,286,129 | \$ 24,366,855 | \$ 2,175,000 |
| Limited Tax General Obligation Refunding Bond, 2021 | 8,170,000 | - | 560,000 | 7,610,000 | 570,000 |
| Limited Tax General Obligation Bond, 2023 | - | 6,200,000 | - | 6,200,000 | 290,000 |
| OPEB Liability | 813,550 | - | 167,363 | 646,187 | - |
| Total noncurrent liabilities | <u>\$ 35,636,534</u> | <u>\$ 6,200,000</u> | <u>\$ 3,013,492</u> | <u>\$ 38,823,042</u> | <u>\$ 3,035,000</u> |
| | Beginning Balance January 1, 2022 | Additions | Reductions | Ending Balance December 31, 2022 | Amounts Due Within One Year |
| LONG-TERM DEBT | | | | | |
| Unlimited Tax General Obligation Refunding Bonds, 2016 | \$ 28,799,113 | \$ - | \$ 2,146,129 | \$ 26,652,984 | \$ 2,020,000 |
| Limited Tax General Obligation Refunding Bond, 2021 | 8,725,000 | - | 555,000 | 8,170,000 | 560,000 |
| OPEB Liability | 879,178 | - | 65,628 | 813,550 | - |
| Total noncurrent liabilities | <u>\$ 38,403,291</u> | <u>\$ -</u> | <u>\$ 2,766,757</u> | <u>\$ 35,636,534</u> | <u>\$ 2,580,000</u> |

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Scheduled principal and interest repayments on long-term debt are as follows at December 31:

| | Principal | Interest |
|---|-----------------------------|---------------------|
| 2024 | \$ 3,035,000 | \$ 1,373,680 |
| 2025 | 3,225,000 | 1,239,494 |
| 2026 | 3,425,000 | 1,096,132 |
| 2027 | 3,630,000 | 943,244 |
| 2028 | 3,845,000 | 780,430 |
| 2029–2033 | 14,955,000 | 1,882,742 |
| 2034–2038 | 3,955,000 | 426,722 |
| | <u>36,070,000</u> | <u>\$ 7,742,444</u> |
| Plus amount representing net unamortized bond premium | <u>2,106,855</u> | |
| | <u><u>\$ 38,176,855</u></u> | |

The District has pledged regular and excess tax levies and set aside revenue of the District, if necessary, sufficient to make principal and interest payments on the general obligation bonds. Further, tax levies collected and restricted for debt service on unlimited tax general obligation bonds are in restricted cash and investments.

Note 9 – Commitments and Contingencies

Litigation – In the general course of operations, the District may be named as a defendant in legal proceedings. Significant legal proceedings are generally related to matters covered by insurance. The District may be liable for payment of a deductible in some cases. However, management is of the opinion that such amounts will not result in any significant liability to the District in relation to its financial position or liquidity.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters, and no claims have exceeded such coverage in any of the preceding years.

Note 10 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB), which is an agent multiple-employer defined benefit plan. The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

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Benefits provided – The subsidies provided by PEBB include the following:

Explicit medical subsidy for post-65 retirees and spouses
Implicit medical subsidy
Implicit dental subsidy

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$150 or 50% of the monthly premiums. As of January 1, 2020, the subsidy was increased to \$183 per month, and remains at that amount in 2023.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees covered by benefit terms – At December 31, 2023 and 2022, the following employees and retirees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive plan members or beneficiaries currently receiving benefit payments | 11 |
| Active plan members | <u>4</u> |
| | <u><u>15</u></u> |

Contributions – PEBB administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. Contributions are set each biennium as part of the Washington State's budget process. The benefits are funded on a pay-as you-go basis.

Other information – PEBB does issue a stand-alone financial report, but information about PEBB can be found at <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

Total OPEB liability

The District's total OPEB liability was \$646,187 and \$813,550 as of the reporting dates of December 31, 2023 and 2022, respectively. The corresponding measurement dates was June 30, 2023 and 2022, respectively. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement dates and the reporting dates.

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Assumptions and other inputs – The total OPEB liability in December 31, 2023 and 2022, was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Inflation | 2.35% as of 2023 and 2.75% as of 2022 |
| Salary increases | 3.25% as of 2023 and 3.50% as of 2022, plus service-based increases |
| Healthcare cost trend rate | As of 2023, initial rate ranges from about 2.00% to 16.00%, reaching an ultimate rate of approximately 3.80% in 2075. As of 2022, initial rate ranges from about 2.00% to 11.00%, reaching an ultimate rate of approximately 4.30% in 2075. |
| Discount rate (liabilities) | 3.65% and 3.54% as of 2023 and 2022, respectively |

The discount rate was based on the Bond Buyer General Obligation 20-bond Municipal Index for bonds that mature in 20 years as of the measurement date. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2022 actuarial valuation for Washington State Department of Retirement Systems' Public Employees' Retirement System.

The assumptions used for the December 31, 2023 and 2022, reporting were based on a census date of June 30, 2023 and 2022, respectively.

