

VERDANT HEALTH COMMISSION  
PUBLIC HOSPITAL DISTRICT NO. 2 OF SNOHOMISH COUNTY, WASHINGTON  
BOARD OF COMMISSIONERS  
Regular Meeting  
A G E N D A  
May 24, 2017  
Edmonds Senior Center  
8:00 a.m. to 9:35 a.m.

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	<u>ACTION</u>	<u>TIME</u>	<u>PAGE</u>
A. Call to Order	---	8:00	---
B. Approval of the Minutes			
a) April 26, 2017 Board Meeting	Action	8:03	1-5
C. Executive Committee Report	Information	8:04	---
D. Superintendent's Report	Information	8:05	---
E. Finance Committee Report	Information	8:10	
a) Review financial statements & cash activity	Information	8:10	6-9
b) Authorization for payment of vouchers and payroll	Action	8:12	10
c) 2016 Financial Audit by Moss Adams	Information	8:13	11-41
F. Program Committee Report & Recommendations			
a) Conflicts of Interest	---	8:25	---
b) Program investment recommendations	Action	8:26	42-44
c) Verdant Community Wellness Center activities update	Information	8:40	45-46
d) Presentation from Edmonds Senior Center	Information	8:45	---
G. Marketing Report	Information	9:05	---
H. Public Comments (please limit to three minutes per speaker)	---	9:08	---
I. Commissioner Comments	---	9:15	---
J. Executive Session	---	9:20	---
a) Consider the legal risks of a proposed action of the district			
K. Open Session	---	9:35	---
L. Adjournment	---	9:35	---

PUBLIC HOSPITAL DISTRICT NO. 2 OF SNOHOMISH COUNTY, WASHINGTON  
VERDANT HEALTH COMMISSION

*BOARD OF COMMISSIONERS*  
*Regular Meeting*  
*Verdant Community Wellness Center*  
*April 26, 2017*

<b>Commissioners Present</b>	Deana Knutsen, President J. Bruce Williams, M.D., Secretary Fred Langer, Commissioner Bob Knowles, Commissioner Karianna Wilson, Commissioner (via telephone)
<b>Others Present</b>	Robin Fenn, Superintendent George Kosovich, Assistant Superintendent Lisa King, Finance Director Jennifer Piplic, Marketing Director Sue Waldin, Community Wellness Program Manager Sandra Huber, Outreach Specialist Karen Goto, Executive Assistant Members of the community
<b>Guests</b>	Brad Berg, Foster Pepper Kelly Collins, State Auditors Office Tina Watkins, State Auditors Office Kristina Baylor, State Auditors Office
<b>Call to Order</b>	The Regular Meeting of the Board of Commissioners of Public Hospital District No. 2, Snohomish County, was called to order at 8:00 a.m. by President Knutsen.
<b>Approval of Minutes</b>	<b><i>Motion was made, seconded and passed unanimously to approve</i></b> the minutes of the regular meeting on March 22, 2017.
<b>Executive Committee</b>	President Knutsen reported that the Executive Committee met on April 19, 2017 to review and approve the April 26, 2017 board meeting agenda and review the upcoming events at Verdant. No action was taken.
<b>Superintendent Report</b>	Dr. Fenn reported on several items: 1. Staff updates from the month of March 2017 and upcoming events were recently sent to the

- board by Dr. Fenn. Commissioners should let Dr. Fenn know if they want her to broker an introduction to a community partner.
2. Dr. Fenn's 1<sup>st</sup> quarter as superintendent is over and she will be meeting with President Knutsen to begin developing specific, measurable goals, and these will then be discussed with the board.
  3. The Value Village GANTT chart data sources are being collected and will be reported to the board at the June 9<sup>th</sup> mini retreat along with review of Verdant's criteria for grants. Dr. Fenn stated that she will send an email to board members asking if they wish to add data elements they would like to have considered.
  4. Ted Lord of Philanthropy Northwest will be leading an "Engaging Community Voice" session at Verdant on May 1, 2017 from 1 to 5 p.m. 35 people have signed up so far. Commissioners are encouraged to attend but please let Mr. Kosovich know if you will attend so the proper public meeting notice can be sent, if applicable.
  5. Verdant received an award from the Edmonds School District for its ongoing support of their programs.
  6. Dr. Fenn presented a Verdant update at the Lynnwood City Council meeting on April 19, 2017.
  7. Screenagers event with 2 sessions was held at Verdant on April 18, 2017 with 42 service providers in session 1 and 73 community members in session 2.
  8. The May 24, 2017 regular board meeting will be held at the Edmonds Senior Center at 8 a.m. Directions to the center will be sent via email to the commissioners.

**Finance  
Committee  
Report**

The committee met on April 20, 2017. Ms. King reviewed the financial statements and cash activity for February & March 2017 (E:21:17).

**Authorization  
for Payment of  
Vouchers &  
Payroll**

Warrant Numbers 12100 through 12212 for February & March 2017 for payment in the amount of \$171,428.73 were presented for approval (E:22:17). ***Motion was made, seconded and passed unanimously to approve.***

**State Auditors  
Office Exit  
Conference**

Ms. Kelly Collins, Ms. Tina Watkins, and Ms. Kristina Baylor of the State Auditors Office (SAO) presented the results of the 2015 accountability audit and financial audit (E:23:17). Ms. Baylor recognized Ms. King and Verdant for quick responses to their queries. The draft accountability report examines compliance with state laws, contracts, and Verdant's policies and procedures. Ms. Baylor also noted that of the three levels of reporting (Finding, Management Letter, Exit recommendation), Verdant received a Management Letter which will be referenced but not included in the published report.

Management Letter called out three programs outside the authority of the hospital district statues – Swim Lessons to 3<sup>rd</sup> Graders, Bicycling Basics, and a Fire Prevention program.

Commissioners did not agree with the SAO Management Letter findings on the three programs. The SAO office recommends that Verdant work with their legal counsel, local association and legislative body to address these items.

Mr. Berg and Dr. Fenn will work on a response letter to the SAO.

Dr. Williams suggested that a public meeting with district legislative representation be held in the near future to explore changes to the RCWs as things like the social determinants of health should be included. Dr. Fenn will work on scheduling this meeting after the special legislative session has ended.

**Program  
Committee  
Update**

The Program Committee met on April 13, 2017 to review five new applications and follow up on the Move 60! Renewal request (E:24:17).

No conflicts of interest were reported by any of the commissioners.

**Applications Recommended for Funding:**

Edmonds Back-to-School Fair – a \$14,000 request for the annual school resource & health fair in August at Cedar Valley Elementary. Turning Point is the non-profit fiscal agent for the fair. ***Motion was made, seconded and passed unanimously to approve*** partially funding the request for \$12,000 on a one-time basis.

