



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

Financial Statements

Years ended December 31, 2025 and 2024

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Snohomish County Public Hospital District No. 1, dba: EvergreenHealth Monroe (the Hospital), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital, as of December 31, 2025 and 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

KPMG LLP

Seattle, Washington
April 22, 2026

**PUBLIC HOSPITAL DISTRICT NO. 1,
SNOHOMISH COUNTY, WASHINGTON
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Management's Discussion and Analysis

December 31, 2025 and 2024

(Unaudited)

This discussion and analysis of Snohomish County Public Hospital District No. 1, dba EvergreenHealth Monroe (the Hospital or EHM) provides an overview of the Hospital's financial activities and financial position as of and for the years ended December 31, 2025 and 2024. Please read it in conjunction with the Hospital's financial statements, which follow this analysis.

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

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

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

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

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

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

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Utilization Statistics

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

Utilization statistics	2025	2024	2023
Licensed beds	112	112	112
Acute care beds in service	26	26	26
Hospital discharges	1,334	1,035	991
Hospital patient days	4,426	3,727	4,051
Hospital – average length of stay	3.3	3.6	4.1
Occupancy	47 %	39 %	43 %
Observation days	350	807	755
Inpatient surgeries	224	212	243
Outpatient surgeries	1,221	1,026	995
Emergency room visits	20,849	19,970	18,952
Recovery center admissions	744	785	696
Recovery center patient days	7,241	7,039	5,780

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

The future direction of EvergreenHealth Monroe is guided by its vision to “create an inclusive community health system that is the most trusted source for healthcare solutions.” The Hospital takes a long-term, strategic view on the future of healthcare in the community and responds with plans that consider that perspective.

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

- **Financial Performance:** The Hospital continues to implement service enhancement and growth plans, discussed below, which require significant capital outlays. The investment in new and expanded facilities may put initial financial constraints on the organization; however, management believes the Hospital is positioned to better serve the needs of the community.
- **Competition:** Snohomish County has experienced increased market consolidation and collaboration between healthcare providers over the past several years. In addition, competitors have opened traditional and nontraditional healthcare facilities both within and around the Hospital's boundaries with the intention of drawing patients from the service area.
- **Operating Costs:** The Hospital has continued working to manage its operating costs in line with volumes. Labor and employee benefits are the most significant operating cost for the Hospital, representing over 53% and 54% of annual expenses for the years ended December 31, 2025 and 2024, respectively. During 2025 and 2024, the Hospital continued to implement various cost-saving initiatives, including supply chain standardization and improved labor productivity management.

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- **Regulatory Environment:** Continued focus by regulatory agencies on the healthcare industry may impact the Hospital.
- **Labor Availability:** Labor shortages were seen in the diagnostic imaging area. The Hospital experienced a significant labor shortage for CT and MRI Technologists, and Ultrasonographers resulting in an increase in agency personnel. Approximately 85% of the Hospital's 383 employees are members of one of three labor unions. The Service Employees International Union (SEIU) Healthcare 1199NW, which represents approximately 111 Registered Nurses, ratified a new agreement in January 2024, which extends through May 31, 2026. Negotiations are expected to commence in the spring of 2026. The United Food and Commercial Workers (UFCW) union, which represents approximately 97 professional/technical employees, ratified a new agreement on December 9, 2025, which extends through September 30, 2028. SEIU Healthcare 1199NW, which also represents approximately 114 service employees, ratified a new agreement in January 2024 and extends through May 31, 2026.
- **Contracting/Risk-Sharing Arrangements:** In collaboration with EvergreenHealth, the Hospital has two pay for performance hospital contracts in effect with payors as of 2025. Also, via EvergreenHealth's collaboration with Eastside Health Network, the Hospital participated in an additional seven value-based commercial contracts plus five Medicare Advantage contracts. All of these contracts are "layered" on top of existing fee for service arrangements between the Hospital and those payors, and there is no corresponding "downside risk" applicable to the Hospital.
- **Payor Reimbursement:** Reimbursement for patient services from federal, state, and private insurance payors continues to be a concern as healthcare costs continue to rise. The Hospital monitors reimbursement closely and works with payors in an effort to maintain payment levels.
- **Partnerships:** During 2025 and 2024, the Hospital continued to develop its strategic alliance with the District. Both organizations remain independently and separately governed, licensed, and accredited. The purpose of the affiliation is to provide the Hospital the ability to better serve its community through enhanced clinical services and to adopt the District's approaches to clinical outcomes, patient safety, and patient experience. Governmental Accounting Standards Board (GASB) No. 14 establishes that financial statements of the reporting entity generally should allow the users to distinguish between the primary government and its component units. EHM is reported within EvergreenHealth's financial statements as a discretely presented component unit in accordance with government accounting standards.
- **Other:** Other substantial changes anticipated in the US healthcare system include numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. The One Big Beautiful Bill Act (OBBA) will impact the insurance coverage and premiums of Hospital residents that may increase the provision for uncollectible accounts. Management will continue evaluating its response to OBBA and other various healthcare reform components as they develop.

The Hospital recognizes that providing the community with high quality healthcare goes beyond offering outstanding programs and services. As the community continues to grow and age, the Hospital must keep pace with the need for more types of services. The 2025 population within the Hospital's boundaries is estimated to be 114,333. The population is projected to grow 3.1% over the next five years and reach 117,858 in 2030 according to the Environmental Systems Research Institute.

