Report of Independent Auditors
and Financial Statements

**Public Hospital District No. 1
of Skagit County, Washington**

December 31, 2023 and 2022

MOSSADAMS

Table of Contents

Management’s Discussion and Analysis

This discussion and analysis provides an overview of the financial position and financial activities of Public Hospital District No. 1 of Skagit County, Washington (the District). The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division, which is known as Skagit Regional Clinics (SRC), was acquired when SVH employed the physicians of the former Skagit Valley Medical Center (SVMC) and started operations. On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH and the SRC operations. On June 1, 2016, the District began leasing the facilities of Public Hospital District No. 3 of Snohomish County and providing hospital and clinic services under the name Cascade Valley Hospital and Clinics (CVH).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section.

The statements of net position and the statements of revenues, expenses, and changes in net position report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. These two statements report the District's net position and changes in it. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Financial Highlights

- SRH's total operating revenue grew by 16.4%, or $85.9 million, from $523.6 million in 2022, to $609.4 million in 2023. Over the same period, total operating expenses grew by 8.2%, or $45.3 million, from $549.4 million in 2022, to $594.6 million in 2023.

- SRH ended 2023 with operating income of $14.8 million, a change of $40.6 million from the operating loss of $25.8 million recognized in 2022. In 2023, SRH had net non-operating income of $11.9 million, capital contributions of $1.1 million, and a gain on transfer of assets of $1.0 million. This resulted in an increase in net position of $28.9 million for the year.

- In December 2021, the District carried out the advance refunding of the outstanding Hospital Revenue Improvement and Refunding Bonds, 2013A, with the issuance of the Hospital Revenue Refunding Bond, Series 2021. The advance refunding saved the District a total of $4.3 million and a net present value savings of $3.4 million at the time of issuance.

- In 2022, the District issued a request for proposal for the replacement of the District's Enterprise Resource Planning (ERP) system with the vision of achieving clinical and business system operational efficiency and excellence through a fully integrated system. After a thorough review of the responses, the District selected the Infor CloudSuite solution. Implementation of the ERP system began in 2022 and is expected to take at least three years to become fully operable. The total cost of the system, including both capital and operating costs, is expected to be $11.2 million.

- In 2022, the District adopted the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87). GASB 87 changed the accounting and reporting for leases by establishing a single model for lease accounting based on the foundational principle that leases represent a financing of the right to use an underlying asset. GASB 87 applies to contracts that convey a right to use a non-financial asset in exchange or exchange-like transaction for a term exceeding 12 months. Under GASB 87, a lessee is required to recognize a lease liability and a right-to-use asset (an intangible asset), and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District has applied the new standard retroactively to the year ending December 31, 2021. As a result, the District recognized $72.4 million in assets made up of $67.3 million in right-to-use assets, net of accumulated amortization, $4.8 million in long term lease receivable, and $0.3 million in other current assets. In addition, the District recognized $72.4 million in liabilities and deferred outflows, made up of $62.1 million in long term lease liability, $6.3 million in current portion of lease liability, $94 thousand in accrued interest payable, and $5.0 million in deferred lease inflows. See Note 5 in the accompanying notes to financial statements for additional information.

- In 2023, the District adopted the GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). GASB 96 defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset), provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. See Note 5 in the accompanying notes to financial statements for additional information about SBITAs. The District has applied the new standard retrospectively to the year ended December 31, 2022. As of January 1, 2022, the District recognized $1.4 million in assets, $1.1 million in liabilities, and $0.3 million in Net Assets. See Note 2 in the accompanying notes to financial statements for additional information on the restatement of 2022.

- The District entered into an agreement to construct the Station Square facility, a three-story 30,000 square foot medical office building (MOB) in downtown Mount Vernon, less than a mile west of SVH's main campus. The construction began in August 2021 and was completed on time and on budget, opening to patients January 9, 2023. The building was constructed and owned by a real estate developer, and leased by SRH. The District had an option to purchase this building in 2024 at a price of $26.4 million which it exercised. The purchase of the building was completed in April of 2024 with funds from the Hospital Revenue Bonds, 2024. The Station Square facility helps address the need for additional medical office space, as well as the need for primary care services in the community, by offering services including primary care, urgent care, lab, and imaging, all operated as departments of SRH.

- Construction began on a three-story 60,000 square foot outpatient surgery center and medical office building, located just northwest of SVH in Mount Vernon, in June of 2022. Construction was completed on time and on budget, opening to patients on December 12, 2023. The building was constructed and is owned by a real estate developer, and leased by the District with an option to purchase in 2034. The Mount Vernon Surgery Center (Surgery Center) and MOB has four operating rooms, three endoscopy suites, and one procedure room; diagnostic imaging and clinics totaling 62 outpatient exam rooms for Gastroenterology; Ear, Nose and Throat; Foot and Ankle; Interventional Pain Medicine; Orthopedics and Sports Medicine; and Spine Surgery. Other surgical specialties that will provide services in the new surgical center include, but is not limited to, Urology, General Surgery, Podiatry, Plastic Surgery, Gynecology, and Pain Management. The cost to furnish and equip the Surgery Center and MOB is approximately $26.0 million of which the District has spent approximately $17.0 million as of December 31, 2023. The District will refund itself for these purchases with proceeds from the Hospital Revenue Bonds, 2024.

- In February of 2024, the District issued $72.5 million in series 2024 tax-exempt revenue bonds. Proceeds of the bonds will be used to purchase the Station Square MOB, construct a medical office building in the District's southern market, centered around Cascade Valley Hospital, and reimburse the District for furnishing and equipping the Surgery Center and MOB.

- Tamara Ceseña, MBA, was promoted to Regional Vice President and Chief Financial Officer (CFO) in January 2023 after serving in a variety of finance roles in the organization since 1994. Ceseña takes on the role held by CFO Paul Ishizuka, who retired at the end of January 2023 after serving the District for 5 years. Ceseña started with Skagit Regional Health (then known as Affiliated Health Services) in 1994, departing for a brief stint with Providence Medical Center in 2000 before returning to the organization. Her roles at Skagit Regional Health have spanned titles including Reimbursement Manager, Revenue Cycle Director, and Vice President of Finance. She was the leader in the 2016 consolidation of the revenue cycle structure at Skagit Regional Health, in addition to having oversight of value-based initiatives, payor contracting, and governmental reporting functions. Ceseña holds a Bachelor of Arts from Western Washington University and a Master of Business Administration in Healthcare Administration from City University.

COVID-19

The novel coronavirus (COVID-19) pandemic, first identified in December of 2019, has had profound and far-reaching effects on health systems, economies, and society, at a local, national, and global level, and has had a significant impact on the District's operations and financial condition. Major federal and state stimulus and liquidity support came in several forms to address the negative impacts of COVID-19. See Note 17 in the accompanying notes to financial statements for additional information about the impact of the COVID-19 pandemic and the federal and state stimulus.

Operating Statistics

Following are key operating statistics for the years ended December 31, 2023, 2022, and 2021:

Statistical Volumes and Definitions [1]

VOLUME	2023	2022	2021
Skagit Valley Hospital			
Admissions ***(excludes Newborns)***			
Medical/Surgical	6,786	5,599	5,828
Obstetrics	966	1,101	944
Behavioral Health	334	371	395
Total Admissions	8,086	7,071	7,167
Discharges ***(excludes Newborns)***			
Medical/Surgical	6,349	5,582	5,741
Obstetrics	929	1,053	918
Behavioral Health	347	383	402
Total Discharges	7,625	7,018	7,061
Patient Days ***(excludes Newborns)***			
Medical/Surgical	34,104	34,441	31,935
Obstetrics	1,878	1,767	1,696
Behavioral Health	3,870	3,653	3,904
Total Patient Days	39,852	39,861	37,535
Average Length of Stay ***(excludes Newborns)***			
Medical/Surgical	5.37	6.17	5.56
Obstetrics	2.02	1.68	1.85
Behavioral Health	11.15	9.54	9.71
Total Overall Average Length of Stay	5.23	5.68	5.32
Inpatient Occupancy ***(excludes Newborns)***	79.7%	79.7%	75.1%
Surgical Cases			
Inpatient Cases	1,221	1,073	1,050
Outpatient Cases	6,580	5,829	5,586
Total Surgical Cases	7,801	6,902	6,636
Endoscopy Cases	8,249	6,792	6,763
Deliveries	888	888	861
Emergency Department Visits [2]	34,170	33,733	31,895
Oncology Visits			
Medical Visits	26,430	21,708	19,851
Radiation Therapy Visits	11,052	10,466	10,708
Total Oncology Visits	37,482	32,174	30,559
Diagnostic Imaging Procedures			
CT	27,607	25,051	21,938
MRI	10,615	9,786	9,206
X-Ray	81,446	74,823	68,199
Other Diagnostic Imaging	42,848	41,079	37,861
Total Diagnostic Imaging Procedures	162,516	150,739	137,204
Cath Lab Procedures	3,789	3,543	3,611

[1] Volumes include all patients unless otherwise noted.

[2] Includes those patients who are later admitted.

Statistical Volumes and Definitions [1]

VOLUME	2023	2022	2021
Cascade Valley Hospital			
Admissions ***(excludes Newborns)***			
Medical/Surgical	1,809	1,429	1,166
Obstetrics	224	211	144
Total Admissions	2,033	1,640	1,310
Discharges ***(excludes Newborns)***			
Medical/Surgical	1,767	1,422	1,152
Obstetrics	216	203	140
Total Discharges	1,983	1,625	1,292
Patient Days ***(excludes Newborns)***			
Medical/Surgical	9,116	8,010	5,042
Obstetrics	398	389	246
Total Patient Days	9,514	8,399	5,288
Average Length of Stay ***(excludes Newborns)***			
Medical/Surgical	5.16	5.63	4.38
Obstetrics	1.84	1.92	1.76
Total Overall Average Length of Stay	4.80	5.17	4.09
Inpatient Occupancy ***(excludes Newborns)***	54.3%	47.9%	30.2%
Surgical Cases			
Inpatient Cases	602	446	470
Outpatient Cases	1,775	1,375	1,385
Total Surgical Cases	2,377	1,821	1,855
Endoscopy Cases	1,899	1,409	1,207
Deliveries	188	186	129
Emergency Department Visits [2]	22,311	22,218	18,937
Diagnostic Imaging Procedures			
CT	11,031	9,186	7,854
MRI	1,958	1,466	1,245
X-Ray	13,307	12,694	11,797
Other Diagnostic Imaging	15,563	11,589	10,720
Total Diagnostic Imaging Procedures	41,859	34,935	31,616
Skagit Regional Health - Clinics			
Provider Clinic Visits			
Primary Care Clinic Visits	211,127	207,046	191,696
Specialty Care Clinic Visits	224,132	203,877	187,755
Total Provider Clinic Visits	435,259	410,923	379,451

[1] Volumes include all patients unless otherwise noted.

[2] Includes those patients who are later admitted.