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Notes to Financial Statements

Changes in the total OPEB liability

| | |
|---|------------|
| Balance at December 31, 2021 | \$ 879,178 |
| Changes for the year | |
| Service cost | 11,717 |
| Interest | 18,889 |
| Changes of assumptions or other inputs and differences between expected and actual experience | (63,282) |
| Benefit payments | (32,952) |
| Net changes | (65,628) |
| Balance at December 31, 2022 | 813,550 |
| Changes for the year | |
| Service cost | 5,577 |
| Interest | 28,127 |
| Changes of assumptions or other inputs and differences between expected and actual experience | (151,463) |
| Benefit payments | (49,604) |
| Net changes | (167,363) |
| Balance at December 31, 2023 | \$ 646,187 |

Changes of assumptions and other inputs reflect a change in the discount rate from 3.54% in 2022 to 3.65% in 2023.

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

| | 1% Decrease (2.65%) | Discount Rate (3.65%) | 1% Increase (4.65%) |
|----------------------|------------------------|--------------------------|------------------------|
| 2023 | | | |
| Total OPEB liability | \$ 718,776 | \$ 646,187 | \$ 584,859 |
| | 1% Decrease (2.54%) | Discount Rate (3.54%) | 1% Increase (4.54%) |
| 2022 | | | |
| Total OPEB liability | \$ 924,123 | \$ 813,550 | \$ 722,258 |

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Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rates</u> | <u>1% Increase</u> |
|----------------------|--------------------|--|--------------------|
| 2023 | | | |
| Total OPEB liability | <u>\$ 584,931</u> | <u>\$ 646,187</u> | <u>\$ 718,227</u> |
| | | | |
| | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rates</u> | <u>1% Increase</u> |
| 2022 | | | |
| Total OPEB liability | <u>\$ 719,869</u> | <u>\$ 813,550</u> | <u>\$ 927,441</u> |

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of approximately 16.00% to 3.80% in 2075.

Note 11 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county. 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 District by the county treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general purposes. The Washington State Constitution and Washington State Law, RCW 84-55-010, limit the rate. The District may also levy taxes at a lower rate. Additional amounts of tax need to be authorized by a vote of the residents of the District.

For 2023 and 2022, the District's regular levy was \$0.19 and \$0.23 per \$1,000 on a total assessed valuation of \$8,368,378,924 and \$6,429,935,833, for a total regular levy of \$1,562,404 and \$1,487,197, respectively. There is a voter-approved tax levy for bond service of the unlimited tax general obligation bonds. For 2023 and 2022, the tax levy for bond service was \$0.33 and \$0.41 per \$1,000 on a total assessed valuation of \$8,281,890,524 and \$6,354,469,653, for a total additional levy of \$2,769,395 and \$2,615,193, respectively.

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.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Commissioners

Public Hospital District No. 3 of Snohomish County, Washington,
dba Stilly Valley Health Connections

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' financial statements, and have issued our report thereon dated May 13, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' internal control. Accordingly, we do not express an opinion on the effectiveness of Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington
May 13, 2024

Required Supplementary Information

Public Hospital District No. 3 of Snohomish County, Washington, dba Stilly Valley Health Connections

Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|
| Total OPEB liability | | | | | | |
| Service cost | \$ 5,577 | \$ 11,717 | \$ 8,807 | \$ 6,302 | \$ 6,038 | \$ 6,545 |
| Interest | 28,127 | 18,889 | 21,993 | 27,818 | 34,303 | 32,793 |
| Changes of assumptions or other inputs and differences between expected and actual experience | (151,463) | (63,282) | (118,021) | 202,425 | (94,752) | (36,877) |
| Benefit payments | (49,604) | (32,952) | (39,675) | (37,641) | (37,156) | (26,156) |
| Net change in total OPEB liability | (167,363) | (65,628) | (126,896) | 198,904 | (91,567) | (23,695) |
| Total OPEB liability – beginning | 813,550 | 879,178 | 1,006,074 | 807,170 | 898,737 | 922,432 |
| Total OPEB liability – ending | <u>\$ 646,187</u> | <u>\$ 813,550</u> | <u>\$ 879,178</u> | <u>\$ 1,006,074</u> | <u>\$ 807,170</u> | <u>\$ 898,737</u> |
| Plan fiduciary net position | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net OPEB liability | <u>\$ 646,187</u> | <u>\$ 813,550</u> | <u>\$ 879,178</u> | <u>\$ 1,006,074</u> | <u>\$ 807,170</u> | <u>\$ 898,737</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | <u>0%</u> | <u>0%</u> | <u>0%</u> | <u>0%</u> | <u>0%</u> | <u>0%</u> |
| Covered-employee payroll | <u>\$ 445,781</u> | <u>\$ 373,496</u> | <u>\$ 323,635</u> | <u>\$ 371,533</u> | <u>\$ 339,973</u> | <u>\$ 329,329</u> |
| Total OPEB liability as a percentage of covered- employee payroll | <u>144.96%</u> | <u>217.82%</u> | <u>271.66%</u> | <u>270.79%</u> | <u>237.42%</u> | <u>272.90%</u> |

*This schedule is accumulating years to meet the requirement to show information for 10 years.

However, until a full 10-year trend is compiled, the District will present information for available years.

See report of independent auditors.