Center for Human Services Behavioral Integration at CHC of Snohomish County – a request for an extension of a project that Verdant approved with CHS and Edmonds Family Medicine to integrate behavioral health and primary care.

***Motion was made, seconded and passed unanimously to approve*** fully funding the request at \$66,850 per year for three years.

**Applications Not Recommended for Funding:**

Edmonds School District – Vision Screening

Photodevice,

Veteran’s Plaza Interactive Kiosk/VFW Post 8870 – kiosk that provides resources to veterans at the Edmonds Veteran’s Plaza, and Edmonds-Woodway High School Booster Club – request to purchase new weight room equipment.

Follow-up on Edmonds School District Move 60! –

***Motion was made, seconded and passed unanimously to approve*** fully funding the revised request at \$2.28 million in total over three years (E:25:17).

**Therapeutic  
Health Services  
Program  
Presentation**

Dr. Susan Caverly & Ms. Gina Cohen gave a presentation to the board on the Integrated Cognitive Therapies program, including data and results (E:26:17)

**Verdant  
Community  
Wellness  
Center  
Activities  
Update**

Ms. Waldin presented a written update on activities in the center for April 2017 (E:27:17).

**Marketing  
Report**

Ms. Piplic presented the Marketing report (E:28:17). The latest edition of The Canopy newsletter began arriving in households and businesses on April 19, 2017. Ms. Piplic thanked Commissioner Williams for his quote in the newsletter. A survey was included in this edition and the results will be shared at a later date.

**Public  
Comments**

Dr. Jim Distelhorst of the Edmonds Senior Center commented that as a result of the recent SAO audit,

the center would be happy to lend its voice at a public legislative meeting.

**Commissioner  
Comments**

President Knutsen thanked everyone in the audience for their attendance at today's meeting and announced that there would be no Executive Session.

**Adjourn**

There being no further business to discuss, the meeting was adjourned at 9:32 a.m.

**ATTEST BY:**

\_\_\_\_\_  
President

\_\_\_\_\_  
Secretary

**Balance Sheet**  
As of April 30, 2017

	A	B	C	D
	Dec 31, 2016	Apr 30, 2017	\$ Change	Comments:
<b>1 ASSETS</b>				
<b>2 Current Assets</b>				
<b>3 Cash Balance</b>	5,457,824	2,007,309	(3,450,516)	
<b>4 Other Current Assets</b>	34,822,481	38,632,713	3,810,232	Includes Investments
<b>5 Total Current Assets</b>	40,280,305	40,640,021	359,716	
<b>6 Total Long-term &amp; Fixed Assets</b>	46,463,198	45,731,604	(731,595)	Includes Depreciation
<b>7 TOTAL ASSETS</b>	<b>86,743,503</b>	<b>86,371,625</b>	<b>(371,879)</b>	
<b>8 LIABILITIES &amp; EQUITY</b>				
<b>9 Liabilities</b>				
<b>10 Current Liabilities</b>	3,230,044	1,465,218	(1,764,826)	
<b>11 Long-term Liabilities</b>	3,087,949	3,067,272	(20,677)	2012 LTGO Bonds/BHCF
<b>12 Total Liabilities</b>	6,317,993	4,532,490	(1,785,502)	
<b>13 Total Equity</b>	80,425,511	81,839,135	1,413,624	Annual Net Income
<b>14 TOTAL LIABILITIES &amp; EQUITY</b>	<b>86,743,503</b>	<b>86,371,625</b>	<b>(371,879)</b>	

**Profit & Loss**  
April 2017

	A	B	C	D	E	F
	Apr Actual	Apr Budget	Fav/(Unfav)	YTD Actual	YTD Budget	Fav/(Unfav)
<b>1 INCOME</b>						
<b>2 Ordinary Income</b>	866,384	865,449	935	3,475,361	3,474,633	728
<b>3 EXPENSES</b>						
<b>4 Operating Expenses</b>	193,566	193,513	(53)	646,716	758,293	111,577
<b>5 Depreciation Expense</b>	180,575	180,797	222	738,777	737,402	(1,376)
<b>6 Program Expenses</b>	446,792	567,854	121,062	1,783,682	2,328,415	544,733
<b>7 Total Expenses</b>	820,932	942,164	121,231	3,169,176	3,824,110	654,935
<b>8 OTHER INCOME/(EXPENSE)</b>						
<b>9 Total Other Income/(Expense)</b>	303,989	228,229	75,760	1,107,438	912,915	194,523
<b>10 NET INCOME</b>	<b>349,440</b>	<b>151,515</b>	<b>197,926</b>	<b>1,413,624</b>	<b>563,438</b>	<b>850,186</b>

**Monthly Highlights**  
April 2017

Verdant received dividends payments of \$49,377 and an unrealized gain of \$66,616 on our investment portfolio in April and closed with an ending market value of \$37,959,788.

Annual program commitments total \$6,109,664 for 2017. \$1,781,582 remains available to spend in 2017, of which \$34,716 is earmarked as Superintendent Discretionary.

Income of \$117,535 and expenses of \$87,562 from the Kruger Clinic were incurred, netting to an additional operating income of \$29,973 in April.