Performance Overview

The following is a comparison of 2023 actual revenues, expenses, and changes in net position results to 2022 and 2021 results (in thousands):

	2023	2022 [1]	2021
Operating revenues			
Net patient service revenue	$ 575,012	$ 492,083	$ 463,178
Other operating revenues	34,436	31,485	30,792
Total operating revenues	609,448	523,568	493,970
Operating expenses			
Salaries and wages	263,538	240,993	227,549
Employee benefits	60,219	53,225	55,817
Professional fees	40,058	41,671	22,326
Supplies	111,098	95,054	83,177
Purchased services and other	82,048	86,496	80,127
Depreciation and amortization	28,038	25,815	25,208
Interest and amortization	9,624	6,118	7,294
Total operating expenses	594,623	549,372	501,498
Operating income (loss)	14,825	(25,804)	(7,528)
CARES Act Provider Relief Fund and other assistance	185	1,551	4,828
Gain on termination of participation in PEBB	-	-	28,436
Other nonoperating income, net	11,700	779	2,974
Nonoperating income, net	11,885	2,330	36,238
Capital contributions	1,126	311	188
Gain on transfer of assets	1,019	1,143	1,237
Change in net position	28,855	(22,020)	30,135
Net position, beginning of year	191,752	213,772	183,637
Net position, end of year	$ 220,607	$ 191,752	$ 213,772

[1] The 2022 amounts have been adjusted for adoption of GASB 96.

Health Care Outlook

Health systems, including SRH, saw signs of stabilization across 2023 after a very difficult 2022. In the fall of 2022, SRH developed and implemented a $35 million Financial Improvement Plan (FIP) with the intent of returning to profitability in two years. Successful execution of the FIP along with record breaking volumes resulted in the return to profitability in 2023. SRH continues to explore ways to reduce waste and inefficiencies, evaluate service line performance, and explore new revenue streams. While much improved, workforce related challenges persist across the country and at SRH. Reduction of agency use and rates were realized in 2023 as more staff returned to the workforce. Several programs have been implemented to assist in the recruitment pipeline including RN tech and residency programs.

SRH was notified in 2024 that The Centers for Medicare and Medicaid (CMS) has approved the new Washington State Safety Net Assessment Program (SNAP) for large Public Hospital Districts, which leverages federal funds to increase Medicaid reimbursements to hospitals. Estimates as to the impact of this program for SRH in 2024 are for $20+ million in addition reimbursement, retroactive to January 1, 2024. This will be the first material increase to hospital reimbursement for Medicaid services in over 20 years. In 2023 SRH, saw an increase in the rate of claims denials from payers and are working closely with state and national advocacy groups to address this practice that has been felt by organizations across the nation. SRH continues to focus on leveraging technology and process to reduce denials in an effort to appropriately optimize reimbursements for services provided.

Across the country, many organizations report capacity challenges, which has not been SRH's experience.

SRH's service area includes North Snohomish, Skagit, and Island Counties. The population in this geography is growing rapidly and demand for services remains high. SRH continues to successfully recruit both primary and specialty care providers to meet the healthcare needs of the community which supports our growth strategy. Expansion of surgical suite capacity with the 2023 opening of the Surgery Center and MOB further supports growth and helps meet community demand. In addition, continued focus on providing Value-Based Care, which provides the right service to the right patient in the appropriate setting, is front of mind and we continue to make progress in this space for commercial, state, and Medicare accountable care organization products.

While there remains much uncertainty in the health care environment, management is confident in its ability to adapt and execute upon strategies that will result in improved financial performance so that we are able to meet our mission of providing the highest quality services to the members of our communities.

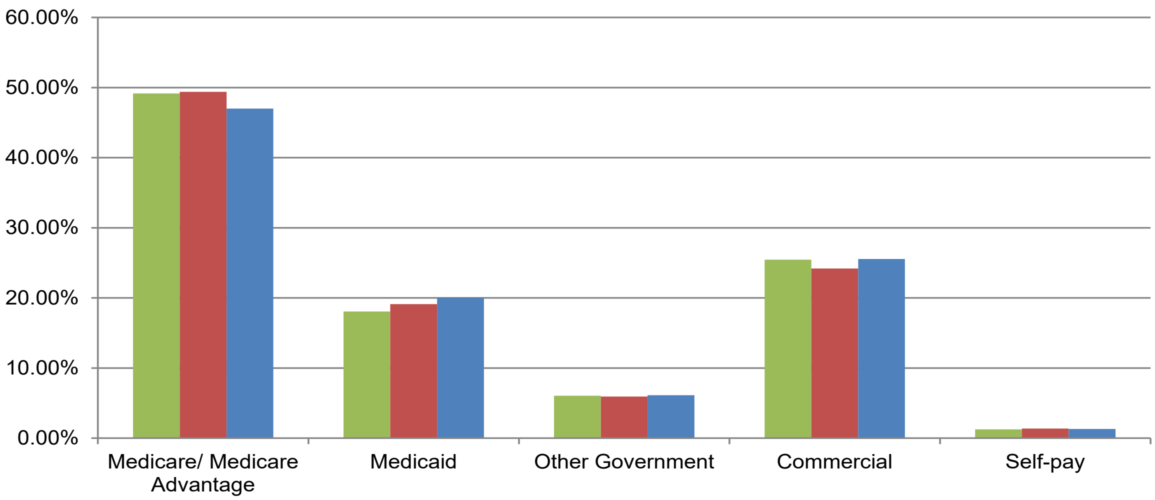
Operating Revenue (in thousands)

Net Patient Revenue

Net patient revenue consists of gross patient charges less contractual adjustments, financial assistance, and a provision for bad debt. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District has entered into agreements. In addition, the District provides care to patients, at no charge or reduced rates, who meet certain criteria under its financial assistance policies. The District also estimates the collectability of accounts receivable and records a provision for bad debt. The resulting net patient revenue is highly dependent on the District's payor mix and patient utilization patterns.

The table and graph below illustrate the three-year trend in SRH's payor mix, based on gross patient charges, for the years ended December 31, 2021 through 2023.

	Years Ended December 31,		
	2023	2022	2021
Payor Mix			
Medicare / Medicare Advantage	49.17%	49.39%	46.99%
Medicaid	18.07%	19.12%	20.03%
Other Government	6.05%	5.93%	6.12%
Commercial	25.46%	24.19%	25.55%
Self Pay	1.25%	1.37%	1.31%
	100.00%	100.00%	100.00%



In 2023, SRH net patient service revenue increased by $82,929 (16.9%) compared to 2022. Increases in inpatient and outpatient hospital volumes and clinic visits is the primary driver of this increase. In addition, the District recognized approximately $15,500 in net patient service revenue related to the remedy by CMS for the invalidated 340B-aquired drug payment policy for calendar years 2018 to 2022. In 2022, net patient service revenue increased by $28,905 (6.2%) compared to 2021. Increases in inpatient and outpatient hospital volumes and clinic visits is the primary driver for this increase.

Other Operating Revenue

Other operating revenue increased by $2,951 (9.4%) from $31,485 in 2022 to $34,436 in 2023. In 2022, other operating revenue increased by $693 (2.3%) over $30,792 in 2021. Increased revenues in the contracted pharmacy program as well as favorable market value adjustments on restricted funds are the main drivers for this variance in 2023. In 2022, increased revenues in the contracted pharmacy program were partially offset by unfavorable market value adjustments on restricted funds.

Operating Expenses (in thousands)

Total operating expenses in 2023 increased by $45,251 (8.2%), from $549,372 in 2022 to $594,623 in 2023. Total operating expenses increased by $47,874 (9.5%) in 2022, from $501,498 in 2021.

Excluding providers, the District employed 2,106 full time equivalents (FTEs) for the year ending December 31, 2023, which was an increase of 146 FTE from the 1,960 FTEs employed in the same period in 2022, and a two-year increase of 145 FTEs from the 1,961 FTEs employed in the same period in 2020. FTEs grew in 2023 due to increase retention efforts, assistance in recruitment by outside staffing firms, and volume growth. The opening of the new Surgery Center and MOB in December 2023 also drove FTE growth, as increased recruitment was needed well in advance for preopening activity and training.

At year-end 2023, SRH employed 249 providers, comprised of 142 doctors, 34 residents, and 73 midlevel providers. This is a decrease of 9 employed providers from year-end 2021, comprised of 5 doctors and 4 mid-level providers. This decrease was due to normal attrition and relocation of providers seeking employment elsewhere. Graduate medical education resident numbers remained unchanged year over year.

Salaries and benefits increased by $29,539 (10.0%), from $294,218 in 2022, to $323,757 in 2023. In 2022, salaries and benefits increased by $10,852 (3.8%) from $283,366, in 2021. Growth in salaries for both years is related to union and non-union staff and provider wage increases, including one-off market adjustments, as well as additional spending for shift incentive pay and signing bonuses.

Professional fees decreased by $1,613 (3.9%) from $41,671 in 2022, to $40,058 in 2023, due to decreased utilization and rates of contract labor. In 2022, professional fees increased by $19,345 (86.6%), from $22,326 in 2021. Increased utilization of contract labor along with associated market driven increases in rates accounted for the majority of this increase.

The District's supply expense increased by $16,044 (16.9%) from $95,054 in 2022 to $111,098 in 2023. Increases of pharmaceutical and other patient-related supply costs due to increased volumes was the primary driver of this increase. In 2022, supply expense increased by $11,877 ($14.3%), from $83,177 in 2021, primarily due to inflationary pressures on the supply chain, along with the continued recovery in 2022 of surgical and endoscopy service volumes that were lost or deferred in 2021 and 2020.

Purchased services and other expenses decreased in 2023 by $4,448 (5.1%) to $82,048, from $86,496 in 2022. This decrease was primarily related to a decrease in COVID-19 lab related expenses. Purchased services and other expenses increased $6,369 (7.9%), from $80,127 in 2021. This increase was related to increases in insurance premiums, purchased services from the Cascade Imaging Associates joint venture, third-party recruitment services, and software subscription not subject to GASB 96.

Depreciation and amortization expense of $28,038 in 2023 was $2,223 (8.6%) higher than the 2022 depreciation and amortization expense of $25,815. In 2022, depreciation expense increased $607 (2.4%) over the 2021 expense of $25,208. The primary drivers of the increase for 2023 include reporting of the Surgery Center and MOB facilities under the GASB 87 standard and the implementation of the GASB 96 standard, which was retroactively applied to 2022. The 2022 increase also included major capital purchases related to the furnishing of the new Station Square medical office building and remodeling of the Cardiac Catheterization Lab and Linear Accelerator vault.

Interest and amortization expense increased by $3,506 (57.3%) to $9,624 in 2023, from $6,118 in 2022. In 2022, interest and amortization expense decreased by $1,176 (16.1%), from $7,294 in 2021. The reporting of the Surgery Center and Station Square facilities under the GASB 87 standard were the primary drivers for the variance in 2023. Interest rate savings related to the refinancing of the 2013 Revenue Bonds is the primary driver for the variance in 2022.

Net Nonoperating Income and Other Changes in Net Position (in thousands)

Net nonoperating income increased by $9,555 (410.1%), from $2,330 in 2022, to $11,885 in 2023, and decreased in 2022 by $33,908 (93.6%), from $36,238 in 2021. The current year increase of $9,555 was primarily the result of an increase in investment income and market value adjustments, partially offset by reduced FEMA COVID-19 funding received. The $33,908 decrease in 2022 was primarily driven by a $28,436 gain on termination of participation in the Public Employees Benefits Board (PEBB) Program for post-employment benefits reported in 2021, along with unfavorable investment market value adjustments, and reduced funding from the Coronavirus Aid, Relief, and Economic Security Act Provider Relief Fund and other federal and State Assistance.

Gain on transfers of assets relates to the affiliation agreement with Snohomish County PHD 3 and decreased by $124 in 2023 to $1,019, from $1,143 in 2022, and $1,237 in 2021. Additional information about this transfer can be found in the "Affiliation Agreement with Snohomish County PHD No. 3" section below.