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2025 Highlights:

Initiated or completed projects

- Opened a Neurosciences & Urology practice
- Expanded the scope of General Surgery services
- Expanded the number of Pain Management providers
- Received approval of a new Snohomish primary and urgent care location
- Completed the pre-design of the Hospital Master Facility Plan
- Purchased Sky River medical office building to expand access to outpatient services
- Purchased lot contiguous to hospital

Recognition and Awards

- Received the 2025 American Heart Association Get with the Guidelines Gold award for Coronary Artery Disease STEMI
- Received the 2025 American Heart Association Get with the Guidelines Silver Plus award for Stroke

Overview of the Financial Statements

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

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(Unaudited)

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

Summary of Statements of Net Position

(In thousands)

	2025	2024	2023
Assets and deferred outflows of resources:			
Current assets	\$ 66,647	41,967	25,938
Capital assets, net	40,052	14,230	12,141
Right-to-use leased assets	9,241	7,434	8,166
Other assets, net	10,824	6,033	6,389
Total assets	\$ 126,764	69,664	52,634
Liabilities:			
Current liabilities	\$ 10,223	9,246	8,949
Current portion of lease obligations	329	624	589
Long-term lease obligations, net of current portion	9,660	7,614	8,238
Long-term debt, net of current portion	36,903	14,451	16,068
Total liabilities	57,115	31,935	33,844
Total deferred inflows of resources	10,629	5,674	6,147
Net position:			
Net investment in capital assets	511	(2,663)	(6,151)
Restricted expendable for debt service	356	222	214
Unrestricted	58,153	34,496	18,580
Total net position	59,020	32,055	12,643
Total liabilities, deferred inflows of resources, and net position	\$ 126,764	69,664	52,634

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Management's Discussion and Analysis

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Current Assets

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

- **Current ratio:** This is a liquidity ratio that measures the Hospital's ability to pay short-term obligations or debts due within one year. The current ratio is calculated by dividing current assets by current liabilities.
- **Days in accounts receivable:** This is the number of days it takes the Hospital to collect outstanding patient account balances. The ratio is calculated by dividing the ending accounts receivable by the total operating revenue for the period and multiplying it by 365 days or the number of days in the period.
- **Days cash on hand:** This demonstrates how long in days the Hospital could meet operating expenses with the amount of cash currently available. This is calculated by totaling cash and multiplying by 365 days, then dividing the amount by total operating expenses less annual depreciation.

Key ratios	2025	2024	2023
Current ratio	6.3	4.3	2.7
Days in AR (Net)	44.2	48.1	70.4
Days cash on hand	279.6	175.2	75.5

Total current assets were \$66.6 million as of December 31, 2025, compared to \$42.0 million as of December 31, 2024.

Current assets in 2025 increased by \$24.6 million compared to 2024 primarily due to an increase in cash of \$22.2 million and \$1.1 million increase in patient accounts receivable. Days cash on hand increased to 279.6 in 2025 primarily due to increased volumes and related patient account collections.

Current assets in 2024 increased by \$16.1 million compared to 2023 primarily due to an increase in cash of \$16.8 million and \$1.7 million increase in third party receivable, offset by a decrease in patient accounts receivable of \$2.3 million. Days cash on hand increased to 175.2 in 2024 primarily due to patient account collections and performance related to a new money market account.

Noncurrent Assets

Noncurrent assets primarily consist of capital assets, net of accumulated depreciation. Total noncurrent capital assets, net of accumulated depreciation, increased \$25.8 million in 2025 compared to 2024. The increase from 2024 to 2025 is primarily due to the purchase of the Sky River Plaza building.

Total noncurrent capital assets, net of accumulated depreciation, increased \$2.1 million in 2024 compared to 2023. The increase from 2023 to 2024 is primarily due to \$4.2 million in capital asset additions, offset by \$2.0 million in depreciation and asset retirements.

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Current Liabilities

Current liabilities consist of accounts payable, accrued salaries and benefits, and other liabilities that are expected to be paid within one year, including current portion of long-term debt, leases, and professional liabilities. Total current liabilities were \$10.6 million as of December 31, 2025, compared to \$9.9 million as of December 31, 2024.

Current liabilities increased approximately \$682 thousand from 2024 to 2025 primarily due to the timing of payroll and accounts payable cycles.

Current liabilities decreased approximately \$332 thousand from 2023 to 2024 primarily due to the timing of payroll and accounts payable cycles.

Noncurrent Liabilities

Noncurrent liabilities consist of long-term debt and lease obligations. Total noncurrent liabilities were \$46.6 million as of December 31, 2025, compared to \$22.1 million as of December 31, 2024.

Noncurrent liabilities increased approximately \$24.5 million from 2024 to 2025 primarily due to the issuance of new debt related to the Sky River Plaza building purchase, offset by scheduled debt service and lease payments.

Noncurrent liabilities decreased approximately \$2.2 million from 2023 to 2024 primarily due to scheduled debt service and lease payments.

Net Position

Net position increased \$27.0 million from December 31, 2024 to December 31, 2025. The change is primarily related to net income as discussed in the summary of revenues, expenses, and changes in net position section below.

Net investment in capital assets increased approximately \$3.2 million from 2024 to 2025. The increase is attributable to an increase in net capital assets and changes to debt obligations resulting from the purchase of the Sky River Plaza building and in accordance with amortization schedules.

Restricted net position (expendable for debt service), representing resources with temporary or permanent restrictions, increased \$134 thousand from 2024 to 2025.

Unrestricted net position, which includes other funds available to the Hospital that do not meet the definition of restricted or net investment in capital assets, increased approximately \$23.7 million from 2024 to 2025 primarily due to the excess of revenues over expenses.

Net position increased \$19.4 million from December 31, 2023 to December 31, 2024. The change is primarily related to net income as discussed in the summary of revenues, expenses, and changes in net position section below.

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Net investment in capital assets increased approximately \$3.5 million, or 61%, from 2023 to 2024. The increase is attributable to an increase in net capital assets and changes to debt obligations in accordance with amortization schedules.

Restricted net position (expendable for debt service), representing resources with temporary or permanent restrictions, increased \$8 thousand from 2023 to 2024.

Unrestricted net position, which includes other funds available to the Hospital that do not meet the definition of restricted or net investment in capital assets, increased approximately \$15.9 million from 2023 to 2024 primarily due to the excess of revenues over expenses.