**Public Hospital District #2**

<b>Warrant Number</b>	<b>Transaction Date</b>	<b>Payee</b>	<b>Amount</b>	<b>Purpose</b>
<b>Warrant Activity:</b>				
12213	04/14/2017	AmeriFlex Business Solutions	17.25	FSA Administration
12214	04/14/2017	Armstrong Services	1,150.00	March 2017 Janitorial
12215	04/14/2017	Beth Rodriguez, LLC	315.33	Mar 2017 VHCC Support (4.5 hrs)
12216	04/14/2017	Cedar Way PTO	300.00	Gold Sponsorship - 2017 MLT 5k Fun Run
12217	04/14/2017	Comcast	281.02	Internet/Telephone
12218	04/14/2017	Connie Nelson, RN	480.00	WC 151 - Yoga 101 2/14-4/4/17
12219	04/14/2017	Consolidated Landscape Maintenance, Inc.	633.15	Landscaping maintenance
12220	04/14/2017	Corporate Security LLC	284.00	Apr 2017 Parking Lot Security
12221	04/14/2017	Dameon Hahn	400.00	WC 158 - Instructor Reimbursement for Exercise Consultation
12222	04/14/2017	Dataworks	1,083.19	IT Support
12223	04/14/2017	Discovia	1,144.25	March 2017 Public Records Request Software
12224	04/14/2017	Electronic Business Machines	36.23	3/22-4/21 Canon Copy Machine
12225	04/14/2017	Jason Becker Creative	1,024.80	Canopy Design and Photography
12226	04/14/2017	Leadership Snohomish County	5,000.00	Step-up Equity Event - Superintendent Discretionary
12227	04/14/2017	Lowe Graham Jones PLLC	315.00	Trademark watch
12228	04/14/2017	Moss Adams - Audit	1,500.00	2016 Audit
12229	04/14/2017	Moss Adams - Cost Report	5,940.00	2009 CPE revision (Susan Ruchin)
12230	04/14/2017	NSC Parent Advisory Council	300.00	SH attend Latina Symposium 2017
12231	04/14/2017	Seattle Food Nut	1,095.88	WC 157 - Teen Cooking Class 4/4 & 4/6/17; supplies
12232	04/14/2017	Sound Dietitians	3,510.66	WC 150 - Nutrition Programming/Multicultural programing
12233	04/14/2017	Sound Publishing, Inc.	340.00	Advertising for Latino Health Fair
12234	04/14/2017	State Auditor's Office	837.90	2015 SAO Audit
12235	04/14/2017	ThyssenKrupp Elevator Company	811.58	Elevator Maintenance 4/1-6/30/17
12236	04/14/2017	Total Health	410.39	WC 144 - Instructor Reimb for Mediterranean for Life
12237	04/14/2017	Tube Art Group	1,644.81	Kruger Clinic Directional Sign
12238	04/14/2017	US Postal Service	12,988.80	Canopy Newsletter Mailing
12239	04/14/2017	Waste Management	253.40	Garbage/Recycle
12240	04/14/2017	Zapora Consulting, LLC	500.00	Consulting 3/21/17 - 2 hrs
12241	04/14/2017	Comcast	523.93	Internet/Telephone
12242	04/19/2017	Pam Dorn	15.00	Refund for Cancelled Cooking Class
12243	04/19/2017	Lindsey Legaspi	15.00	Refund for Cancelled Cooking Class
12244	04/19/2017	Pearl Spiger	15.00	Refund for Cancelled Cooking Class
12245	04/19/2017	Edmonds Senior Center	5,000.00	CAFE Event - Superientendent Discretionary
12246	04/19/2017	Staples	122.95	Supplies
12247	04/19/2017	StayWell Company, LLC	3,150.00	1Q17 installment of health content for website
12248	04/19/2017	Total Health	275.00	Instructor reimbursment
12249	04/19/2017	WA Department of Revenue	22,217.02	Q1 2017 Leasehold Excise tax return
12250	04/26/2017	Alma E. Jauregui	150.00	Dance performance for Latino Health Fair
12251	04/26/2017	Principal	1,372.10	EE Life Insurance
12252	04/26/2017	Property Management NW	4,298.40	Kruger Clinic Property Management
12253	04/26/2017	Regence Blueshield	4,375.80	May 2017 Health Insurance
12254	04/26/2017	Tulalip Resort Casino	200.00	Deposit for Dec 2017 Board Retreat
12255	04/26/2017	Wells Fargo	2,940.58	Misc.
12256	04/26/2017	Parsi Properties LLC	2,500.00	May 2017- Parking lot lease
12257	04/26/2017	Ferris-Turney General Contractors	12,703.10	Construct Basement wall in VCWC

<b>Warrant Number</b>	<b>Transaction Date</b>	<b>Payee</b>	<b>Amount</b>	<b>Purpose</b>
<b>Warrant Activity:</b>				
12258	04/26/2017	Dataworks	525.00	IT Support
12259	04/26/2017	Department of Labor and Industries	999.06	1Q17 Self Insurance Fund
12260	04/26/2017	Electronic Business Machines	36.43	4/22-5/21 Canon Copy Machine
12261	04/26/2017	Snohomish County PUD	854.03	Electricity
12262	04/26/2017	Sound Publishing, Inc.	39.20	Legal Notice 4/23 Board Meeting
12263	04/26/2017	Seattle Food Nut	540.30	WC 157 - Teen Cooking Class 4/20; supplies
12264	04/26/2017	Steel Counseling PLLC	300.00	WC 155 - Instructor Reimbursement for Screenagers Viewing
	04/25/2017	Harland Clarke Check	260.67	Check stock
		Total Warrants	<u>106,026.21</u>	
<b>Wire/ACH Activity:</b>				
	4/14/2017	Payroll	18,099.31	ACH payroll transfer
	4/14/2017	Department of Treasury	7,632.14	Payroll taxes for 4/8/17 pay period ending
	4/14/2017	Valic	2,721.27	Payroll 401(a)/457 Deposit
	4/14/2017	Paychex	128.37	Fee for payroll processing
	4/28/2017	Payroll	18,038.50	ACH payroll transfer
	4/28/2017	Department of Treasury	7,605.79	Payroll taxes for 4/22/17 pay period ending
	4/28/2017	Valic	2,716.31	Payroll 401(a)/457 Deposit
	4/28/2017	Paychex	103.98	Fee for payroll processing
	4/12/2017	Wells Fargo Merchant Services	85.20	Merchant Services
	4/11/2017	Wells Fargo	184.17	Bank Fees
	4/15/2017	Boys & Girls Club of Snohomish County	20,519.58	Program Payment
	4/15/2017	CampFire	4,166.67	Program Payment
	4/15/2017	Cascade Bicycle Club Education Foundation	2,666.67	Program Payment
	4/15/2017	Center for Human Services	21,708.33	Program Payment
	4/15/2017	ChildStrive	23,333.33	Program Payment
	4/15/2017	City of Edmonds Parks & Recreation	2,000.00	Program Payment
	4/15/2017	City of Lynnwood	6,144.08	Program Payment
	4/15/2017	Cocoon House.	5,000.00	Program Payment
	4/15/2017	Compass Health	18,572.50	Program Payment
	4/15/2017	Domestic Violence Services Snohomish Co	1,855.50	Program Payment
	4/15/2017	Edmonds Community College Foundation	4,396.33	Program Payment
	4/15/2017	Edmonds School District No. 15	77,273.84	Program Payment
	4/15/2017	Edmonds Senior Center	9,166.67	Program Payment
	4/15/2017	Kindering	11,517.17	Program Payment
	4/15/2017	Korean Women's Association	5,000.00	Program Payment
	4/15/2017	Leukemia & Lymphoma Society WA/AK Chapter	3,750.00	Program Payment
	4/15/2017	Mary Porter, RDN	345.00	Program Payment
	4/15/2017	Medical Teams International	5,500.00	Program Payment
	4/15/2017	NW Parkinson's Foundation	20,000.00	Program Payment
	4/15/2017	PEPS	3,250.00	Program Payment
	4/15/2017	Prescription Drug Assistance Foundation	14,166.67	Program Payment
	4/15/2017	Project Access Northwest	7,500.00	Program Payment
	4/15/2017	Puget Sound Christian Clinic	25,361.11	Program Payment
	4/15/2017	Puget Sound Kidney Centers Foundation	4,000.00	Program Payment
	4/15/2017	Senior Services of Snohomish County	64,086.67	Program Payment