Statements of Net Position (in thousands)

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

	2023	2022 [1]	2021
Current assets			
Cash and short-term investments	$ 47,783	$ 39,312	$ 37,972
Accounts receivable, net	88,189	63,039	55,371
Other current assets	18,506	17,190	16,141
Total current assets	154,478	119,541	109,484
Investments	15,793	20,772	36,384
Other noncurrent cash and investments, net of current portion	132,929	129,801	136,478
Long term lease receivable	4,325	4,562	4,846
Capital assets, net	141,797	128,718	133,705
Right to use and subscription assets, net	173,797	90,088	67,272
Investments in joint ventures	12,799	13,376	13,362
Total assets	635,918	506,858	501,531
Deferred outflows of resources	4,737	4,408	5,194
Total assets and deferred outflows of resources	$ 640,655	$ 511,266	$ 506,725
Current liabilities	$ 140,795	$ 87,260	$ 73,354
Lease and subscription liability, net of current portion	138,130	84,751	62,102
Long-term debt, net of current portion	121,267	129,572	140,244
OPEB liability	7,336	5,724	5,372
Estimated professional liability	8,075	7,436	6,783
Total liabilities	415,603	314,743	287,855
Deferred inflows of resources	4,444	4,771	5,098
Net position			
Net investment in capital assets	38,113	21,006	17,642
Restricted for debt service	10,868	10,421	10,725
Unrestricted	171,627	160,325	185,405
Total net position	220,608	191,752	213,772
Total liabilities, deferred inflows of resources, and net position	$ 640,655	$ 511,266	$ 506,725

[1] The 2022 amounts have been adjusted for adoption of GASB 96.

Assets and Deferred Outflows of Resources

Total current assets of $154,478 at December 31, 2023, were $34,937 (29.2%) higher than at year-end 2022. This increase is comprised of a $8,471 (21.5%) increase in cash and short term investments, an increase of $25,150 (39.9%) in net accounts receivable, and an increase of $1,316 (7.7%) in other current assets. The increase in cash and short term investments was related to positive cash flows from operations, and the increase in net accounts receivable is attributable to growth in volumes throughout the year and the 340B-acquired drug payment policy remedy that was received in January of 2024.

Total current assets of $119,541 at December 31, 2022, were $10,057 (9.2%) higher than at year-end 2021. This increase is comprised of a $1,340 (3.5%) increase in cash and short term investments, an increase of $7,668 (13.8%) in net accounts receivable, and an increase of $1,049 (6.5%) in other current assets. The increase in cash and short term investments in 2022 is related to transfers from investments to cover operating losses.

Investments decreased $4,979 (24.0%) in 2023, from $20,772 in 2022 to $15,793 in 2023. Capital purchases to furnish and equip the Surgery Center and MOB were the primary reason for this decrease. In 2022, investments decreased $15,612 (42.9%) from $36,384 in 2021. This decrease is due to transfers to cash and short term investments to cover operating losses, unrealized investment losses, debt payments, and capital purchases.

The lease receivable asset is the result of the implementation of the GASB 87 lease standard. In 2023, the lease receivable decreased $237 (5.2%) from $4,562 in 2022, to $4,325 in 2023. In 2022 the lease receivable decreased by $284 (5.9%) from $4,846 in 2021. Reductions for both years are related to scheduled payments received on leased property.

Other noncurrent cash and investments, net of current portion, increased from $129,801 in 2022, to $132,929 in 2023, an increase of $3,128 (2.4%), after falling by $6,677 (4.9%) from $136,478 in 2021. The changes for both years are related to market value adjustments on invested funds.

Net right to use and subscription assets are assets resulting from the adoption of the GASB 87 lease and GASB 96 subscription standards. In 2023, net right to use assets increased by $83,709 (92.9%) to $173,797, from $90,088 in 2022, primarily due to the addition of the Surgery Center and MOB facility lease. In 2022, net right to use and subscription assets increased by $22,816 (33.9%), from $67,272 in 2021, related to new leases entered into in that year, the largest of which was the Station Square MOB lease.

Net capital assets increased in 2023 by $13,079 (10.2%), from $128,718 to $141,797. This increase is comprised of $31,596 of new capital assets, offset by $28,690 in retirements, and a $18,381 increase in accumulated depreciation. Equipping and furnishing the Station Square MOB and the Surgery Center and MOB, in addition to other routine capital projects, accounted for the majority of the additions. Net capital assets decreased in 2022 by $4,987 (3.7%), from $133,705 to $128,718. This decrease is comprised of $13,133 of new capital assets and a $18,119 increase in accumulated depreciation. In response to COVID-19, SRH reduced and deferred approximately 50% of the capital budget in 2021 and 2022, focusing on quality and safety related capital needs.

Investments in joint ventures decreased from $13,376 in 2022, to $12,799 in 2023, a decrease of $577 (4.3%). Investments in joint ventures increased $14 (0.1%) from $13,362 in 2021, to $13,376 in 2022. Distributions from joint ventures accounted for the change in both years.

Deferred outflows of resources decreased from $5,194 in 2021, to $4,408 in 2022, and increased $329 to $4,737 in 2023. The 2023 increase was related to a $1,142 increase in deferred OPEB outflows that was partially offset by a $814 decrease in deferred losses on bond refunding.

Liabilities and Deferred Inflows of Resources

Current liabilities increased $53,535 (61.4%) from $87,260 in 2022, to $140,795 in 2023. This increase is comprised of an increase of $5,531 in accounts payable, an increase of $2,359 in accrued salaries, wages and employee benefits, an increase of $626 in accrued interest, a $15,986 increase in estimated payments due to third-party payors, and increases of $28,188 and $845 in the current portion of lease and subscription liability and long term debt, respectively. The increase in the current portion of lease and subscription liability includes a $26,287 reclassification from the long term portion of the right-to-use liability related to the purchase option on the Station Square MOB. Current liabilities increased $13,906 (19.0%) from $73,354 in 2021, to $87,260 in 2022, primarily related to an increase in accounts payable, accrued salaries, wages, and employee benefits, as well as an increase in estimated payments due to third-party payors.

Lease and subscription liability, net of current portion, is a liability on the Statements of Net Position resulting from the adoption of the GASB 87 lease and the GASB 96 subscription standards. Lease and subscription liability, net of current portion, increased $53,379 (63.0%) in 2023, from $84,751 in 2022 to $138,130, primarily due to the addition of the Surgery Center and MOB building lease, which was partially offset by the reclassification of the long term lease liability related to the purchase option on the Station Square MOB to a current liability. In 2022, lease and subscription liability, net of current portion, increased by $22,649 (36.5%) from $62,102 in 2021, due to new leases entered into in that year, the largest of which was the Station Square MOB lease.

Long term debt, net of current portion, decreased by $8,305 (6.4%) in 2023 to $121,267, from $129,572 in 2022. In 2022, long term debt, net of current portion, decreased by $10,672 (7.6%) from $140,244 in 2021. Annual debt service payments account for the decreases in both years.

The District recognizes other post-employment benefit (OPEB) liabilities in accordance with GASB 74 and GASB 75. GASB 75 requires a liability to be recognized for OPEB plans that are not pre-funded. Changes in the OPEB liability are recognized as expense in the Statements of Revenue, Expenses, and Changes in Net position or reported as deferred inflows/outflows of resources on the Statements of Net Position, depending on the nature of those changes. The District's OPEB liability increased $1,612 (28.2%) in 2023, from $5,724 in 2022, to $7,336 in 2023. In 2022, the District's OPEB liability increased $352 (6.6%) from $5,372 in 2021. Further detail of the District's OPEB liability can be found in Note 11 to the financial statements.

Professional malpractice estimate liability reserve increased by $639 (8.6%) in 2022, from $7,436 in 2022 to $8,075. This increase in estimate is based on an actuarial estimate of the professional malpractice liability, using historic claims and changes in volume. In 2022, professional malpractice liability reserve increased by $653 (9.6%), from $6,783 in 2021 to $7,436.

As part of the bond resolutions authorizing the issuance of the 2021 direct placement revenue refunding bond, the 2019 direct placement revenue bond, and the 2016 revenue and refunding bonds, the District agreed to certain covenants regarding liquidity (minimum of 60 days cash on hand (the "Liquidity Requirement")) and debt service coverage (minimum of 1.25 debt service coverage ratio (the "Coverage Requirement")). The covenants provide that if the District's audited financial statements for any year disclose that the Liquidity Requirement or the Coverage Requirement is not being met, the District is required to retain a hospital consultant for the purpose of making recommendations to the District with a view to restoring compliance with the Liquidity Requirement or the Coverage Requirement, as applicable. If and so long as the District complies in all material respects with the recommendations of such hospital consultant, and so long as the Liquidity Requirement is met and the District's net income available for debt service is at least equal to the annual debt service on the District's outstanding revenue bonds in any year for which the hospital consultant's recommendations are made and any subsequent year for which such recommendations are renewed, the Liquidity Requirement and the Coverage Requirement, as applicable, are deemed satisfied, and the failure of the District to comply with the covenant will not be deemed to be an event of default. During the current year, management believes the District was in compliance with all debt covenants. Management also believes that the District has not experienced any events or circumstances that could impact its ability to comply with the debt covenants in the future.

For the year ended December 31, 2022, the District did not meet the Coverage Requirement. In compliance with the covenants, the District retained a healthcare consultant to provide recommendations to remain in compliance with the covenants. The consultant's report was filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access at emma.msrb.org. In addition to the covenants described above, the 2021 direct placement revenue refunding bond contains provisions that allow the bond holder to impose a default interest rate that is 4% higher than the interest rate otherwise payable under the bond for the period during which the Coverage Requirement is not met. The 2021 bond holder also has the option to elect to not convert the taxable rate currently payable on the 2021 bond to a tax-exempt rate on the conversion date (September 5, 2023) if the Coverage Requirement is not met. The District requested the 2021 bond holder to consent to a waiver of both provisions, which it received. The default interest rate option was not imposed and the 2021 bonds were converted to tax-exempt on the conversion date.

Affiliation Agreement with Snohomish County PHD No. 3

In accordance with the Affiliation Agreement, which was dated December 4, 2015, the District began operating Cascade Valley Hospital on June 1, 2016. The Affiliation Agreement is structured as a long term lease (the Lease) between Snohomish PHD No. 3 d/b/a Cascade Valley Hospital and Clinics and the District. Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 leased substantially all of its assets, including Cascade Valley Hospital, certain other clinic facilities, Snohomish PHD No. 3's interest as lessor in certain land leases, and intangible assets, to the District for a term of 30 years. The District will pay Snohomish PHD No. 3 an annual base rent of $10.00 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Financial Arrangement

Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 was required to transfer all of its cash and cash equivalents in excess of a retained amount to the District by June 2017. The retained amount is equal to Snohomish PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of $1,000,000. Thereafter, Snohomish PHD No. 3 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 LLC. Smokey Point LLC is owned 50% by the District and 50% by Snohomish PHD No. 3. The Smokey Point 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 the District, which operates an outpatient chemotherapy unit, an urgent care clinic, primary and specialty care clinics, and laboratory and imaging services. Snohomish PHD No. 3's excess property tax levy funds will be used solely for the purpose of paying the debt service on Snohomish PHD No. 3's outstanding unlimited tax general obligation bonds. The proceeds from the Snohomish PHD No. 3 regular property tax levy and the Smokey Point LLC lease will be used to pay Snohomish PHD No. 3's expenses, including the annual debt service on Snohomish PHD No. 3'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 Snohomish PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds Snohomish PHD No. 3's existing obligations in any year, and the Snohomish PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District.