Summary of Revenues, Expenses, and Changes in Net Position

(In thousands)

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenues:			
Net patient service revenue	\$ 87,409	71,344	56,918
Other operating revenues	2,213	2,877	1,760
Total operating revenues	<u>89,622</u>	<u>74,221</u>	<u>58,678</u>
Operating expenses:			
Salaries and wages	29,395	26,150	26,280
Employee benefits	7,339	6,904	6,022
Other operating expenses	29,266	25,996	23,378
Depreciation and amortization	2,851	2,697	2,772
Total operating expenses	<u>68,851</u>	<u>61,747</u>	<u>58,452</u>
Excess of revenues over expenses from operations	20,771	12,474	226
Nonoperating income, net of expenses	<u>6,194</u>	<u>6,575</u>	<u>5,766</u>
Excess of revenues over expenses	26,965	19,049	5,992
Contributions for capital	<u>—</u>	<u>363</u>	<u>349</u>
Changes in net position	<u>\$ 26,965</u>	<u>19,412</u>	<u>6,341</u>

Operating Revenue

The Hospital derives a substantial portion of its operating revenue from federal and state programs and insurance plans that pay for all or a portion of the healthcare services provided to its patients. As a

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

In 2025, gross patient revenue increased by approximately \$40.4 million, or 17.7% from 2024. Gross patient revenue is the total fees charged to patients for services. The main driver of revenue increases was increased volumes compared to 2024.

In 2024, gross patient revenue increased by approximately \$32.4 million, or 16.5% from 2023. Gross patient revenue is the total fees charged to patients for services. The main driver of revenue increases was increased volumes compared to 2023.

The following table sets forth the percentage mix of the Hospital's gross patient revenue for the fiscal years ended December 31, 2025, 2024, and 2023.

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Medicare	36.7 %	35.6 %	36.4 %
Blue Cross Blue Shield	23.4	23.1	21.9
Medicaid	20.2	21.3	22.2
Other Nongovernment third-party payors	13.6	14.1	15.5
Other	3.6	3.5	3.5
Patient self-pay	2.5	2.4	2.3

In 2025, net patient service revenue increased by approximately \$16.1 million, or 22.5% from 2024. Net patient revenue consists of gross patient revenue less contractual adjustments, provision for uncollectible accounts, and charity. This increase was driven by increased volumes compared to 2024. Other operating revenue decreased \$664 thousand from 2024 to 2025 due to insurance settlements of \$1.0 million included in 2024 other operating revenues.

In 2024, net patient service revenue increased by approximately \$14.4 million, or 25.3% from 2023. This increase was driven by increased volumes compared to 2023. Other operating revenue increased \$1.1 million from 2023 to 2024 due to an increase in ancillary service volumes.

Operating Expenses

Labor, including contract labor, increased approximately \$3.2 million, or 12.4%, from 2024 to 2025. The Hospital's average employed and contracted full-time equivalents increased 8.4% from December 31, 2024 to December 31, 2025 driven by increased volumes.

Labor, including contract labor, decreased approximately \$130 thousand, or 0.5%, from 2023 to 2024 primarily due to decreased contract employees. The Hospital's average employed and contracted full-time equivalents increased 9.3% from December 31, 2023 to December 31, 2024 driven by increased volumes.

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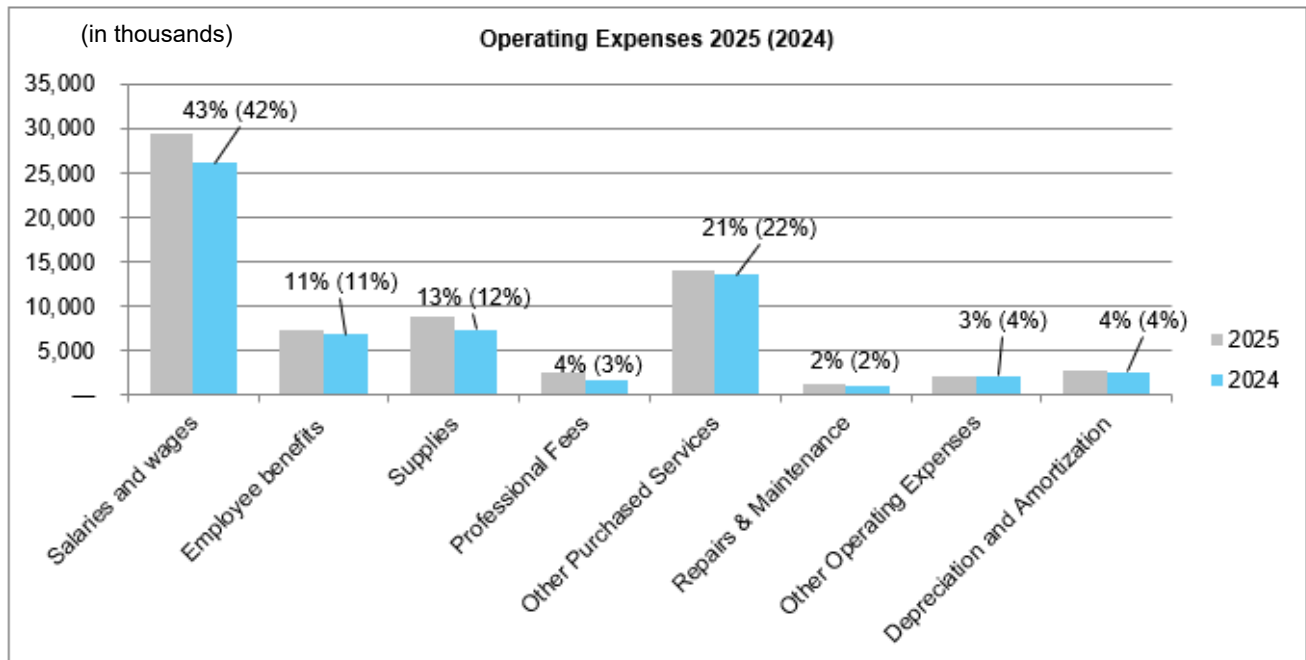
Employee benefit expenses increased \$435 thousand, or 6.3%, from 2024 to 2025. This was primarily due to increased employed full-time equivalents and medical plan expenses.