Warrant Number	Transaction Date	Payee	Amount	Purpose
<b>Wire/ACH Activity:</b>				
	4/15/2017	Snohomish County Fire District 1	36,103.34	Program Payment
	4/15/2017	Therapeutic Health Services	16,666.67	Program Payment
	4/15/2017	Volunteers of America Western WA	6,553.83	Program Payment
	4/15/2017	Wonderland Development Center	12,458.33	Program Payment
	4/15/2017	YWCA of Seattle, King and Snohomish Co	2,083.33	Program Payment
	4/3/2017	AmeriFlex Business Solutions	203.46	FSA Payments
	4/13/2017	AmeriFlex Business Solutions	595.00	FSA Payments
	4/17/2017	AmeriFlex Business Solutions	178.46	FSA Payments
	4/20/2017	Department of Labor and Industries	482.79	1Q17 L&I - State Fund
	4/25/2017	WA Department of Revenue	780.94	B&O Tax Mar 2017
		<b>Total Wires/ACH Transactions</b>	<u>494,701.31</u>	

**Workers Compensation Claims Activity:**

305353.00	Apr-17	Various Claimants/Vendors	<u>908.12</u>	Administered by Eberle Vivian
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**Kruger Clinic Activity:**

3066-3082	Apr-17	Various Claimants/Vendors	<u>42,007.81</u>	Administered by PMNW
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**Total Disbursements** \$ 643,643.45

	Transaction Date	Payer	Amount	Purpose
<b>Deposits:</b>				
	4/1/2017	Swedish/Edmonds	782,278.54	Monthly lease
	4/1/2017	Value Village	26,552.66	Monthly lease
	4/1/2017	Raymond Liu, D.D.S.	3,578.68	Kruger Clinic monthly lease
	4/1/2017	Brian Takagi, MD	84.63	Kruger Clinic monthly lease
	4/1/2017	Kean Lawlor	20,382.21	Kruger Clinic monthly lease
	4/1/2017	Puget Sound Gastro	27,641.97	Kruger Clinic monthly lease
	4/10/2017	Snohomish County	86,203.01	Levy
	4/24/2017	Healthcare Realty Services, Inc.	4,663.72	Ground Lease
	4/4/2017	T-mobile	1,365.82	Cell tower at the hospital
	4/17/2017	Safety National Casualty Corporation	677.30	Reimbursement for Workers Compensation
	4/7/2017	Swedish Edmonds	880.65	Misc reimbursements
	4/17/2017	Cooking classes	60.00	15 Registrations for VCWC Class
		<b>Total Deposits</b>	<u>\$ 954,369.19</u>	

VERDANT HEALTH COMMISSION  
PUBLIC HOSPITAL DISTRICT #2  
SNOHOMISH COUNTY, WASHINGTON

WARRANT APPROVAL

We, the undersigned Board of Commissioners of Public Hospital District #2 of Snohomish County, Washington, do hereby certify that the merchandise or services hereinafter specified have been received and that Warrant Numbers 12213 through 12264 have been issued for payment in the amount of \$106,026.21 These warrants are hereby approved.

Attest:

\_\_\_\_\_  
Lisa M. King

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

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Warrants Processed:	4-1-17 – 4-30-17		\$106,026.21
Work Comp Claims Pd:	4-1-17 – 4-30-17		908.12
Kruger Clinic Processed:	4-1-17 – 4-30-17		42,007.81
Payroll:	3-26-17 – 4-8-17	18,099.31	
	4-9-17 – 4-22-17	<u>18,038.50</u>	
			36,137.81
Electronic Payments:	Payroll Taxes	15,237.93	
	Paychex	232.35	
	Valic Retirement	5,437.58	
	AmeriFlex FSA	976.92	
	Bank Fees	269.37	
	WA State Dept Revenue	780.94	
	Dept of L&I	482.79	
	Program Expenditures	<u>435,145.62</u>	
			<u>458,563.50</u>
	Grand Total		<u>\$643,643.45</u>

## COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Commissioners  
Public Hospital District No. 2,  
Snohomish County, Washington dba  
Verdant Health Commission

We have audited the financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 22, 2017. Professional standards require that we provide you with the following information related to our audit.

### OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated January 25, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we considered the District's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter dated January 25, 2017, and our planning meeting with you.

## **SIGNIFICANT AUDIT FINDINGS AND ISSUES**

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted, with exception to the adoption of Governmental Accounting Standards Board No. 72, and there were no changes in the application of existing policies during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### **Significant Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

The useful lives of fixed assets have been estimated based on the intended use and are within the American Hospital Association or Medicare guidelines. We evaluated the key factors and assumptions used to develop the useful lives of fixed assets in determining that they are reasonable in relation to the financial statement taken as a whole.

The District accrues an estimated workers' compensation liability based on a detailed analysis of outstanding claims. We evaluated the key factors and assumptions used to develop the estimated workers' compensation liability in determining that it is reasonable.

### **Financial Statement Disclosures**

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no disclosures in the financial statements that would be considered sensitive.

### **Significant Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Uncorrected Misstatements**

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements to be reported.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 22, 2017.

### **Management Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Significant Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and management of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission and is not intended to be and should not be used by anyone other than these specified parties.



Everett, Washington

May 22, 2017



Report of Independent Auditors  
and Financial Statements for  
**Public Hospital District No. 2,  
Snohomish County, Washington dba  
Verdant Health Commission**  
December 31, 2016 and 2015

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners  
Public Hospital District No. 2,  
Snohomish County, Washington dba  
Verdant Health Commission

### Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2017, 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, and grant agreements and other matters. The purpose of that report is 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 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.



Everett, Washington  
May 22, 2017

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion and analysis for Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District) provides an overview of the District's financial activities for the years ended December 31, 2016 and 2015. Please read it in conjunction with the District's financial statements, which follow this analysis.

**Using These Basic Financial Statements**

The District's financial statements consist of three statements: a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the financial activities of the District.

**The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position**

These two statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All the current year's revenues and expenses are taken into account when the underlying transactions occur, regardless of when cash is received or paid. These statements report the District's net position and the changes therein. When assessing the overall health of the District, other nonfinancial factors also need to be considered, such as changes in programs offered, measures of the quality of service offered, and local economic factors.

**The Statement of Cash Flows**

This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities. It provides information about sources and uses of cash and the change in cash balances during the reporting periods.