In accordance with the Affiliation Agreement, the transferred funds were deposited into Pool A of the "PHD No. 3 Support Fund." The funds in Pool A will be used by the District 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 the District facilities and the Cascade Valley Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to Snohomish PHD No. 3's usage of the capital investment shall be allocated to Snohomish PHD No. 3; and (4) to cover any losses incurred by the District in the operation of Cascade Valley Hospital services.

At the end of each year, the District will deposit into a special fund designated as Pool B of the "PHD No. 3 Support Fund" a portion of the District's net cash flow generated from the District'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 the District's operation of the Cascade Valley 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 the District in the following order of priority: (1) to cover any Cascade Valley 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 the District 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 the District for expenses incurred by the District in prior years to fund capital improvements or equipment located at the Cascade Valley Hospital facilities or for health information technology or other capital investments located elsewhere, to the extent it serves both the District and Cascade Valley Hospital facilities, but only for such portions that reasonably relate to Snohomish PHD No. 3'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 the District for expenses incurred by the District in the current year to fund Cascade Valley 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 the District 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. The District 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), the District must provide obstetrics and gynecology, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which the District reasonably believes will appropriately serve the needs of the residents of North Snohomish County. The District must, however, continue to provide or cause to be provided, primary care services at the Darrington and Granite Falls clinics during the Five-Year Period. During the ten-year period following the affiliation (the Ten-Year Period), the District 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, the District is required to continuously maintain and operate Cascade Valley 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. The District is granted the right during the Ten-Year Period to modify or reduce the level of service provided at Cascade Valley 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 Snohomish PHD No. 3 and allowed Snohomish PHD No. 3 to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if the District elects to discontinue outpatient surgery services at Cascade Valley Hospital during the Ten-Year Period, the District 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 Thirty-Year Period following the 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, the District 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 the District intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give Snohomish PHD No. 3 a 90-day advanced written 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. Snohomish PHD No. 3 is granted the right to determine, in its sole and absolute discretion, whether it will permit the District to proceed with the requested change. Snohomish PHD No. 3 must notify the District within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If Snohomish PHD No. 3 fails to respond in writing within 90 days of receipt of the Change Notice, Snohomish PHD No. 3 will be deemed to have approved the proposed service change.

Dispute Resolution

Subject to the parties' right to equitable relief, all controversies, claims, and disputes arising in connection with the Affiliation Agreement must be settled by mutual consultation between the parties, but, failing amicable settlement, must be settled finally by arbitration, conducted in Seattle, Washington, in accordance with the rules and procedures promulgated by Judicial Dispute Resolution before one arbitrator. The decision of the arbitrator is final and binding on the parties.

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 Snohomish PHD No. 3; (2) by either the District or Snohomish PHD No. 3, in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by the District in the event that a catastrophic event occurs that was not caused by the District and makes it no longer viable to continue operating Cascade Valley Hospital services as originally contemplated; (4) by either the District or Snohomish PHD No. 3, if Snohomish PHD No. 3 requires the District 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 the District's negligence; and (5) after six years, by the District, if the District has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Cascade Valley Hospital services.

To affect an unwind, the District will transfer all of the facilities and assets owned by Snohomish PHD No. 3 back to Snohomish PHD No. 3, following a process consistent with how they were originally transferred. In addition, the District will transfer to Snohomish PHD No. 3 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 Cascade Valley Hospital facilities immediately prior to termination.

All of the commitments by Snohomish PHD No. 3 to provide any cash or similar support to the District will terminate after the date the District provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason, provided that: Snohomish PHD No. 3 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. The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Skagit Regional Health's finances and to show the District's accountability for the money it receives. The District also files quarterly financial and statistical information along with required and voluntary disclosures with Municipal Securities Rulemaking Board's Electronic Municipal Market Access at emma.msrb.org. If you have questions about this report or need additional financial information, contact the District's financial management at Skagit Regional Health Business Center, 1415 East Kincaid Street, Mount Vernon, Washington 98273.

MOSSADAMS

Report of Independent Auditors

The Board of Commissioners
Public Hospital District No. 1
of Skagit County, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Public Hospital District No. 1 of Skagit County, Washington (the District), 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 the District 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 audit 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 the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 of the financial statements, in 2023, the District adopted the provisions of Government Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 1 through 19 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on pages 59 and 60 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 April 19, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the District's 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 the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
April 19, 2024

Financial Statements

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position
December 31, 2023 and 2022

	2023	2022 (As Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash	$ 30,490,019	$ 16,831,407
Short term investments	17,292,802	22,480,653
Patient accounts receivable, less allowance for uncollectible accounts of $8,411,109 and $7,506,019	68,787,703	58,084,335
Other receivables	19,401,628	4,954,801
Supplies inventory	8,852,303	8,110,311
Prepaid expenses and other assets	7,648,752	7,317,401
Interest receivable	281,368	85,557
Current portion of other noncurrent cash and investments	1,428,561	1,391,989
Current portion of lease receivable	295,454	284,188
Total current assets	154,478,590	119,540,642
INVESTMENTS	15,792,918	20,771,978
OTHER NONCURRENT CASH AND INVESTMENTS		
Board-designated for capital improvements	113,305,060	108,218,286
Board-designated for professional liability	1,693,289	1,617,093
Restricted for CVH project funds A & B	8,491,486	10,937,115
Restricted bond reserve funds held by trustee	9,439,069	9,028,830
Restricted for bond redemption fund	1,428,561	1,391,989
	134,357,465	131,193,313
Less amounts required for current liabilities	(1,428,561)	(1,391,989)
	132,928,904	129,801,324
LONG TERM LEASE RECEIVABLE	4,325,405	4,561,785
CAPITAL ASSETS		
Land	11,688,723	11,712,330
Construction in progress	5,330,706	3,196,631
Depreciable capital assets, net of accumulated depreciation	124,777,082	113,809,276
	141,796,511	128,718,237
RIGHT TO USE AND SUBSCRIPTION ASSETS, net	173,796,607	90,088,200
INVESTMENTS IN JOINT VENTURES	12,798,965	13,376,347
Total assets	635,917,900	506,858,513
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB outflows	1,170,211	27,930
Deferred losses on refundings	3,566,609	4,380,214
Total deferred outflows of resources	4,736,820	4,408,144
Total assets and deferred outflows of resources	$ 640,654,720	$ 511,266,657

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position
December 31, 2023 and 2022

	2023	2022 (As Restated)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 33,178,293	$ 27,647,484
Accrued salaries, wages, and employee benefits	32,648,815	30,290,195
Estimated third-party payor settlements	27,283,409	11,297,696
Accrued interest payable	1,157,725	531,996
Current portion of lease and subscription liability	35,644,506	7,456,302
Current portion of long-term debt	10,882,090	10,037,234
Total current liabilities	140,794,838	87,260,907
LEASE AND SUBSCRIPTION LIABILITY, net of current portion	138,129,864	84,751,115
LONG TERM DEBT, net of current portion	121,267,306	129,571,575
OPEB LIABILITY	7,336,232	5,724,482
ESTIMATED PROFESSIONAL LIABILITY	8,074,997	7,435,531
Total liabilities	415,603,237	314,743,610
DEFERRED INFLOWS OF RESOURCES		
Deferred lease inflows	4,414,732	4,739,557
Deferred gain on refunding	29,545	31,668
Total deferred inflows of resources	4,444,277	4,771,225
NET POSITION		
Net investment in capital assets	38,112,666	21,005,930
Restricted for debt service	10,867,630	10,420,819
Unrestricted	171,626,910	160,325,073
Total net position	220,607,206	191,751,822
Total liabilities, deferred inflows of resources, and net position	$ 640,654,720	$ 511,266,657

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022 (As Restated)
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $14,072,935 and $13,776,770)	$ 575,011,587	$ 492,082,789
Other operating revenues	34,435,932	31,486,350
Total operating revenues	609,447,519	523,569,139
OPERATING EXPENSES		
Salaries and wages	263,537,697	240,993,095
Employee benefits	60,218,975	53,224,979
Professional fees	40,058,111	41,671,697
Supplies	111,097,973	95,054,221
Purchased services	53,468,785	60,055,921
Other	28,578,738	26,439,743
Depreciation and amortization	28,037,948	25,814,924
Interest and amortization	9,623,841	6,118,118
Total operating expenses	594,622,068	549,372,698
Operating income (loss)	14,825,451	(25,803,559)
NONOPERATING INCOME, net		
CARES Act Provider Relief Fund and other assistance	185,439	1,551,209
Investment income (loss)	7,531,824	(2,785,568)
Revenues from tax levies for general obligation bonds	5,137,773	5,036,450
Interest and amortization expense	(1,064,301)	(1,366,837)
Other income (expense)	93,834	(106,920)
Nonoperating income, net	11,884,569	2,328,334
Change in net position before capital contributions and transfers	26,710,020	(23,475,225)
CAPITAL CONTRIBUTIONS	1,125,954	311,343
GAIN ON TRANSFER OF ASSETS	1,019,410	1,143,438
CHANGE IN NET POSITION	28,855,384	(22,020,444)
NET POSITION, beginning of year	191,751,822	213,772,266
NET POSITION, end of year	$ 220,607,206	$ 191,751,822

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022 (As Restated)
Increase in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 580,293,932	$ 486,676,680
Cash paid to suppliers	(227,569,228)	(213,309,362)
Cash paid to employees	(320,928,583)	(292,502,922)
Other cash receipts	16,890,923	28,880,568
Net cash from operating activities	48,687,044	9,744,964
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from CARES Act Provider Relief Fund and other assistance	185,439	1,551,209
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(31,996,885)	(13,531,101)
Principal payments on long term debt	(10,036,446)	(9,532,126)
Interest paid on long term debt	(5,439,093)	(6,050,473)
Proceeds from issuance of long-term debt	3,212,897	-
Cash received from tax revenues for general obligation bonds	5,147,950	5,031,508
Cash received from transfer of assets	1,019,410	1,143,438
Cash received from capital contributions	1,125,954	311,343
Cash paid for leases and subscriptions	(16,245,940)	(7,989,661)
Other	(5,877)	(158,689)
Net cash used in capital and related financing activities	(53,218,030)	(30,775,761)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash distributions from joint ventures	2,603,962	2,290,433
Net change in investments and other noncurrent cash and investments	(11,392,659)	39,636,260
Investment income	4,561,046	305,837
Net cash from investing activities	(4,227,651)	42,232,530
NET INCREASE IN CASH AND CASH EQUIVALENTS	(8,573,198)	22,752,942
CASH AND CASH EQUIVALENTS, beginning of year	48,304,646	25,551,704
CASH AND CASH EQUIVALENTS, end of year	$ 39,731,448	$ 48,304,646
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	$ 30,490,019	$ 16,831,407
Cash equivalents included with short term investments	8,343,193	19,814,813
Restricted cash and cash equivalents	898,236	11,658,426
	$ 39,731,448	$ 48,304,646

See accompanying notes.