Employee benefit expenses increased \$882 thousand, or 14.7%, from 2023 to 2024. This was primarily due to increased employed full-time equivalents and medical plan expenses.

Supplies, professional fees, purchased services, repairs and maintenance services, and other operating expenses increased approximately \$3.3 million, or 12.6%, from 2024 to 2025. The increase is driven by an increase in the corporate allocation for the outsourced revenue cycle and information technology functions between EvergreenHealth Kirkland and EvergreenHealth Monroe and increased supply costs and professional fees related to increased volumes.

Supplies, professional fees, purchased services, repairs and maintenance services, and other operating expenses increased approximately \$2.6 million, or 11.2%, from 2023 to 2024. The increase is driven by an increase in the corporate allocation for the outsourced revenue cycle and information technology functions between EvergreenHealth Kirkland and EvergreenHealth Monroe.

Total operating expenses in 2025 and 2024 were \$68.9 million and \$61.7 million, respectively. The table below is presented in thousands with percentages indicating each expense type as a percentage of total operating expenses.



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Nonoperating Income, Net of Expenses

Nonoperating income, net of expenses decreased \$381 thousand, or 5.6%, from 2024 to 2025. The decrease in the current year is primarily due to lower recognized FEMA reimbursement related to COVID-19 expenses during the Public Health Emergency in 2025 compared to 2024.

Nonoperating income, net of expenses increased \$809 thousand, or 14.0%, from 2023 to 2024. The increase in the current year is primarily due to the Hospital recognizing \$1.6 million in FEMA reimbursement related to COVID-19 expenses during the Public Health Emergency.

Contacting the Hospital's Financial Management

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

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Statements of Net Position

December 31, 2025 and 2024

(In thousands)

Assets	2025	2024
Current assets:		
Cash and cash equivalents	\$ 50,556	28,350
Patient accounts receivable, less allowance for uncollectible accounts	10,847	9,785
Other receivables	812	427
Inventory	986	900
Prepaid expenses	628	243
Estimated third-party settlements receivable	2,434	2,001
Restricted deposits	384	261
Total current assets	66,647	41,967
Capital assets:		
Land	2,272	1,879
Construction in progress	1,358	1,443
Depreciable capital assets, net	36,422	10,908
Total capital assets, net	40,052	14,230
Right-to-use leased assets, net	9,241	7,434
Other assets	10,824	6,033
Total assets	\$ 126,764	69,664

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(In thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2025	2024
Current liabilities:		
Accounts payable	\$ 1,688	1,311
Related-party payable	1,003	1,364
Accrued salaries and benefits	3,868	3,644
Accrued interest	141	41
Current portion of lease obligations	329	624
Current portion of long-term debt	1,912	1,637
Other accrued liabilities	1,611	1,249
Total current liabilities	10,552	9,870
Noncurrent liabilities:		
Long-term lease obligations, net of current portion	9,660	7,614
Long-term debt, net of current portion	36,903	14,451
Total noncurrent liabilities	46,563	22,065
Total liabilities	57,115	31,935
Total deferred inflows of resources related to leases	10,629	5,674
Net position:		
Net investment in capital assets	511	(2,663)
Restricted expendable for debt service	356	222
Unrestricted	58,153	34,496
Total net position	59,020	32,055
Total liabilities, deferred inflows of resources and net position	\$ 126,764	69,664

See accompanying notes to the financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

December 31, 2025 and 2024

(In thousands)

	2025	2024
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$7,708 in 2025 and \$8,475 in 2024	\$ 87,409	71,344
Other operating revenues	2,213	2,877
Total operating revenues	89,622	74,221
Operating expenses:		
Labor	29,395	26,150
Employee benefits	7,339	6,904
Supplies	8,889	7,444
Professional fees	2,629	1,754
Other purchased services	14,183	13,616
Repairs and maintenance	1,302	995
Other operating expenses	2,263	2,187
Depreciation and amortization	2,851	2,697
Total operating expenses	68,851	61,747
Excess of revenue over expenses from operations	20,771	12,474
Nonoperating income, net of expenses:		
Property taxes	5,451	5,330
Interest and amortization expense	(983)	(704)
Interest received	1,383	376
Federal funding	343	1,577
Other, net	—	(4)
Total nonoperating income, net of expenses	6,194	6,575
Excess of revenues over expenses	26,965	19,049
Contributions for capital	—	363
Total change in net position	26,965	19,412
Net position – beginning of year	32,055	12,643
Net position – end of year	\$ 59,020	32,055

See accompanying notes to the financial statements.

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

Statements of Cash Flows

December 31, 2025 and 2024

(In thousands)

	2025	2024
Cash flows from operating activities:		
Cash received from and on behalf of patients	\$ 85,914	71,965
Payments to suppliers and contractors	(24,452)	(26,348)
Payments to employees	(36,734)	(33,054)
Other cash receipts	(2,964)	3,331
Net cash provided by operating activities	21,764	15,894
Cash flows from noncapital financing activities:		
Property taxes received for community programs	5,451	5,330
Receipts from Federal funding	343	1,577
Net cash provided by noncapital financing activities	5,794	6,907
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	24,910	—
Purchase of capital assets	(27,930)	(3,860)
Principal paid on long-term debt	(2,202)	(1,564)
Principal paid on lease obligations	(508)	(589)
Payments for interest on long-term debt and leases	(882)	(707)
Capital contributions	—	363
Net cash used in capital and related financing activities	(6,612)	(6,357)
Cash flows from investing activities:		
Investment gain	1,383	376
Net cash provided by investing activities	1,383	376
Net increase in cash, cash equivalents, and restricted deposits	22,329	16,820
Cash, cash equivalents, and restricted deposits, beginning of year	28,611	11,791
Cash, cash equivalents, and restricted deposits, end of year	\$ 50,940	28,611
Reconciliation of cash to the statements of net position:		
Cash and cash equivalents	\$ 50,556	28,350
Restricted deposits	384	261
Total	\$ 50,940	28,611