**The Transition of Operations, Effective September 1, 2010**

Until September 1, 2010, Public Hospital District No. 2, Snohomish County, Washington, owned and operated Stevens Hospital. Through a lease and operating agreement, on September 1, 2010, Swedish Health Services (SHS), a nonprofit corporation, took over operation of the hospital and renamed it Swedish Edmonds. This transition significantly changed the role of the District. The District retained ownership of the hospital but no longer manages its operations and, instead, is a landlord to SHS. As of December 31, 2016, SHS had paid \$49.4 million in total lease payments to the District for the use of hospital real property and personal assets owned by the District.

The negotiated agreement terms for use of the hospital by SHS are for 30 years, with options to renew, wherein the District will receive monthly lease payments that increase 3.0% per year for the first 15 years, after which time the monthly payments will be steady for the remainder of the agreement. Additionally, SHS agreed to invest a minimum of \$90.0 million into hospital capital improvements over the course of the first 10 years, with no less than \$6.0 million per year in each of those 10 years.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**The Transition of Operations, Effective September 1, 2010 (continued)**

That commitment included the installation of the Epic electronic medical record system. Additional capital investment by SHS may be committed each year based on 25% of the defined profitability of the facility. In addition, SHS committed to a major expansion project of at least \$60 million, provided there was adequate return on investment, demand criteria were met, and the SHS board of trustees approved such a project. An expansion of the Emergency Department was completed in 2016 that met the major expansion project criteria above. The District and SHS formed a strategic collaboration committee to provide oversight for the lease and strategic planning activities for the facility.

The District will maintain investments sufficient to take back the operation of the hospital in the event of default by SHS or some other extraordinary event. This transition significantly impacted many of the statement of net position accounts for the year ending December 31, 2010, and along with the long-term agreement with SHS, significantly improves the short- and long-term financial viability of the District.

**The Verdant Health Commission**

As of September 1, 2010, the District began doing business as South Snohomish County Commission for Health (SSCCFH). The SSCCFH name was changed in 2011 to the Verdant Health Commission (Verdant) by a vote of the commissioners of the District. Verdant is governed by a board of five commissioners elected at large. The mission of Verdant is to improve the health and well-being of the community. This mission will be completed by contracting for services with local organizations, businesses, and government agencies, and the establishment of Verdant-operated initiatives. Long-term financial stability will be established by investing available revenues received from SHS and others, as well as ongoing tax levy revenues, into allowable government funds, thus building adequate reserves in the years to come.

Verdant began accepting funding proposals in June 2011 in four health priority areas: Education and Empowerment, Prevention, Access to Healthcare Services, and Policy and Advocacy. Funds are available for one-time uses like events and short-term needs in the community, as well as for ongoing health and wellness programs. Verdant paid out approximately \$6.4 million in community program investments during 2016. Each program is managed through a cooperative agreement with partners and is being monitored for performance and compliance by Verdant staff.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**The Verdant Health Commission (continued)**

Verdant completed a comprehensive needs assessment in 2013 to better understand the health and wellness issues impacting residents of South Snohomish County. The assessment included an analysis of quantitative health and socioeconomic data, input from front-line service providers, a survey of 400 residents, and 12 different focus groups. The results of the needs assessment were compiled into a formal written assessment and appendices that are available on Verdant's website. The needs assessment highlighted two key community issues for the District: adult dental care and behavioral health needs. In 2014, Verdant approved funding for programs and projects in these areas, including a new mobile dental clinic through Medical Teams International and a fixed-site dental clinic in Lynnwood through the Puget Sound Christian Clinic.

In 2016, Verdant partnered with the Snohomish Health District on an updated needs assessment. Although the assessment found that the general health status of South Snohomish County residents compares favorably to the rest of Snohomish County, and had improved since the 2013 assessment, there were several areas of concern:

- Youth symptoms of depression increased between 2012 and 2014
- Only 63 percent of older adults received a flu vaccination
- 25 percent of the population is obese
- 36 percent of the adult population is not physically active and 75 percent of youth are not meeting exercise guidelines
- 29 percent of residents do not have dental coverage and 27 percent of the population has not had a dental visit in the past year

Verdant continues to fund projects focused on long-term prevention, childhood obesity, access to healthcare, dental access, and improving behavioral health. Many of the programs Verdant supported in 2015 continue through multi-year cooperative agreements. Notable programs that were approved or renewed for funding in 2016 include the Nurse Family Partnership, which is an evidence-based program that supports new young mothers and babies, and a Community Resource Paramedic Program through the regional fire district that supports vulnerable individuals who frequently use the Emergency Medical Service (EMS) or are otherwise at high risk. Verdant-funded programs also serve at-risk youth, and include a new support program for youth and families through Cocoon House and a project in partnership with a local middle school to support families and teens that are dealing with trauma and adverse childhood experiences.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**The Verdant Health Commission (continued)**

As part of its planning and needs assessment work, Verdant determined that there are challenges that keep South Snohomish County residents from being active. In 2013, the Commissioners of the District voted to add a new program funding opportunity referred to as the Building Healthy Communities Fund (BHCF). The purpose of the BHCF is to support projects in South Snohomish County that increase opportunities for residents to live active and healthy lives. The District is addressing these gaps by funding projects with key community partners, such as local governments, which sustain long-term community health improvements. In 2014, Verdant began funding two larger projects under the BHCF: a recreation project at the former Woodway High School, and a project called Bike2Health (formerly BikeLink) that will complete critical missing links in the community's bicycle network, with the goal of increasing ridership and decreasing collisions and injuries. The Woodway recreation project is being managed by the Edmonds School District and will be paid out over four years, whereas the City of Lynnwood is in the lead for the Bike2Health project, which will be funded by Verdant over three years. Both projects will collect and deliver program results over the next several years.

In January 2015, Verdant opened the Verdant Community Wellness Center (VCWC) in Lynnwood, which offers the residents of the District a resource for accessing health and wellness classes, programs, and information. The center serves as the Verdant headquarters and houses all staff. An estimated 11,000 people were served in the VCWC during the year with various education and support programs. Examples included healthy cooking classes, depression and anxiety support groups, assistance with health insurance enrollment, and prescription drug assistance. The center also includes a full-time 2-1-1 Community Resource Advocate who meets with residents one-on-one to connect them to community resources.

In 2016, Verdant continued funded and support for several projects and programs focused on drug and alcohol treatment, including a new drug and alcohol detox center in Lynnwood through Evergreen Recovery Centers (scheduled to open in 2017) and a program focused on serving teens with mental health and drug and alcohol challenges through Therapeutic Health Services. Additionally, Verdant provided funding for a new dental clinic in Lynnwood operated by Puget Sound Christian Clinic, which opened and began seeing patients in the fall of 2016.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Statement of Net Position**

The District's net position is the difference between its assets and liabilities as reported in the statement of net position (in thousands).