Public Hospital District No. 1 of Skagit County, Washington
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

Increase in Cash and Cash Equivalents

	2023	2022
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	$ 14,825,451	$ (25,803,559)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Net change in OPEB liability	469,469	324,952
Investment (gain) loss considered an investing activity	(1,071,602)	1,034,174
Interest expense considered a capital financing activity	9,623,841	6,118,118
Depreciation and amortization	28,037,948	25,814,924
Income recognized from joint ventures	(2,026,580)	(2,305,175)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(10,703,368)	(6,333,689)
Other receivables	(14,446,827)	(1,334,781)
Supplies inventory	(741,992)	(316,010)
Prepaid expenses and other assets	(331,351)	(775,580)
Accounts payable	6,068,256	10,351,305
Accrued salaries, wages, and employee benefits	2,358,620	1,390,200
Estimated third-party payor settlements	15,985,713	927,580
Reserve for professional liability costs	639,466	652,505
Net cash from operating activities	$ 48,687,044	$ 9,744,964
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND FINANCING ACTIVITIES		
Right to use lease assets exchanged for lease liabilities	$ 87,887,781	$ 29,092,288
Subscription assets exchanged for subscription liabilities	$ 7,609,335	$ -
Amortization of bond discount, bond premium, and loss on refunding	$ 635,864	$ 635,865
Capital assets financed through accounts payable	$ 537,447	$ 398,408

See accompanying notes.

Note 1 – Organization

Organization – Public Hospital District No. 1 of Skagit County, Washington (the District), is organized as a municipal corporation pursuant to the laws of the state of Washington. The District is governed by an elected seven-member board. The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division is known as Skagit Regional Clinics (SRC). On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH's and SRC's operations. SVH is a licensed 137-bed acute care hospital in Mount Vernon, Washington. The District also operates Camano Rural Health Clinic on Camano Island, Washington.

The District and PHD No. 3 also entered into an Affiliation Agreement Regarding the Lease and Operation of CVH (the Affiliation Agreement). CVH is a 48-bed facility that is approximately 20 miles southeast of SVH's main campus. In accordance with Affiliation Agreement, the District began operating CVH on June 1, 2016. The Affiliation Agreement is structured as a long term lease (the Lease) between PHD No. 3 and the District. PHD No. 3 leased substantially all of its assets, certain other clinic facilities, PHD No. 3's interest as lessor in certain leases, and intangible assets to the District for a term of 30 years. The District will pay PHD No. 3 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, PHD No. 3 transferred all of its cash and cash equivalents of a retained amount to the District in 2017. The retained amount is equal to PHD No. 3's known and contingent liabilities and debts, plus a minimum cash balance of $1,000,000. Thereafter, PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by PHD No. 3. The proceeds from PHD No. 3's regular property tax levy and the Smokey Point LLC lease will be used to pay PHD No. 3'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 PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds PHD No. 3's existing obligations in any year, and the PHD No. 3 cash balance is equal to $1,000,000, the excess funds will be transferred to the District. Cash transferred by PHD No. 3 to the District resulted in a gain on transfer of assets of $1,019,410 and $1,143,438 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

Blended component unit – For financial reporting purposes, component units are entities that are legally separate organizations for which the District is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on these criteria, the following is considered a component unit of the District's reporting entity.

The Cascadia Care Network (CCN) is a blended component unit of the District and is included within the accompanying financial statements. The CCN is a Medicare accountable care organization with limited powers and is governed by a board of managers, who are appointed by the District's board of commissioners. The District's management has operational responsibility for the CCN. The District has recorded the revenue, obligations, and the related assets, in the accompanying financial statements of the District.

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

Basis of presentation – 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 receipt or disbursement of cash.

Use of estimates – The preparation of 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 and 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 local government investment pool (LGIP) included in short term investments and other noncurrent 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 Statement of cash flows.

Investments – The District invests funds not immediately needed for expenditure in accordance with Washington State Law. The District accounts for its marketable investments at fair value. Short term investments consist of unrestricted and undesignated investments in the LGIP and other investments with less than one year to maturity as of the year ended December 31, 2023. Investments consist of unrestricted and undesignated investments with more than one year to maturity as of the year ended December 31, 2023.

Other noncurrent cash and investments – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements and self-insurance reserves. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. Pool A and Pool B funds are restricted for capital improvements and operations of CVH as defined in the Affiliation Agreement. These funds are invested in bankers' acceptances, obligations of the United States Government, the State Treasurer's Investment Pool, and certificates of deposit with financial institutions in accordance with state guidelines.

All District investments are carried at market value. Investment income or losses earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Investment income or losses earned on other investments are reported as nonoperating gains and losses.

Patient accounts receivable – Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient accounts receivable, the District analyzes its history and identifies trends for each of its major payors sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients' balances (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Supplies inventory – Supplies inventory, consisting of medicine and medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value.

Leases and subscriptions –

Lessee – The District has a policy to recognize a lease and subscription liability and a right-to-use and subscription asset in the statements of net position. For leases and subscription-based IT arrangements with a maximum possible term of 12 months or less at commencement, the District recognizes expense based on the terms of the contract. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease and subscription liability.

At the commencement of a lease and subscription, the District initially measures the lease and subscription liability at the present value of payments expected to be made during the lease and subscription term. Subsequently, the lease and subscription liability is reduced by the principal portion of lease and subscription payments made.

Right-to-use lease and subscription assets are recorded at the amount of the initial measurement of the lease and subscription liability and modified by any lease and subscription payments made to the lessor at or before the commencement of the term, less any incentives received from the lessor at or before the commencement of the lease and subscription term, along with any initial direct costs that are ancillary changes necessary to place the asset into service. Right-to-use lease and subscription assets are amortized using the straight-line method over the shorter of the contract term or the useful life of the underlying asset, unless the contract contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the right-to-use lease and subscription assets are amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases and subscriptions include how the District determines (1) the discount rate it uses to discount the expected lease and subscription payments to present value, (2) contract term, and (3) lease and subscription payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.

- The lease and subscription term includes the noncancellable period of the agreement. Lease and subscription payments included in the measurement of the lease and subscription liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and subscription contracts and will remeasure the right-to-use lease and subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the lease and subscription liability.

Lessor – The District recognizes a lease receivable and deferred inflow of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the lease term in a systematic and rational method.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is $1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	3 – 40 years
Buildings	15 – 40 years
Fixed equipment	3 – 25 years
Major movable and minor equipment	3 – 20 years

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

Investments in joint ventures – The District has investments in several different joint ventures providing health care services and health care facilities and equipment leasing. The District accounts for these investments using the equity method, under which the District's share of net income is reported in other operating revenues.

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 illness; natural disasters; medical malpractice; and employee accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District pays certain workers' compensation claims on a self-insured basis. The District has purchased stop-loss insurance to cover workers' compensation claims that exceed stated limits and has recorded an estimated reserve for incurred but not reported claims based on an actuarial estimate, which was $3,661,643 and $4,045,142 at December 31, 2023 and 2022, respectively. These amounts are recorded in accrued salaries, wages, and employee benefits on the statements of net position. The District also pays certain professional liability claims on a self-insured basis (Note 12).

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. 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 (Note 11).

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 the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

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, such as patient service revenue, result from exchange transactions associated with providing health care services—the District's primary business. Nonexchange revenues, such as revenues for tax levies and contributions for other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs related to general obligation bonds. Tax levy income and debt service related to general obligation bonds and peripheral or incidental transactions are reported as nonoperating gains and losses.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

CARES Act Provider Relief Fund – The District has received funds from the Provider Relief Fund under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Per United States Department of Health and Human Services (HHS) guidance, these funds are to be used towards COVID-19 specific expenditures and to assist with lost revenues associated with lower volumes and cancellations of procedures and services. The District recognizes revenue upon meeting the eligibility requirements associated with the funding. The CARES Act guidelines stipulate certain conditions that are required to be met, such as the incurrence of eligible expenditures or loss of revenue. Those conditions are identified, for accounting and financial reporting purposes, as eligibility requirements.

Financial assistance – The District provides care to patients who meet certain criteria under its financial assistance policies. Because the District does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as net patient service revenue. Forgone revenue for financial assistance provided during the years ended December 31, 2023 and 2022, measured by the District's standard charges, was $17,134,697 and $16,707,622, respectively.

Recently adopted accounting pronouncements – 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, the 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 defines a SBITA, establishes that a SBITA results in a right to use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. The District has adopted this new standard retroactively by restating the financial statements for all periods presented. The beginning balance of the net position was restated as of January 1, 2022, and December 31, 2022, resulting in increases in net position of approximately $300,000 and $252,000, respectively, and the recognition of subscription assets and liabilities of approximately $1,100,000 and $698,000 as of December 31, 2022. The adoption of GASB No. 96 did not have a material impact on the 2022 amounts as previously reported. The required disclosures for SBITAs can be found in Note 5 in the accompanying notes 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 results of operations of prior periods.

Note 3 – Net Patient Service Revenue

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

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of Medicare severity diagnosis-related groups (MS-DRGs). Each MS-DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that MS-DRG. The District's classification of MS-DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications. The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2018 for CVH and 2017 for SVH. Net revenue billed under Medicare totaled $268,024,324 and $213,781,850 for the years ended December 31, 2023 and 2022, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2023 and 2022, were $24,261,891 and $21,045,861, respectively.

Medicaid – The District is reimbursed for Medicaid services under the Certified Public Expenditures (CPE) reimbursement methodology applicable to all noncritical access Washington State governmental hospitals. Under this program, the District is paid for inpatient Medicaid services based on certain costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under this program, the District will be reimbursed the higher of the cost of service or “baseline” reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District’s allowable operating expenses to total allowable revenue. The District has finalized the Medicaid CPE cost reports through state fiscal year ending June 30,2018. Net revenue billed under the Medicaid program totaled $59,291,918 and $65,444,778 for the years ended December 31, 2023 and 2022, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2023 and 2022, were $7,493,027 and $5,913,532, respectively.

The District’s estimates of final settlements to or from Medicare and Medicaid through 2023 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 and were not significant for the years ended December 31, 2023 and 2022.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

The following are the components of net patient service revenue for the District for the years ended December 31, 2023 and 2022:

	2023	2022
Gross patient service revenue	$ 2,023,286,455	$ 1,777,606,012
Less adjustments to gross patient service revenue		
Contractual adjustments	1,417,067,236	1,255,038,831
Provision for bad debts	14,072,935	13,776,770
Financial assistance	17,134,697	16,707,622
Total adjustments to gross patient service charges	1,448,274,868	1,285,523,223
Net patient service revenue	$ 575,011,587	$ 492,082,789

Note 4 – Deposits, Investments, and Other Noncurrent Cash and Investments

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 (LGIP), eligible bankers' acceptances, repurchase agreements, and bonds.