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Statements of Cash Flows

December 31, 2025 and 2024

(In thousands)

	2025	2024
Reconciliation of operating gain (loss) to net cash provided by operating activities:		
Excess of revenue over expenses from operations	\$ 20,771	12,474
Adjustments to reconcile deficit of revenue over expenses from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,851	2,697
Provision for bad debts	7,708	8,475
Amortization of bond discounts	19	21
Change in operating assets and liabilities:		
Patient accounts receivable	(8,770)	(6,152)
Other receivables	(385)	98
Other assets	(4,791)	356
Inventory and prepaid expenses	(471)	71
Estimated third-party payor settlements	(434)	(1,702)
Accounts payable	86	(1,676)
Accrued liabilities	5,541	451
Related-party payable	(361)	781
Net cash provided by operating activities	\$ 21,764	15,894
Supplemental disclosures of noncash investing and financing activities:		
Change in capital asset additions included in accounts payable and accrued expenses	\$ 291	197
Change in lease liabilities due to lease additions and terminations	2,259	—
Loss on disposal of asset	—	(5)

See accompanying notes to the financial statements.

**SNOHOMISH COUNTY PUBLIC HOSPITAL DISTRICT NO. 1,
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Notes to the Financial Statements

December 31, 2025 and 2024

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

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

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). This reporting model also requires the use of a direct method cash flow statement.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

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

(e) Patient Accounts Receivable

Receivables arising from revenue for services to patients are reduced by an allowance for contractually and estimated uncollectible accounts based on recent collection experience and other circumstances, which may affect the ability of patients to meet their obligations. There are various factors that can impact the collection trends and the estimation process, such as changes in the economy, the

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Notes to the Financial Statements

December 31, 2025 and 2024

increased burden of copays, deductibles to be made by patients, and business practices related to collection efforts. Accounts deemed uncollectible are charged against this allowance.

(f) Restricted Deposits

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

(g) Inventory

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

(h) Capital Assets

Capital assets are recorded at cost. In accordance with government accounting standards, the Hospital has established a capitalization threshold of \$5 thousand and a useful life of five years or more, above which asset acquisitions are added to the capital asset accounts. Donated items are recorded at fair value at the date of the contribution. Depreciation expense is computed using the straight-line method based on the following estimated useful lives of the assets:

Land improvements	5 to 40 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 20 years
Movable equipment	4 to 15 years

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

(i) Leases

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

(j) Compensated Absences

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

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Notes to the Financial Statements

December 31, 2025 and 2024

(k) Net Position

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

(l) Classification of Operating Revenue and Expenses

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

Other operating revenues include lease receivable receipts, outreach laboratory service revenue, retail revenue such as cafeteria and pharmacy, educational offerings, grant funds to support specific programs, and other services.

(m) Net Patient Service Revenue

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

(n) Charity Care

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to an established policy of the Hospital. The estimated cost of charity care is determined by calculating the ratio of operating costs to charges and then applying this ratio to total charity care charges. The estimated costs of charity care provided by the Hospital were \$645 thousand and \$463 thousand for 2025 and 2024, respectively. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, associated charges are not included in net patient service revenue.

(o) Nonoperating Income, Net of Expenses

The Hospital received property taxes from regular levy proceeds.

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December 31, 2025 and 2024

Of the amount used for debt service on general obligation bonds, \$1.0 million and \$552 thousand were used for interest payments for the years ended December 31, 2025 and 2024, respectively. The property taxes received are reflected in nonoperating income. Interest expense related to long-term debt is included in nonoperating expenses.

Federal funding relates to funding received for federal COVID-19 relief programs.

(p) Federal Income Tax

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

(2) Net Patient Service Revenue

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

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis-related groups (DRGs). Each DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that DRG. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2024. The Hospital recognized interim and final cost report settlements from Centers for Medicare and Medicaid Services (CMS) resulting in decreased net patient service revenue by \$149 thousand in 2025 and an increase in net patient service revenue by \$220 thousand in 2024. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). CMS assigns individual services (Healthcare Common Procedure Coding System codes) to APCs based on similar clinical characteristics and similar costs.

(b) Medicaid

Public Hospitals located in the State of Washington that are not certified as critical access hospitals are reimbursed at the "full cost" of Medicaid covered services under the public hospital certified expenditure (CPE) Payment method.

"Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the Hospital and the State claim will be allowed a federal match on the amount related to certified public expenditure. CPE payments are subject to retrospective determination of actual costs once the Hospital's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete. The Hospital received final settlement of

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Notes to the Financial Statements

December 31, 2025 and 2024

\$199 thousand in 2025 and \$28 thousand in 2024 related to State fiscal years 2021 and 2020, respectively.

Effective January 1, 2024, the Directed Payment Program (DPP) was established as a program managed by the Washington State Health Care Authority benefiting certain public hospital districts.

Under the program, the Hospital receives supplemental Medicaid payments for hospital services for which it bills. These supplemental payments equal the difference between the standard Medicaid Managed Care Organization reimbursement rate and the upper payment limit allowable by federal law. The Hospital provides the nonfederal share of the supplemental payments that will be used to obtain the matching federal funds.

The Hospital recorded \$2.0 million and \$1.1 million in intergovernmental transfers (IGT) to the Washington Health Care Authority for the years ended December 31, 2025 and 2024, respectively related to the DPP for hospital claims with dates of service in the year.

The Hospital has an estimated receivable of \$1.8 million and \$1.4 million for the DPP for the years ended December 31, 2025 and 2024.