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 40,280	\$ 37,552	\$ 35,459
Capital assets, net	31,144	33,280	35,776
Other noncurrent assets	<u>15,320</u>	<u>13,617</u>	<u>11,702</u>
Total assets	<u>\$ 86,744</u>	<u>\$ 84,449</u>	<u>\$ 82,937</u>
Liabilities			
Current liabilities	\$ 3,230	\$ 2,839	\$ 2,582
Long-term debt, net	2,988	3,890	4,757
Other long-term liabilities	<u>100</u>	<u>725</u>	<u>100</u>
Total liabilities	<u>6,318</u>	<u>7,454</u>	<u>7,439</u>
Net position			
Net investment in capital assets	27,316	28,585	30,249
Restricted for debt service	48	47	54
Unrestricted	<u>53,062</u>	<u>48,363</u>	<u>45,195</u>
Total net position	<u>80,426</u>	<u>76,995</u>	<u>75,498</u>
Total liabilities and net position	<u>\$ 86,744</u>	<u>\$ 84,449</u>	<u>\$ 82,937</u>

**Current Assets**

Total current assets of \$40.3 million at year-end 2016 reflect an increase of \$2.7 million (7.3%), compared to the balance of \$37.6 million at the end of 2015. Cash and short-term investments increased by \$3.5 million (9.8%) in 2016, compared to an increase of \$2.4 million (7.1%) in 2015.

**Capital Assets**

The District's net capital assets decreased \$2.1 million (6.4%) in 2016, compared to a net decrease of \$2.5 million (7.0%) in 2015. A comprehensive hospital asset audit and subsequent surplus in 2015 contributed to this total.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Statement of Net Position (continued)**

**Other Noncurrent Assets**

Other noncurrent assets consist of rent receivable totaling \$15.3 million at year-end 2016, an increase of \$1.7 million (12.5%), compared to an increase of \$1.9 million (16.4%) in 2015. The rent receivable results from straight-line recognition of the 30-year lease of the hospital to SHS.

**Current Liabilities**

Current liabilities increased \$.4 million (13.8%) from \$2.8 million in 2015 to \$3.2 million in 2016.

**Long-Term Debt**

As of December 31, 2016, the District had \$3.0 million in long-term debt, net of current portion, which is a \$0.9 million (23.2%) decrease from 2015. Principal payments during 2016 totaled \$0.8 million. In 2012, outstanding 1999 LTGO refunding bonds were paid in full by the issuance of \$6.6 million of 2012 LTGO refunding bonds. Principal payments during 2012, in excess of the 1999 LTGO refunding bond payments, totaled \$1.0 million.

**Other Long-Term Liabilities**

Other noncurrent liabilities decreased by \$0.6 million from \$0.7 million in 2015. This is made up of reserves for self-insured workers' compensation claims (\$0.1 million).

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Operating Results and Changes in the District's Net Position**

In 2016, the District's net position increased \$3.4 million (4.5%), compared to an increase of \$1.5 million (2.0%) in 2015.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues			
Lease revenue	\$ 11,820	\$ 11,838	\$ 11,712
Other operating revenues	<u>32</u>	<u>16</u>	<u>9</u>
Total operating revenues	<u>11,852</u>	<u>11,854</u>	<u>11,721</u>
Operating expenses			
Salaries and benefits	859	769	752
Program expenditures	6,424	8,021	4,690
Other	1,233	1,121	925
Depreciation	<u>2,405</u>	<u>2,641</u>	<u>3,367</u>
Total operating expenses	<u>10,921</u>	<u>12,552</u>	<u>9,734</u>
Operating income (loss)	<u>931</u>	<u>(698)</u>	<u>1,987</u>
Nonoperating revenues (expenses)			
Tax levies	2,221	2,167	2,113
Investment income (loss)	261	133	564
Interest expense and amortization	(68)	(91)	(106)
Gain (loss) on disposal of capital assets	(111)	(98)	19
Other revenues (expenses)	<u>197</u>	<u>84</u>	<u>284</u>
Net nonoperating revenues	<u>2,500</u>	<u>2,195</u>	<u>2,874</u>
Increase in net position	3,431	1,497	4,861
Net position, beginning of year	<u>76,995</u>	<u>75,498</u>	<u>70,637</u>
Net position, end of year	<u>\$ 80,426</u>	<u>\$ 76,995</u>	<u>\$ 75,498</u>

Operating revenues in 2016 totaling \$11.9 million were attributed to lease payments and income from the Verdant Healthy Community Conference. Of that, \$8.4 million was attributable to the SHS lease for operation of the hospital. Additional lease revenues were received from other lease agreements, including Value Village, Healthcare Realty, and the Kruger Clinic.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Operating Results and Changes in the District's Net Position (continued)**

Overall operating costs of \$10.9 million at year-end 2016 reflect a decrease of \$1.6 million (13.0%), compared to operating costs of \$12.6 million at the end of 2015. Salaries and benefits totaled \$0.9 million in 2016, an 11.6% increase over 2015. Program expenditures totaled \$6.4 million in 2016 compared to \$8.0 million in 2015. 2015 expense of \$1.3 million relating to the Woodway High School project was the biggest impact to the variance from 2015 to 2016.

Net nonoperating revenues in 2016 totaled \$2.5 million, compared to \$2.2 million in 2015, an increase of \$0.3 million (13.9%). Investment gains at year-end 2016 are \$0.3 million, an increase of \$0.1 million (96.0%) over a 2015 gain of \$0.1 million.

**Contacting the District's Financial Management**

This financial report is designed to provide our taxpayers, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's finance office at 4710 196th Street SW, Lynnwood, Washington 98036.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
STATEMENTS OF NET POSITION**

**ASSETS**

	December 31,	
	2016	2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,457,824	\$ 2,928,195
Investments	34,729,116	33,671,131
Receivables	18,000	71,993
Estimated third-party payor settlements	-	183,190
Prepaid expenses and other	27,616	650,078
Assets whose use is limited	47,748	46,957
Total current assets	40,280,304	37,551,544
<b>CAPITAL ASSETS</b>		
Nondepreciable capital assets	7,727,017	7,723,706
Depreciable capital assets, net of accumulated depreciation	23,416,706	25,555,804
Capital assets, net of accumulated depreciation	31,143,723	33,279,510
<b>RENT RECEIVABLE</b>	15,319,478	13,618,154
Total assets	\$ 86,743,505	\$ 84,449,208