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 consist of the following:

	2023	2022
Cash	$ 30,490,019	$ 16,831,407
Investments		
Commercial paper	466,776	1,387,672
Investment in State Treasurer's Investment Pool	8,343,193	19,814,813
U.S. Treasury securities	19,376,289	17,175,913
U.S. government agency obligations	465,839	-
Domestic corporate bonds	2,665,880	2,855,163
Foreign bonds	1,700,425	2,019,070
Other assets	67,318	-
	33,085,720	43,252,631
Other noncurrent cash and investments		
Cash	634,383	11,658,426
Commercial paper	3,517,224	6,432,822
Investment in State Treasurer's Investment Pool	263,853	-
U.S. Treasury securities	93,531,101	79,622,269
U.S. government agency obligations	3,510,161	10,884,345
Domestic corporate bonds	20,087,790	13,235,660
Foreign bonds	12,812,953	9,359,791
	134,357,465	131,193,313
Total deposits and investments	$ 197,933,204	$ 191,277,351

The composition of investments, reported at fair value by investment type at December 31, 2022, and excluding cash and LGIP balances of $9,241,429, is as follows:

Investment Type	Quoted prices in Active Markets for Identical assets (Level 1)	Inputs Other than Quoted Prices that are Directly or Indirectly Observable (Level 2)	Total	Percentage of Totals
Commercial paper	$ -	$ 3,984,000	$ 3,984,000	3%
U.S. Treasury securities	112,907,390	-	112,907,390	71%
U.S. government agency obligations	-	3,976,000	3,976,000	3%
Domestic corporate bonds	-	22,753,670	22,753,670	14%
Foreign bonds	-	14,513,378	14,513,378	9%
Other	-	67,318	67,318	1%
	$ 112,907,390	$ 45,294,366	$ 158,201,756	100%

The composition of investments, reported at fair value by investment type at December 31, 2022, and excluding cash and LGIP balances of $31,473,239, is as follows:

Investment Type	Quoted prices in Active Markets for Identical assets (Level 1)	Inputs Other than Quoted Prices that are Directly or Indirectly Observable (Level 2)	Total	Percentage of Totals
Commercial paper	$ -	$ 7,820,494	$ 7,820,494	5%
U.S. Treasury securities	96,798,182	-	96,798,182	68%
U.S. government agency obligations	-	10,884,345	10,884,345	8%
Domestic corporate bonds	-	16,090,823	16,090,823	11%
Foreign bonds	-	11,378,861	11,378,861	8%
	$ 96,798,182	$ 46,174,523	$ 142,972,705	100%

The District's deposits and investments had the following maturities at December 31, 2023:

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than 1	1–5
Commercial paper	$ 3,984,000	$ 3,984,000	$ -
U.S. Treasury securities	112,907,390	26,753,332	86,154,058
U.S. government agency obligations	3,976,000	3,976,000	-
Domestic corporate bonds	22,753,670	245,543	22,508,127
Foreign bonds	14,513,378	6,056,298	8,457,080
Other assets	67,318	67,318	-
Total investments	$ 158,201,756	$ 41,082,491	$ 117,119,265

The District participates in the 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. The investments held are all investment grade securities that are rated A- and higher by Standard and Poor's. Obligations of the U.S. government and obligations explicitly guaranteed by the U.S. government 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 Federal Deposit Insurance Corporation. Collateral protection is provided by the Washington Public Deposit Protection Commission.

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 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 60 months from settlement date to maturity date unless matched to a specific cash flow requirement.

In addition to investment income of $7,531,824 and investment loss of $2,785,568 for the years ended December 31, 2023 and 2022, respectively, included in nonoperating income, investment income included in other operating revenues totaled $1,071,602 for the year ended December 31, 2023, and investment loss included in other operating revenues totaled $1,034,174 for the year ended December 31, 2022.

Note 5 – Leases and Similar Subscription-Based Information Technology (IT) Arrangements

Lessee – The District enters into noncancellable leases primarily for buildings and equipment and subscription-based IT arrangements for the right to use information technology and hardware. The activity in the District's right to use lease and subscriptions assets and related accumulated amortization accounts as of and for the years ended December 31, 2023 and 2022, is set forth below:

	Beginning Balance January 1, 2023	Additions	Modifications/ Renewals	Deductions	Ending Balance December 31, 2023
RIGHT TO USE LEASE AND SUBSCRIPTION ASSETS					
Building	$ 97,460,512	$ 83,216,272	$ (111,052)	$ (356,622)	$ 180,209,110
Equipment	5,807,492	4,671,509	-	(2,063,020)	8,415,981
Subscription	1,506,412	7,609,335	-	-	9,115,747
Total right to use lease and subscription assets	104,774,416	95,497,116	(111,052)	(2,419,642)	197,740,838
LESS ACCUMULATED AMORTIZATION FOR					
Building	(12,933,975)	(7,750,525)	-	356,622	(20,327,878)
Equipment	(1,376,958)	(955,402)	-	42,147	(2,290,213)
Subscription	(375,283)	(950,857)	-	-	(1,326,140)
Total accumulated amortization	(14,686,216)	(9,656,784)	-	398,769	(23,944,231)
Total right to use lease and subscription assets, net	$ 90,088,200	$ 85,840,332	$ (111,052)	$ (2,020,873)	$ 173,796,607

	Beginning Balance January 1, 2022	Additions	Modifications/ Renewals	Deductions	Ending Balance December 31, 2022
RIGHT TO USE LEASE AND SUBSCRIPTION ASSETS					
Building	$ 70,919,061	$ 26,751,821	$ -	$ (210,370)	$ 97,460,512
Equipment	3,582,483	2,340,467	-	(115,458)	5,807,492
Subscription	-	1,506,412	-	-	1,506,412
Total right to use lease and subscription assets	74,501,544	30,598,700	-	(325,828)	104,774,416
LESS ACCUMULATED AMORTIZATION FOR					
Building	(6,522,483)	(6,572,030)	-	160,538	(12,933,975)
Equipment	(707,007)	(748,231)	-	78,280	(1,376,958)
Subscription	-	(375,283)	-	-	(375,283)
Total accumulated amortization	(7,229,490)	(7,695,544)	-	238,818	(14,686,216)
Total right to use lease and subscription assets, net	$ 67,272,054	$ 21,396,744	$ -	$ (87,010)	$ 90,088,200

Amortization expense of right to use lease and subscription assets for the years ended December 31, 2023 and 2022, was $9,656,784 and $7,695,544, respectively.

Lease and subscription liabilities – Changes in lease and subscription liabilities during the years ended December 31, 2023 and 2022, are summarized below:

Year Ending December 31,	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2023	$ 92,207,417	$ 95,497,116	$ (13,930,163)	$ 173,774,370	$ 35,644,506
2022	$ 68,445,003	$ 29,092,288	$ (5,329,874)	$ 92,207,417	$ 7,456,302

The following schedule shows future annual lease and subscription payments, and in five year increments thereafter, as of December 31, 2023, for both principal and interest:

Year Ending December 31,	Lease and Subscription Liabilities Principal	Interest	Total
2024	$ 35,644,506	$ 6,772,106	$ 42,416,612
2025	9,197,423	6,034,232	15,231,655
2026	8,309,834	5,762,450	14,072,284
2027	7,397,810	5,556,820	12,954,630
2028	7,310,372	5,391,916	12,702,288
2029–2033	100,922,231	22,722,266	123,644,497
2034–2038	4,992,194	164,303	5,156,497
Total payments	$ 173,774,370	$ 52,404,093	$ 226,178,463

Lessor – The District is a lessor for leases of building space and land to physician groups and others for medical practices and medical offices.

Revenue from leases for the years ended December 31, 2023 and 2022, is as follows:

	2023	2022
Lease revenue	$ 324,884	$ 324,884
Interest revenue	81,185	86,187
Total	$ 406,069	$ 411,071

The following schedule shows future annual lease receipts, and in five year increments thereafter, at December 31, 2023, for both principal and interest:

Year Ending December 31,	Lease Receivable Principal	Lease Receivable Interest	Lease Receivable Total
2024	$ 295,454	$ 76,798	$ 372,252
2025	307,514	71,376	378,890
2026	319,734	65,959	385,693
2027	332,339	60,328	392,667
2028	345,184	54,632	399,816
2029–2033	289,553	244,177	533,730
2034–2038	315,706	218,024	533,730
2039-2043	344,221	189,509	533,730
2044-2048	375,231	158,499	533,730
2049-2053	409,227	124,503	533,730
2054-2058	446,191	87,539	533,730
2059-2063	486,494	47,236	533,730
2064-2067	354,011	7,510	361,521
Total payments	$ 4,620,859	$ 1,406,090	$ 6,026,949

Note 6 – Capital Assets

Capital asset additions, retirements, and balances as of and for the years ended December 31, 2023 and 2022, were as follows:

	Beginning Balance January 1, 2023	Additions	Retirements	Account Transfers	Ending Balance December 31, 2023
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 11,712,330	$ -	$ (23,607)	$ -	$ 11,688,723
Construction in progress	3,196,631	19,972,153	-	(17,838,078)	5,330,706
Total nondepreciable capital assets	14,908,961	19,972,153	(23,607)	(17,838,078)	17,019,429
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,294,917	-	-	-	7,294,917
Buildings and leasehold improvements	148,105,824	1,725,578	(2,443,945)	5,017,017	152,404,474
Fixed equipment	22,093,746	351,104	(5,043,556)	184,740	17,586,034
Movable equipment	140,233,682	9,546,918	(21,179,217)	12,636,321	141,237,704
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(4,708,526)	(237,508)	-	-	(4,946,034)
Buildings and leasehold improvements	(86,752,433)	(5,934,710)	2,399,632	-	(90,287,511)
Fixed equipment	(18,790,278)	(742,592)	5,024,879	-	(14,507,991)
Movable equipment	(93,667,656)	(11,466,354)	21,129,499	-	(84,004,511)
Depreciable capital assets, net	113,809,276	(6,757,564)	(112,708)	17,838,078	124,777,082
	$ 128,718,237	$ 13,214,589	$ (136,315)	$ -	$ 141,796,511

	Beginning Balance January 1, 2022	Additions	Retirements	Account Transfers	Ending Balance December 31, 2022
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 11,712,330	$ -	$ -	$ -	$ 11,712,330
Construction in progress	750,333	4,044,291	-	(1,597,993)	3,196,631
Total nondepreciable capital assets	12,462,663	4,044,291	-	(1,597,993)	14,908,961
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,354,239	-	(59,322)	-	7,294,917
Buildings and leasehold improvements	148,434,767	1,232,341	(3,016,360)	1,455,076	148,105,824
Fixed equipment	23,635,372	253,963	(1,902,312)	106,723	22,093,746
Movable equipment	142,741,849	7,602,098	(10,146,459)	36,194	140,233,682
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(4,509,025)	(258,823)	59,322	-	(4,708,526)
Buildings and leasehold improvements	(83,888,302)	(5,880,491)	3,016,360	-	(86,752,433)
Fixed equipment	(20,242,030)	(450,560)	1,902,312	-	(18,790,278)
Movable equipment	(92,284,609)	(11,529,506)	10,146,459	-	(93,667,656)
Depreciable capital assets, net	121,242,261	(9,030,978)	-	1,597,993	113,809,276
	$ 133,704,924	$ (4,986,687)	$ -	$ -	$ 128,718,237

Depreciation and amortization expense of operating assets for the years ended December 31, 2023 and 2022, was $18,381,164 and $18,119,380, respectively.

Note 7 – Investments in Joint Ventures

Cascade Imaging Associates, LLC – Together with a local radiology group, the District formed Cascade Imaging Associates, LLC (CIA), a limited liability company, to provide magnetic resonance imaging and computer-assisted tomography services to the residents of the community. The District has a 50% interest in CIA at December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, the District recognized operating income of $1,483,135 and $1,359,586, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was $1,745,125 and $1,474,490 at December 31, 2023 and 2022, respectively.

Skagit Digital Imaging, LLC – Together with a local radiology group, the District formed Skagit Digital Imaging, LLC (SDI), a limited liability company, to provide mammography and stereotactic biopsy services to the residents of the community. The District has a 50% interest in SDI at December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, the District recognized an operating loss of $425,213 and $155,637, respectively, for its share of the net income realized by SDI. The District's recorded investment in SDI was $956,404 and $1,381,617 at December 31, 2023 and 2022, respectively.