The Hospital recognized net revenue of \$6.3 million and \$5.0 million in 2025 and 2024, respectively from the DPP, which is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

(c) Other Third-Party Reimbursement

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

The following are the components of net patient service revenue for the years ended December 31, 2025 and 2024 (in thousands):

	2025	2024
Gross patient service revenue	\$ 269,414	228,974
Adjustments to patient service revenue:		
Contractual discounts	(171,772)	(147,440)
Provision for uncollectible accounts	(7,708)	(8,475)
Charity care	(2,525)	(1,715)
Net patient service revenue	\$ 87,409	71,344

(3) Restricted Deposits

Restricted deposits include board-designated cash and restricted cash.

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December 31, 2025 and 2024

Board-designated cash represents unrestricted resources that have been designated by the Board for designated capital projects. In addition, the Board has the authority to establish a regular property tax levy within statutory restrictions, with the proceeds being used for purposes designated by the Board.

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

	2025	2024
Restricted deposits:		
Deposits restricted for debt service fund	\$ 356	222
Employee flexible spending savings	28	39
Total restricted deposits	\$ 384	261

The Hospital has established debt service funds required under its bond resolutions. These funds are to be used to service the Hospital's limited tax general obligation bonds.

As a political subdivision of the state, the Hospital categorizes deposits to give an indication of the risk assumed at year-end. Category 1 includes deposits that are insured, registered, or held in the Hospital's name. Category 2 includes uninsured and unregistered deposits that are held by a broker's or dealer's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by a broker or dealer, or its trust department or agent, but not in the Hospital's name. At December 31, 2025 and 2024, all deposits of the Hospital were categorized as Category 1.

(a) Credit Risk

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

(b) Deposit Risk

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

(c) Custodial Credit Risk

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

(d) Concentration of Credit Risk

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

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December 31, 2025 and 2024

(e) Interest Rate Risk

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

(4) Capital Assets

The schedule of capital asset activity for the years ended December 31, 2025 and 2024 were as follows (in thousands):

	<u>January 1, 2025</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>December 31, 2025</u>
Nondepreciable capital assets:					
Land	\$ 1,879	393	—	—	2,272
Construction in progress	1,443	3,056	(3,078)	(63)	1,358
Total nondepreciable capital assets	<u>3,322</u>	<u>3,449</u>	<u>(3,078)</u>	<u>(63)</u>	<u>3,630</u>
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings and improvements	33,472	24,661	217	—	58,350
Fixed equipment	2,731	—	32	—	2,763
Movable equipment	22,221	—	2,829	—	25,050
Total depreciable capital assets	<u>59,658</u>	<u>24,661</u>	<u>3,078</u>	<u>—</u>	<u>87,397</u>
Less accumulated depreciation:					
Land improvements	(1,188)	(21)	—	—	(1,209)
Buildings and improvements	(26,084)	(1,377)	—	—	(27,461)
Fixed equipment	(2,601)	(29)	—	—	(2,630)
Movable equipment	(18,877)	(798)	—	—	(19,675)
Total accumulated depreciation	<u>(48,750)</u>	<u>(2,225)</u>	<u>—</u>	<u>—</u>	<u>(50,975)</u>
Total depreciable capital assets, net	<u>10,908</u>	<u>22,436</u>	<u>3,078</u>	<u>—</u>	<u>36,422</u>
Total capital assets, net	<u>\$ 14,230</u>	<u>25,885</u>	<u>—</u>	<u>(63)</u>	<u>40,052</u>

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December 31, 2025 and 2024

	<u>January 1, 2024</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>December 31, 2024</u>
Nondepreciable capital assets:					
Land	\$ 1,879	—	—	—	1,879
Construction in progress	1,653	4,159	(4,269)	(100)	1,443
Total nondepreciable capital assets	<u>3,532</u>	<u>4,159</u>	<u>(4,269)</u>	<u>(100)</u>	<u>3,322</u>
Depreciable capital assets:					
Land improvements	1,234	—	—	—	1,234
Buildings and improvements	30,415	—	3,057	—	33,472
Fixed equipment	2,731	—	—	—	2,731
Movable equipment	21,311	3	1,212	(305)	22,221
Total depreciable capital assets	<u>55,691</u>	<u>3</u>	<u>4,269</u>	<u>(305)</u>	<u>59,658</u>
Less accumulated depreciation:					
Land improvements	(1,126)	(62)	—	—	(1,188)
Buildings and improvements	(25,133)	(951)	—	—	(26,084)
Fixed equipment	(2,573)	(28)	—	—	(2,601)
Movable equipment	(18,250)	(924)	—	297	(18,877)
Total accumulated depreciation	<u>(47,082)</u>	<u>(1,965)</u>	<u>—</u>	<u>297</u>	<u>(48,750)</u>
Total depreciable capital assets, net	<u>8,609</u>	<u>(1,962)</u>	<u>4,269</u>	<u>(8)</u>	<u>10,908</u>
Total capital assets, net	<u>\$ 12,141</u>	<u>2,197</u>	<u>—</u>	<u>(108)</u>	<u>14,230</u>

Depreciation and amortization recognized in operating expenses were \$2.8 million and \$2.7 million for the years ended December 31, 2025 and 2024, respectively. Included in these amounts were \$627 thousand and \$732 thousand related to right-to-use lease asset amortization for the years ended December 31, 2025 and 2024, respectively.