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 840,000	\$ 805,000
Accounts and warrants payable	1,127,772	913,851
Prepaid lease income	864,607	760,110
Accrued interest	8,963	10,975
Accrued salaries and benefits	74,779	55,232
Estimated self-insured liabilities	313,923	294,194
Total current liabilities	3,230,044	2,839,362
<b>LONG-TERM DEBT, net of current portion</b>	2,987,949	3,889,978
<b>OTHER LONG-TERM LIABILITIES</b>	100,000	725,000
Total liabilities	6,317,993	7,454,340
<b>NET POSITION</b>		
Net investment in capital assets	27,315,774	28,584,532
Restricted for debt service	47,748	46,957
Unrestricted	53,061,990	48,363,379
Total net position	80,425,512	76,994,868
Total liabilities and net position	\$ 86,743,505	\$ 84,449,208

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Lease revenue	\$ 11,819,559	\$ 11,837,651
Other operating revenue	<u>31,559</u>	<u>16,030</u>
Total operating revenues	<u>11,851,118</u>	<u>11,853,681</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	722,518	665,188
Employee benefits	136,017	103,814
Program expenditures	6,424,300	8,021,280
Professional services	383,943	319,644
Purchased services, utilities, and other	849,169	800,929
Depreciation	<u>2,404,616</u>	<u>2,640,840</u>
Total operating expenses	<u>10,920,563</u>	<u>12,551,695</u>
Operating income (loss)	<u>930,555</u>	<u>(698,014)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Maintenance and operations tax levy	2,221,262	2,166,756
Investment income and unrealized gain (loss)	260,542	132,957
Other interest expense and amortization	(67,658)	(90,899)
Gain (loss) on disposal of capital assets, net	(111,343)	(98,232)
Other revenues	<u>197,286</u>	<u>84,320</u>
Net nonoperating revenues	<u>2,500,089</u>	<u>2,194,902</u>
Increase in net position	3,430,644	1,496,888
NET POSITION, beginning of year	<u>76,994,868</u>	<u>75,497,980</u>
NET POSITION, end of year	<u>\$ 80,425,512</u>	<u>\$ 76,994,868</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
STATEMENTS OF CASH FLOWS**

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**Increase (Decrease) in Cash and Cash Equivalents**

	Years Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Cash received for leasing and other operations	\$ 10,254,291	\$ 9,964,252
Cash paid to employees	(838,988)	(767,078)
Cash paid on community programs	(7,049,300)	(6,771,280)
Cash paid to suppliers for goods and services	(139,817)	(1,209,060)
Net cash from operating activities	2,226,186	1,216,834
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from maintenance and operations tax levy for noncapital purposes	2,220,471	2,174,491
Cash received from Swedish Health Services	148,547	59,244
Other	48,739	5,473
Net cash from noncapital financing activities	2,417,757	2,239,208
<b>CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(805,000)	(770,000)
Interest paid on long-term debt	(131,699)	(154,854)
Acquisition and construction of capital assets	(380,172)	(242,960)
Net cash used in capital and related financing activities	(1,316,871)	(1,167,814)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in investments	(1,365,350)	(3,039,388)
Investment income	567,907	489,454
Net cash from investing activities	(797,443)	(2,549,934)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,529,629	(261,706)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	2,928,195	3,189,901
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 5,457,824	\$ 2,928,195

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
STATEMENTS OF CASH FLOWS (continued)**

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**Increase (Decrease) in Cash and Cash Equivalents**

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM		
OPERATING ACTIVITIES		
Operating income (loss)	\$ 930,555	\$ (698,014)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation	2,404,616	2,640,840
Changes in operating assets and liabilities		
Receivables	(94,554)	130,997
Estimated third-party payor settlements	331,737	27,814
Prepaid expenses and other	622,462	313,401
Rent receivable	(1,701,324)	(1,915,511)
Accounts and warrants payable	213,921	609,238
Prepaid lease income	104,497	26,082
Tenant improvements	-	(101,460)
Accrued salaries and benefits	19,547	1,924
Self-insured liabilities	19,729	(443,477)
Other long-term liabilities	<u>(625,000)</u>	<u>625,000</u>
Net cash from operating activities	<u>\$ 2,226,186</u>	<u>\$ 1,216,834</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Organization and Summary of Accounting Policies**

**Organization** - Until September 1, 2010, Public Hospital District No.2 of Snohomish County, Washington (the District), a Washington municipal corporation, was owned and operated Stevens Hospital (the Hospital), located in Edmonds, Washington. The Hospital is an acute care community hospital with 156 set-up beds. On September 1, 2010, the District entered into an agreement (the Agreement) to lease and operate the Hospital with Swedish Health Services (SHS), a nonprofit corporation. The Agreement included transfer of control of Stevens Foundation (the Foundation), which was organized and formally incorporated as a 501(c)(3) tax-exempt organization. The District is now doing business as Verdant Health Commission.

The District is governed by a board of five elected commissioners. The mission of the District is to improve the health and well-being of the community. This mission will be completed by contracting for services with local organizations, businesses, and government agencies and the establishment of Verdant-operated initiatives. Long-term financial stability will be established by investing available revenues received from SHS, as well as ongoing tax levy revenues, into allowable government funds, thus building adequate reserves in the years to come.

The District began accepting funding proposals in June 2011 in four health priority areas: Education and Empowerment, Prevention, Access to Healthcare Services, and Policy and Advocacy. Funds are available for one-time uses like events and short-term needs in the community, as well as for ongoing health and wellness programs.

The terms of the Agreement specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rent is on an absolute net basis, with SHS being responsible for all operating costs associated with the facility. The lease calls for certain approvals by the District that affect the operation of the facility for the following: change in license, major service line changes, union contract representation, and maintenance of an independent medical staff. Per the terms of the agreement, SHS committed to capital investments for the facility, some of which were dependent upon various factors like future profitability, return on investment and demand criteria, and SHS board approval. The District and SHS formed a strategic collaboration committee to provide oversight for the lease and strategic planning activities for the facility.

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on assessed values as established by the County Assessor. Tax collections are distributed monthly to the District by the County Treasurer. Property taxes are recorded as receivables and revenue when levied. Because state law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Organization and Summary of Accounting Policies (continued)**

In September 1997, the voters of the District approved maintenance and operations (M&O) tax levy upon the taxable property within the District; the M&O tax provided approximately \$2,220,000 of funding in 2016 and \$2,160,000 of funding in 2015. The levy is ongoing in future years. The M&O tax levy funds are reported in the accompanying statements of revenues, expenses, and changes in net position as nonoperating revenues.

**Basis of presentation** - The financial statements reflect the operations of the District using enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB) and the Audit and Accounting Guide for Health Care Organizations of the American Institute of Certified Public Accountants.

**Use of estimates** - The preparation of financial statements in conformity 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. Key estimates include useful lives of capital assets, third-party cost report settlements, and self-insured liabilities.

**Cash and cash equivalents** - For purposes of the statements of cash flows, the District considers all highly liquid investments (excluding cash and short-term investments included in restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**Investments** - Investments that are not considered to be cash and cash equivalents or restricted assets are reported at fair value. Investment interest, dividends, and unrealized and realized gains and losses are included in nonoperating income when earned.