Skagit Hospice Services, LLC – Together with Public Hospital District No. 304 of Skagit County, Washington, the District formed Skagit Hospice Services, LLC, dba Hospice of the Northwest (Hospice), a limited liability company, to provide hospice services to the residents of the community. The District has a 50% interest in Hospice at December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, the District recognized operating income of $18,939 and $234,295, respectively, for its share of the net income realized by Hospice. The District's recorded investment in Hospice was $1,611,771 and $1,892,832 at December 31, 2023 and 2022, respectively.

Skagit Valley Real Estate Partnership – As part of the closing of the integration with SRC in 2013, the District purchased a membership interest in Skagit Valley Real Estate Partnership (SVREP), a partnership that invests in and develops real property located mainly in Skagit and Snohomish Counties, Washington. The District has a 30% interest in SVREP at December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, the District recognized operating income of $484,435 and $382,126, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was $4,326,515 and $4,434,955 at December 31, 2023 and 2022, respectively.

Smokey Point Medical Center, LLC – Together with PHD No. 3, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns the building, land, and equipment leased to the District and PHD no. 3 to operate the Smokey Point clinics. 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 operating income of $451,697 and $511,745, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was $4,159,150 and $4,192,453 at December 31, 2023 and 2022, respectively.

Aggregated financial information for all of the District's joint ventures is summarized below:

	2023	2022
Current assets	$ 37,164,212	$ 22,836,658
Noncurrent assets, net	75,846,460	26,271,616
	$ 113,010,672	$ 49,108,274
Current liabilities	$ 20,116,067	$ 3,489,460
Long term liabilities	36,725,515	23,200,741
Equity	56,169,090	22,418,073
	$ 113,010,672	$ 49,108,274
Revenue	$ 38,449,106	$ 34,927,812
Expenses	33,170,792	29,121,752
Net income	$ 5,278,314	$ 5,806,060

For more information on these joint ventures, including financial statements for the individual joint ventures, please contact the Business Services office of the District.

Note 8 – Long Term Debt and Other Noncurrent Liabilities

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

	2023	2022
Direct placement revenue refunding bond, 2021, 2.10% to 2.57%, due annually on December 1, in amounts from $110,000 in 2024, to $8,000,000 in 2036, maturing in 2037.	$ 14,585,000	$ 16,695,000
Direct placement revenue refunding bond, 2019, 3.08%, due annually on December 1, in amounts from $880,000 in 2024, to $7,105,000 in 2035, maturing in 2035.	29,645,000	30,500,000
Direct placement unlimited tax general obligation refunding bond, 2019, 1.85% to 2.27%, due annually on December 1, in amounts from $4,970,000 in 2024, to $6,130,000 in 2028, maturing in 2028, net of unamortized premium of $1,574,302 and $1,894,499 in 2023 and 2022, respectively.	29,274,302	30,029,499
Revenue and refunding bonds, 2016, 4.00% to 5.00%, due serially on December 1, in amounts from $4,095,000 in 2024, to $5,875,000 in 2032, maturing in 2037, net of unamortized premium of $4,366,731 and $4,682,399 in 2023 and 2022, respectively.	55,086,732	57,317,399
Unlimited tax general obligation refunding bonds, 2012, 5.00%, due serially on December 1, paid in full in 2023.	-	4,155,000
Other notes payable, due in monthly, quarterly, and annual installments of $44,000, $93,000, and $273,000, respectively, including interest ranging from 4.30% to 9.25%, maturities ranging from 2024 through 2029.	3,558,362	911,911
	132,149,396	139,608,809
Less current portion	(10,882,090)	(10,037,234)
	$ 121,267,306	$ 129,571,575

During 2021, the District issued the 2021 direct placement revenue refunding bond to carry out a taxable refunding of a portion of the 2013A revenue and refunding bonds. The refunding resulted in the recognition of an accounting gain of $33,968, which will be deferred and amortized over the life of the 2013A bond, which was set to mature in 2037 and is classified as a deferred inflow of resources on the statements of net position. The refunding decreased the District's aggregate debt service payments by $4,347,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $3,385,000. On September 5, 2023, the taxable bond converted to a tax-exempt bond with an interest rate of 2.10%.

During 2019, the District issued the 2019 direct placement revenue bonds to carry out a taxable refunding of the 2010 revenue bonds. The refunding resulted in the recognition of an accounting loss of $1,593,000, which will be deferred and amortized over the life of the 2010 bond, which was set to mature in 2035 and is classified as a deferred outflow of resources on the statements of net position. The refunding decreased the District’s aggregate debt service payments by $8,426,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $6,612,000.

During 2019, the District issued the 2019 direct placement unlimited tax general obligation (UTGO) refunding bond to carry out a taxable refunding of a portion of the 2012 unlimited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of $3,731,700, which will be deferred and amortized over the life of the 2012 bond, which was set to mature in 2028 and is classified as a deferred outflow of resources on the statements of net position. The refunding decreased the District’s aggregate debt service payments by $3,127,000 over the next nine years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2,886,000. On December 1, 2022, the taxable bond converted to a tax-exempt bond with an interest rate of 1.85%.

As part of the bond resolutions authorizing the issuance of the 2021 direct placement revenue refunding bond, the 2019 direct placement revenue bond, and the 2016 revenue and refunding bonds, the District agreed to certain covenants regarding liquidity (minimum of 60 days cash on hand (the Liquidity Requirement)) and debt service coverage (minimum of 1.25 debt service coverage ratio (the Coverage Requirement)). The covenants provide that if the District’s audited financial statements for any year disclose that the Liquidity Requirement or the Coverage Requirement is not being met, the District is required to retain a hospital consultant for the purpose of making recommendations to the District with a view to restoring compliance with the Liquidity Requirement or the Coverage Requirement, as applicable. If and so long as the District complies in all material respects with the recommendations of such hospital consultant, and so long as the Liquidity Requirement is met and the District’s net income available for debt service is at least equal to the annual debt service on the District’s outstanding revenue bonds in any year for which the hospital consultant’s recommendations are made and any subsequent year for which such recommendations are renewed, the Liquidity Requirement and the Coverage Requirement, as applicable, are deemed satisfied, and the failure of the District to comply with the covenant will not be deemed to be an event of default. For the year ended December 31, 2022, the District did not meet the Coverage Requirement. In compliance with the covenants, the District retained a healthcare consultant to provide recommendations to remain in compliance with the covenants.

Changes in the District's 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					
2021 Direct placement revenue refunding bond	$ 16,695,000	$ -	$ 2,110,000	$ 14,585,000	$ 110,000
2019 Direct placement revenue refunding bond	30,500,000	-	855,000	29,645,000	880,000
2019 Direct placement UTGO refunding bond	30,029,499	-	755,197	29,274,302	4,970,000
2012 UTGO refunding bonds	4,155,000	-	4,155,000	-	-
2016 Revenue and refunding bonds	57,317,399	-	2,230,667	55,086,732	4,095,000
Other notes payable	911,911	3,212,897	566,446	3,558,362	827,090
Total long term debt	139,608,809	3,212,897	10,672,310	132,149,396	10,882,090
ESTIMATED PROFESSIONAL LIABILITY	7,435,531	639,466	-	8,074,997	-
Total noncurrent liabilities	$ 147,044,340	$ 3,852,363	$ 10,672,310	$ 140,224,393	$ 10,882,090

	Beginning Balance January 1, 2022	Additions	Reductions	Ending Balance December 31, 2022	Amounts Due Within One Year
LONG TERM DEBT					
2021 Direct placement revenue refunding bond	$ 18,755,000	$ -	$ 2,060,000	$ 16,695,000	$ 2,110,000
2019 Direct placement revenue refunding bond	31,330,000	-	830,000	30,500,000	855,000
2019 Direct placement UTGO refunding bond	30,339,499	-	310,000	30,029,499	435,000
2012 UTGO refunding bonds	8,270,197	-	4,115,197	4,155,000	4,155,000
2016 Revenue and refunding bonds	59,473,067	-	2,155,668	57,317,399	1,915,000
Other notes payable	1,609,037	-	697,126	911,911	567,234
Total long term debt	149,776,800	-	10,167,991	139,608,809	10,037,234
ESTIMATED PROFESSIONAL LIABILITY	6,783,026	652,505	-	7,435,531	-
Total noncurrent liabilities	$ 156,559,826	$ 652,505	$ 10,167,991	$ 147,044,340	$ 10,037,234

Annual debt service requirements to maturity for long term debt are as follows:

Year Ending December 31,	Bonds and Notes Payable			Direct Placement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2024	$ 4,922,090	$ 2,527,728	$ 7,449,818	$ 5,960,000	$ 1,731,801	$ 7,691,801
2025	4,861,694	2,341,959	7,203,653	6,270,000	1,610,442	7,880,442
2026	5,018,572	2,150,984	7,169,556	6,585,000	1,483,028	8,068,028
2027	5,196,147	1,953,106	7,149,253	6,905,000	1,349,454	8,254,454
2028	5,442,919	1,701,084	7,144,003	7,245,000	1,209,542	8,454,542
2029–2033	22,836,941	4,470,327	27,307,268	11,640,000	4,963,056	16,603,056
2034–2038	6,000,000	993,750	6,993,750	27,325,000	1,586,158	28,911,158
Total	54,278,363	$ 16,138,938	$ 70,417,301	71,930,000	$ 13,933,481	$ 85,863,481
Net unamortized premiums and discounts	4,366,731			1,574,302		
	$ 58,645,094			$ 73,504,302		

Note 9 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457(b), §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 9% 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.

Under the §401(a) plan, the District makes contributions on behalf of eligible employees based upon funding levels ranging from 4% to 9% of an employee's gross earnings plus an additional 1/10 of 1% for each year of the first 10 years of credited service. The District contributes up to 9% 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 §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the §415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

The District has limited administrative involvement and does not perform the investing function for the plans. The District does not hold the assets of the plans in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the District employees' deferred compensation plans are not reported on the financial statements of the District.

The District's contributions to the employee benefit plans totaled $11,076,610 and $10,569,657 during the years ended December 31, 2023 and 2022, respectively. Contributions made by employees to the benefit plans totaled $14,458,759 and $13,776,568 during the years ended December 31, 2023 and 2022, respectively. For more information on the retirement plans, contact the District's director of human resources.

Note 10 – Property Taxes

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

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the 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 district purposes. As the District has never established a regular tax levy, any future regular levy would require voter approval. 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. Further amounts of tax need to be authorized by the vote of the people.

For 2023 and 2022, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For the years ended December 31, 2023 and 2022, the tax levy for bond service was $0.61 and $0.72 per $1,000 on a total assessed valuation of $8,371,797,333 and $6,935,091,770, for a total levy of $5,137,155 and $4,992,567, respectively. The District also receives revenue from timber taxes. Timber tax revenue during the years ended December 31, 2023 and 2022, was $618 and $43,883, 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.

Note 11 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Termination of participation in PEBB – Beginning January 1, 2021, the District no longer participates in the Public Employees Benefits Board (PEBB) Program for post-employment benefits. This resulted in a $28,435,601 gain on termination of participation in PEBB due to a $30,730,533 decrease in the OPEB liability, $7,706,233 decrease in deferred outflows of resources, and a $5,411,301 decrease in deferred inflows of resources in January 2021.