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Notes to the Financial Statements

December 31, 2025 and 2024

(5) Long-Term Debt Obligations

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

	December 31	
	2025	2024
Limited Tax General Obligation (LTGO) Refunding Bonds		
Series 2019 (fixed rate), payable semiannually through 2034, interest at 2.95%	\$ 11,930	12,960
LTGO Bonds Series 2019 (fixed rate), payable semiannually through 2029, interest at 3.25%	2,632	3,239
LTGO Bonds Series 2025 A (fixed rate), payable semiannually through 2040, interest at 4.95%	10,640	—
LTGO Bonds Series 2025 B (fixed rate), payable semiannually through 2045, interest at 5.15%	5,985	—
LTGO Bonds Series 2025 C (fixed rate), payable semiannually through 2050, interest at 5.38%	7,720	—
Total long-term debt	38,907	16,199
Less unamortized bond discounts	(92)	(111)
Less current portion	(1,912)	(1,637)
Long-term debt, net of current portion	\$ 36,903	14,451

Issuance Activity

In 2025, the Hospital issued \$24.9 million of LTGO Bonds to finance the purchase of the Sky River Plaza building, located at 14841 179th Ave SE, Monroe, Washington. The bonds have a par value and average coupon rates as follows:

	Par Value of Bonds	Average Coupon Rate
LTGO Bonds Series 2025 A	\$ 11,195	4.95%
LTGO Bonds Series 2025 B	5,990	5.15%
LTGO Bonds Series 2025 C	7,725	5.38%
Total Par Value of 2025 LTGO Bond Issuances	\$ 24,910	

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Notes to the Financial Statements

December 31, 2025 and 2024

The schedule of long-term debt obligations activity for the years ended December 31, 2025 and 2024 is as follows (in thousands):

	<u>January 1, 2025</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2025</u>	<u>Amounts due within one year</u>
LTGO refunding bonds, 2019	\$ 12,960	—	(1,030)	11,930	1,080
LTGO bonds, 2019	3,239	—	(607)	2,632	627
LTGO bonds, 2025 A	—	11,195	(555)	10,640	205
LTGO bonds, 2025 B	—	5,990	(5)	5,985	—
LTGO bonds, 2025 C	—	7,725	(5)	7,720	—
	<u>16,199</u>	<u>24,910</u>	<u>(2,202)</u>	<u>38,907</u>	<u>1,912</u>
Unamortized discounts	<u>(111)</u>	<u>—</u>	<u>19</u>	<u>(92)</u>	<u>—</u>
Total long-term debt	<u>\$ 16,088</u>	<u>24,910</u>	<u>(2,183)</u>	<u>38,815</u>	<u>1,912</u>

	<u>January 1, 2024</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2024</u>	<u>Amounts due within one year</u>
LTGO refunding bonds, 2019	\$ 13,935	—	(975)	12,960	1,030
LTGO bonds, 2019	<u>3,828</u>	<u>—</u>	<u>(589)</u>	<u>3,239</u>	<u>607</u>
	17,763	—	(1,564)	16,199	1,637
Unamortized discounts	<u>(132)</u>	<u>—</u>	<u>21</u>	<u>(111)</u>	<u>—</u>
Total long-term debt	<u>\$ 17,631</u>	<u>—</u>	<u>(1,543)</u>	<u>16,088</u>	<u>1,637</u>

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Notes to the Financial Statements

December 31, 2025 and 2024

A summary of the Hospital debt service for the next five years and thereafter as of December 31, 2025 for both principal and interest is as follows (in thousands):

	Principal	Interest
2026	\$ 1,912	1,688
2027	1,972	1,625
2028	2,038	1,561
2029–2033	11,275	6,713
2034–2037	5,060	3,952
Thereafter	16,650	6,789
Total	38,907	\$ 22,328
Less amount representing net unamortized bond discounts	(92)	
Total	\$ 38,815	

On July 17, 2024, the Hospital entered in to a Revolving Credit Agreement with Coastal Community Bank which provided a (revolving) line of credit through June 30, 2025 for up to \$3 million. The agreement was renewed for one year through June 30, 2026. The Hospital made no draws and had no outstanding borrowings with respect to this agreement as of December 31, 2025.

(6) Leases

(a) Lessee

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

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

Some leases include one or more renewal options, which generally extend the lease at the market rate of rental payments. All such options are at the Hospital's discretion and if it is reasonably certain that

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the renewal option(s) will be exercised, the renewal option payments and term are included in the measurement of the lease liability and the right-to-use asset.

Certain leases require the Hospital to make variable lease payments that relate to common area maintenance (CAM), insurance, taxes, or other payments based on performance or usage. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Variable lease payments are recognized within other operating expenses in the statements of revenues, expenses, and changes in net position when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. The amounts recognized as expense for variable lease payments not included in the measurement of the lease liability were \$119 thousand and \$181 thousand during the fiscal years ended December 31, 2025 and 2024, respectively.

Right-to-Use Leased Assets

The summary of the Hospital's right-to-use leased assets and related accumulated amortization for the years ended December 31, 2025 and 2024 is presented below (in thousands):

	<u>January 1, 2025</u>	<u>Additions</u>	<u>Modifications/ renewals</u>	<u>Deductions</u>	<u>December 31 2025</u>
Leased assets:					
Buildings	\$ 10,027	3,954	—	(2,828)	11,153
Equipment	258	—	—	—	258
Total leased assets	<u>10,285</u>	<u>3,954</u>	<u>—</u>	<u>(2,828)</u>	<u>11,411</u>
Less accumulated amortization:					
Buildings	(2,748)	(582)	—	1,308	(2,022)
Equipment	(103)	(45)	—	—	(148)
Total accumulated amortization	<u>(2,851)</u>	<u>(627)</u>	<u>—</u>	<u>1,308</u>	<u>(2,170)</u>
Leased assets, net	<u>\$ 7,434</u>	<u>3,327</u>	<u>—</u>	<u>(1,520)</u>	<u>9,241</u>

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	<u>January 1, 2024</u>	<u>Additions</u>	<u>Modifications/ renewals</u>	<u>Deductions</u>	<u>December 31, 2024</u>
Leased assets:					
Buildings	\$ 10,027	—	—	—	10,027
Equipment	258	—	—	—	258
Total leased assets	<u>10,285</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,285</u>
Less accumulated amortization:					
Buildings	(2,061)	(687)	—	—	(2,748)
Equipment	(58)	(45)	—	—	(103)
Total accumulated amortization	<u>(2,119)</u>	<u>(732)</u>	<u>—</u>	<u>—</u>	<u>(2,851)</u>
Leased assets, net	<u>\$ 8,166</u>	<u>(732)</u>	<u>—</u>	<u>—</u>	<u>7,434</u>