Plan description – The early retirement medical benefit program became effective January 1, 2021. The District pays the full premium for retirees with 20 or more years of service between the ages of 62 and 65. The fully insured plans offered are from Premera. Retirees' spouses may enroll until they are age 65 and have to pay the spouse portion of the premium. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Eligibility – Employees are eligible for retiree health benefits if they retire between ages 62 and 65 and have 20 or more years of service. Employees in "pay-in-lieu of benefits, <0.50 FTE, Per Diem and/or temporary" FTE status are not entitled to retirement benefits.

Benefits provided – The benefits provided by the District and valued in this report include premium reimbursement. Eligible employees receive full reimbursement for the retiree portion of medical premiums. There is no reimbursement for dental premiums or the dependent portion of medical premiums, nor spousal or dependent premiums. Medical premiums of retirees and spouses over the age of 65 are not reimbursed.

GASB 75 requires the projection of the total cost of benefit payments to be based on claims costs or age adjusted premiums approximating claims costs. Because claims costs are expected to vary by age and sex, we have used claims costs that vary by age and sex. The projection of retiree premiums is based on current amounts for the retirees' premium, projected with the medical trend assumption.

Membership data – At December 31, 2023 and 2022, the following membership census was used:

	2023	2022
Membership census		
Retirees and surviving spouses	20	17
Actives	2,098	1,978
	2,118	1,995

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

	2023	2022
Retirees and spouses currently receiving benefits		
Members	20	17
Spouses	3	2

Total OPEB liability – The District's total OPEB liability was $7,336,232 and $5,724,482 as of the reporting date of December 31, 2023 and 2022, respectively. The corresponding measurement date was December 31, 2022 and 2021, respectively, and the actuarial valuation date was July 1, 2022. 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 date and the reporting date.

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

Inflation	2.75%
Salary increases	3.50% and promotion and longevity increases ranging from 6% at 0 years of service to 0% at 21+ years of service

Even though the benefits are not based upon pay, salary assumptions are necessary for the actuarial cost method. These assumptions are for promotion and longevity and reflect the assumptions used in the 2020 actuarial valuation for Washington State Public Employees Retirement System (PERS).

Healthcare cost trend rates	Ranging from 8.90% beginning 7/1/2021 to 4.20% beginning 7/1/2087 and plus
Discount Rate (Liabilities)	3.72%

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. 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, disability mortality, turnover, and marriage are based on assumptions used in the 2020 actuarial valuation for the Washington State retirement systems and modified for the District.

- The assumed rates of disability under PERS plan 2 from the 2020 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. An assumption of a 0% disability rate for all ages was used.

- For service retirement, the PERS plan 2, with less than 30 years of service assumptions, from the 2020 actuarial valuation for Washington State retirement systems was used. The service requirements for these plans vary based on hire date and years of service. An assumption of 100% retirement at age 65 was used so that the attribution period under the actuarial cost method ends when the benefits end, as stated in A 4.383 of the implementation guide for GASB 75.

- For mortality, the assumptions from the 2020 actuarial valuation for Washington State retirement systems, adjusted for the District was used. For all healthy members, the PubG.H-2010 base mortality table with generational mortality adjustments using the long term MP-2017 generational improvement scale was used.

- For other termination of employment, the assumptions by plan from the 2020 actuarial valuation for Washington State retirement systems were used, but no less than 2% per year.

The actuarial assumptions used for the December 31, 2023 reporting were based on a census date of July 1, 2022.

Changes in the total OPEB liability

Balance at December 31, 2021	$ 5,371,600
Service cost	501,919
Interest	121,340
Effect of assumption changes or inputs	31,104
Benefit payments	(301,481)
Balance at December 31, 2022	5,724,482
Service cost	524,945
Interest	125,385
Effect of economic/demographic losses	671,382
Effect of assumption changes or inputs	617,255
Benefit payments	(327,217)
Net changes	1,611,750
Balance at December 31, 2023	$ 7,336,232

Changes of assumptions and other inputs reflect a change in the discount rate from 2.12% in 2021 to 2.06% in 2022 and 3.72% 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 one percentage point lower or one percentage point higher than the current discount rate:

2023	1% Decrease (2.72%)	Discount Rate (3.72%)	1% Increase (4.72%)
Total OPEB liability	$ 8,019,572	$ 7,336,232	$ 6,708,424

2022	1% Decrease (1.06%)	Discount Rate (2.06%)	1% Increase (3.06%)
Total OPEB liability	$ 6,215,741	$ 5,724,482	$ 5,260,919

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 one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

2023	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 6,431,843	$ 7,336,232	$ 8,431,366
2022			
Total OPEB liability	$ 4,918,245	$ 5,724,482	$ 6,715,444

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB –

For the years ended December 31, 2023 and 2022, the District recognized OPEB expense of $796,686 and $626,433, respectively, which was included in Employee Benefits in the Statements of Revenues, Expenses, and Changes in Net Position.

The District reported deferred outflows of resources related to OPEB from changes of assumptions or other inputs of $1,170,211 and $27,930 for the years ended December 31, 2023 and 2022, respectively.

Note 12 – Professional Liability Insurance

The District has purchased professional liability insurance from Physicians Insurance (PI) on a claims-made basis in the amount of $1,000,000 per occurrence, with a $5,000,000 annual aggregate limit. The District has a retention of $100,000 per claim with an aggregate retention of $300,000. PI, together with MedPro and AIG, also provides excess coverage on a claims-made basis in the amount of $44,000,000 per occurrence, with a $50,000,000 annual aggregate limit. The District accrues an actuarial estimate of the expected value of losses and related expenses for unreported incidents and claims on an occurrence basis which was $8,074,997 and $7,435,531 at December 31, 2023 and 2022, respectively.

Note 13 – Joint Venture Transactions

The District provides services, including accounting, management, and ancillary services, to the joint ventures (Note 7). The District was reimbursed approximately $27,035,000 and $23,559,000 in expenses related to these services for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the District had a total of approximately $1,199,000 and $2,487,000, respectively, in accounts receivable from joint ventures.

The joint ventures provide various services to the District (Note 7). The District paid approximately $17,096,000 and $16,466,000 to the joint ventures for providing these services for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the District had a total of approximately $3,654,000 and $1,149,000, respectively, in accounts payable to joint ventures.

Note 14 – Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2023 and 2022, was as follows:

	2023	2022
Medicare	36%	36%
Medicaid	11%	11%
Group Health	5%	5%
Patient and self-pay	0%	0%
Commercial	34%	34%
Other third-party payors	14%	14%
	100%	100%

Note 15 – Commitments and Contingencies

Litigation – The District was named as a defendant in a putative class-action lawsuit filed by a former employee of the District, who alleged that the District's electronic timekeeping system rounded certain time increments in a way that resulted in hourly employees at the District's hospital facilities being underpaid in certain circumstances for regular wages and overtime pay. The District contested plaintiff's claims and defended the lawsuit. Lawsuits alleging similar claims have been filed against other healthcare employers, with most resulting in court-approved settlements. The litigation against the District likewise was settled and dismissed. On March 8, 2024, Skagit County Superior Court issued an order granting final approval of the class action settlement and dismissing the action with prejudice.

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

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 16 – Collective Bargaining Agreements

At December 31, 2023, the District had a total of approximately 3,128 employees. Of this total, 2,269 employees are covered by collective bargaining agreements. There are 618 employees under an agreement that expires during 2024. The District does not anticipate any significant interruptions as a result of negotiations surrounding the collective bargaining agreement.

Note 17 – COVID-19 Pandemic

The global crisis resulting from the spread of COVID-19 had a substantial impact on the District's operations during the years ended December 31, 2023 and 2022. Management cannot currently estimate the duration of the impact of the COVID-19 pandemic on the organization; neither are they able to predict how the pandemic will evolve, nor how various government entities will respond to its evolution. Should the District's business be subject to reduced capacity or should closures occur, operations would be adversely affected. Even without government orders, patients may choose to postpone or decline elective care. Ongoing material adverse impacts from the COVID-19 pandemic could result in reduced revenue and cash flow.

The District applied for expedited funding from the Federal Emergency Management Agency (FEMA) Public Assistance Program. The FEMA Public Assistance Program provides partial funding for costs related to emergency protective measures conducted as a result of the COVID-19 pandemic. This grant is meant to offset incremental expenses incurred as a result of the COVID-19 pandemic. This funding channel allows for an organization to receive 50% of estimated expenses prior to project close (after removing a 25% state cost share requirement). The District recognized $0 and $1,551,209 during the years ended December 31, 2023 and 2022, respectively, as non-operating revenue on the statements of revenues, expenses, and changes in net position.

Note 18 – Subsequent Events

In February 2024, the District issued $72,455,000 in general obligation bonds due December 1 with maturities ranging from 2038 through 2054. The bonds were issued at a premium of $2,708,864 and have an interest rate of 5.50%. The net proceeds from the bond issuance are restricted to exercise a purchase option on an existing building lease, fund and reimburse capital projects, bond reserve fund, and bond issuance costs.

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. 1
of Skagit County, Washington

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. 1 of Skagit County, Washington, 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. 1 of Skagit County, Washington's financial statements, and have issued our report thereon dated April 19, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District No. 1 of Skagit County, Washington's 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. 1 of Skagit County, Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Hospital District No. 1 of Skagit County, Washington's 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. 1 of Skagit County, Washington's 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.

Moss Adams LLP

Everett, Washington
April 19, 2024

Required Supplementary Information

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios
December 31, 2023

	2023	2022	2021	2020	2019
Total OPEB liability					
Service cost	$ 524,945	$ 501,919	$ -	$ 1,992,258	$ 2,656,838
Interest	125,385	121,340	-	1,013,604	893,888
Changes of benefit terms (termination of participation in PEBB)	-	-	(25,358,933)	-	-
Effect of economic/demographic losses	671,382	-	-	-	2,176,604
Effect of assumption changes or inputs	617,255	31,104	-	5,229,798	(5,956,536)
Benefit payments	(327,217)	(301,481)	-	(465,133)	(275,776)
Net change in total OPEB liability	1,611,750	352,882	(25,358,933)	7,770,527	(504,982)
Total OPEB liability - beginning	5,724,482	5,371,600	30,730,533	22,960,006	23,464,988
Total OPEB liability - ending	$ 7,336,232	$ 5,724,482	$ 5,371,600	$ 30,730,533	$ 22,960,006
Covered-employee payroll	$ 199,438,159	$ 171,581,416	$ 155,906,296	$ 158,595,040	$ 154,175,746
Total OPEB liability as a percentage of covered-employee payroll	3.68%	3.34%	3.45%	19.38%	14.89%

	2018	2017
Total OPEB liability		
Service cost	$ 2,322,431	$ 2,377,362
Interest	800,469	688,677
Changes of benefit terms (termination of participation in PEBB)	-	-
Effect of economic/demographic gains/(losses)	-	-
Effect of assumption changes or inputs	1,628,431	(852,947)
Benefit payments	(278,124)	(266,904)
Net change in total OPEB liability	4,473,207	1,946,188
Total OPEB liability - beginning	18,991,781	17,045,593
Total OPEB liability - ending	$ 23,464,988	$ 18,991,781
Covered-employee payroll	$ 170,215,023	$ 150,792,481
Total OPEB liability as a percentage of covered-employee payroll	13.79%	12.59%

*This schedule is presented to illustrate 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.

Changes in benefit terms – The early retirement medical benefit program became effective January 1, 2021. The District pays the full premium for retirees with 20 or more years of service between the ages of 62 and 65. The fully insured plans offered are from Premera. Retirees' spouses may enroll until they are age 65 and have to pay the spouse portion of the premium.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.