Lease Liabilities

Changes in the Hospital's lease liabilities for the years ended December 31, 2025 and 2024 are presented below (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Year ended:					
December 31, 2025	\$ 8,238	3,954	(2,203)	9,989	329
December 31, 2024	8,827	—	(589)	8,238	624

Lease Maturities

The following schedule shows future annual lease payments, for the next five years and in five-year increments thereafter, as of December 31, 2025 for both principal and interest (in thousands):

	<u>Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 329	389
2027	646	354
2028	673	322
2029–2033	4,117	1,067
2034–2038	<u>4,224</u>	<u>296</u>
	<u>\$ 9,989</u>	<u>2,428</u>

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(b) Lessor

In 2025, the Hospital purchased the Sky River Plaza building, located at 14841 179th Ave SE, Monroe, Washington, which contains approximately 48,803 square feet of space available for lease. For leases with terms greater than 12 months, the Hospital recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term using the Hospital's incremental borrowing rate.

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

Certain leases require the lessee to make variable lease payments related to common area maintenance (CAM) and insurance payments based on performance or usage. Variable payments, other than those that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease receivable and recorded as other operating revenue in the statements of revenues, expenses, and changes in net position. Lease revenue related to variable payments were \$230 thousand and \$129 thousand during the fiscal years ended December 31, 2025 and 2024, respectively.

Revenue from leases for the years ended December 31, 2025 and 2024 are as follows (in thousands):

	December 31	
	2025	2024
Lease revenue	\$ 964	473
Interest revenue	482	197
Total	\$ 1,446	670

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The following schedule shows future annual lease receipts, for the next five years and thereafter, as of December 31, 2025 for both principal and interest (in thousands):

	Leases	
	Principal	Interest
Year ending December 31:		
2026	\$ 921	391
2027	993	358
2028	1,069	323
2029	1,149	285
2030	1,220	245
Thereafter	6,395	568
	\$ 11,747	2,170

(7) Commitment and Contingencies

(a) Purchased Services Agreement

Fairfax and the Hospital have a purchased services agreement under which the Hospital provides dietary services.

The Hospital recognized approximately \$457 thousand and \$414 thousand, for the years ended December 31, 2025 and 2024, respectively, of revenue for purchased services provided to Fairfax. This revenue is recorded as other operating revenue in the statements of revenues, expenses, and changes in net position. Fairfax owed approximately \$37 thousand to the Hospital for purchased services provided at both December 31, 2025 and 2024, respectively. This receivable is recorded as other receivables in the statements of net position. Management believes that the receivable represents the net realizable value of the amount it expects to collect from Fairfax.

(b) Litigation

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

(c) Compliance with Laws and Regulations

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

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with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

(d) Risk Management

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

(8) Retirement Plans

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

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

Retirement plan expense, incurred and reflected in employee benefits, was approximately \$633 thousand and \$570 thousand in 2025 and 2024, respectively. Both plans are administered by the Hospital under recordkeeping and trust agreements with third parties.

(9) Concentration of Credit Risk

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

	Receivables	
	2025	2024
Blue Cross Blue Shield	34.8 %	37.5 %
Other Nongovernment third-party payors	31.2	30.4
Medicare	21.5	20.0
Patient self-pay	5.5	6.6
Medicaid	7.0	5.5
	100.0 %	100.0 %

(10) Property Taxes

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

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Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the Hospital by the County Treasurer.

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

For 2025 and 2024, the Hospital's regular tax levy was \$0.16 and \$0.17 per \$1,000 on a total assessed valuation of \$33.0 billion and \$31.0 billion for a total regular levy of \$5.5 million and \$5.3 million, respectively. The Hospital's tax revenue was not reduced due to abatement under tax increment financing arrangements.

Property taxes are recorded as receivables when levied. Because state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made. Property taxes receivable of \$115 thousand and \$104 thousand were included in other receivables at December 31, 2025 and 2024, respectively.

(11) Related-Party Transactions

On March 1, 2015, the Hospital entered into a strategic alliance agreement with King County Public Hospital District No. 2 dba: EvergreenHealth (the District). Under the terms of this affiliation, the Public Hospital District No. 1, Snohomish County Board continues to exist, but with limited governing rights. Benefits to the District and Hospital include clinical services to be offered by EvergreenHealth on the EvergreenHealth Monroe campus, access to tertiary services offered at the EvergreenHealth campus, consultative and management services by EvergreenHealth to help the Hospital stabilize operations and improve clinical and financial performance, and economies of scale to improve the Hospital's cost structure. An Alliance Governance Board (AGB), consisting of two commissioners from EvergreenHealth, two commissioners from EvergreenHealth Monroe and the CEO of EvergreenHealth, has been established and provides oversight and direction to the Hospital.

The related parties were involved in various transactions during the years ended December 31, 2025 and 2024. Following is a summary of related-party transactions in 2025 and 2024 (in thousands):

	2025	2024
Shared employees compensation and benefits expenses	\$ 2,365	1,850
Contracted labor expenses	620	614
Other expenses	12,133	9,894
Reimbursement for fixed assets	246	495
Total related-party transactions	\$ 15,364	12,853

The related party shared various employees during 2025 and 2024 for the Hospital's use. Amounts incurred for these services were reported as salaries and wages. At the end of 2024 and throughout 2025, the Hospital outsourced the revenue cycle and information technology functions to the District and the amounts incurred for these shared services were reported as other expense.

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

	<u>2025</u>	<u>2024</u>
Shared employees compensation and benefits	\$ 255	361
Contracted labor	106	56
Purchased Services	511	729
Other	116	198
Fixed assets	<u>16</u>	<u>20</u>
Total related-party payable	<u>\$ 1,004</u>	<u>1,364</u>