**Restricted assets** - As described further in Note 6, the District receives tax levy funds that are used solely for debt service associated with the general obligation bonds. Taxes and interest receivable and scheduled debt service payments temporarily invested prior to becoming due are recorded as restricted assets. All receipts and earnings generated on such investments are reported as nonoperating revenues and expenses.

**Prepaid expenses and other** - Related assets include future expenses that have been paid in advance. The District entered into agreements in 2014 with scheduled payments. For each agreement, the amount of District payments in excess of the costs incurred were recorded as project advances and included in prepaid expenses and other. As of December 31, 2016 and 2015, project advances were zero and \$625,000, respectively.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Organization and Summary of Accounting Policies (continued)**

**Capital assets** - Capital assets are stated at cost. Improvements and replacement of capital assets are capitalized. The District's capitalization threshold is \$5,000 per item and a useful life of at least two years. Maintenance and repairs are expensed. The cost of capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Assets under capital leases are amortized over the shorter of the lease term or useful life. Amortization attributable to assets acquired under capital leases is included with depreciation as shown in the statements of revenues, expenses, and changes in net position.

The following is a summary of asset lives used:

Buildings and building improvements	2 - 50 years
Equipment	2 - 50 years
Land improvements	2 - 25 years

**Rent receivable** - Rent receivable represents lease revenue on a straight-line basis in excess of lease payments received for applicable lease agreements in accordance with applicable accounting standards.

**Self-insurance liabilities** - The District accrues an estimate of losses and related expenses for its self-insured workers' compensation claims. The District maintains stop-loss insurance for workers' compensation claims in excess of specified amounts. This liability, which is approximately \$414,000 and \$394,000 as of December 31, 2016 and 2015, respectively, is recorded in the accompanying statements of net position within estimated self-insured liabilities and other long-term liabilities.

**Estimated third-party payor settlements** - Under a contractual agreement with Medicare, the Hospital is paid at an interim rate during the year for certain services and programs. The difference between interim payments and estimated final reimbursement for the cost report year results in a settlement receivable or payable, which may be adjusted in future periods as final settlements are determined. The Medicare program's administrative procedures preclude final determination of settlement amounts until after the annual cost reports have been audited or otherwise reviewed and settled by Medicare. The District's cost reports have been audited by the Medicare fiscal intermediary through August 31, 2010.

While operating Stevens Hospital, the District participated in the Medicaid Certified Public Expenditures (CPE) program for inpatient reimbursement, which provides for interim payments for certain services and programs. The difference between interim payments and estimated final reimbursement for the Washington State fiscal year results in a settlement receivable or payable, which may be adjusted in future periods as final settlements are determined.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Organization and Summary of Accounting Policies (continued)**

**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 component of net position.

**Statements of revenues, expenses, and changes in net assets** - For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of District services are reported as operating revenues and expenses. All levy income, interest expense, investment income, and other peripheral or incidental transactions are reported as nonoperating revenues and expenses.

**Income taxes** - As a political subdivision of the state of Washington, the District is not subject to federal income tax, because its income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code.

**New accounting pronouncements** - In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 is intended to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This guidance is effective for the District in the year ended December 31, 2016. The District has adopted this standard in the December 31, 2016, financial statements.

**Subsequent events** - Subsequent events are events or transactions that occur after the statements of net position date but before financial statements are available to be issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of net position but arose after the statements of net position date and before the financial statements are available to be issued.

The District has evaluated subsequent events through May 22, 2017, which is the date the financial statements are available to be issued.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Cash, Cash Equivalents, Investments, and Deposits**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The composition of investments, reported at fair value by investment type at December 31, 2016 and 2015, and excluding unrestricted cash, and other assets limited as to use balances of \$5,505,572 and \$2,975,152, respectively, is as follows:

Year Ended	Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
December 31, 2016	Governmental mutual fund	\$ 34,729,116	100%
December 31, 2015	Governmental mutual fund	\$ 33,671,131	100%

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, eligible bankers' acceptances, and repurchase agreements (up to 30 days).

Because the District is a political subdivision of the state, deposits and investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held in the District's name. Category 2 includes uninsured and unregistered investments that are held by a 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, 2016 and 2015, all deposits and investments of the District are categorized as Category 1.

**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.

**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. The District is not exposed to 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 is not exposed to concentration of credit risk because all deposits and investments are insured or collateralized.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

**Note 2 - Cash, Cash Equivalents, Investments, and Deposits (continued)**

**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 is not exposed to interest rate risk because all deposits and investments are extremely liquid.

**Note 3 - Capital Assets**

Capital asset additions, retirements, and balances for the years ended December 31, 2016 and 2015, were as follows:

	Beginning Balance January 1, 2016	Additions	Retirements	Account Transfers	Ending Balance December 31, 2016
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	-	3,311	-	-	3,311
	<u>7,723,706</u>	<u>3,311</u>	<u>-</u>	<u>-</u>	<u>7,727,017</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	2,409,334	-	-	-	2,409,334
Buildings and building improvements	52,829,088	364,497	(3,464)	-	53,190,121
Equipment	42,093,560	12,364	(604,045)	-	41,501,879
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	2,149,360	101,541	-	-	2,250,901
Buildings and building improvements	31,536,357	1,578,967	(3,022)	-	33,112,302
Equipment	38,090,461	724,108	(493,144)	-	38,321,425
<b>DEPRECIABLE CAPITAL ASSETS, net</b>	<u>25,555,804</u>	<u>(2,027,755)</u>	<u>(111,343)</u>	<u>-</u>	<u>23,416,706</u>
<b>CAPITAL ASSETS, net</b>	<u>\$ 33,279,510</u>	<u>\$ (2,024,444)</u>	<u>\$ (111,343)</u>	<u>\$ -</u>	<u>\$ 31,143,723</u>
	Beginning Balance January 1, 2015	Additions	Retirements	Account Transfers	Ending Balance December 31, 2015
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	3,753,908	144,379	(3,250)	(3,895,037)	-
	<u>11,477,614</u>	<u>144,379</u>	<u>(3,250)</u>	<u>(3,895,037)</u>	<u>7,723,706</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	2,285,382	86,688	-	37,264	2,409,334
Buildings and building improvements	49,716,133	-	-	3,112,955	52,829,088
Equipment	46,360,038	11,893	(5,023,189)	744,818	42,093,560
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	2,057,189	92,171	-	-	2,149,360
Buildings and building improvements	29,934,084	1,602,273	-	-	31,536,357
Equipment	42,072,272	946,396	(4,928,207)	-	38,090,461
<b>DEPRECIABLE CAPITAL ASSETS, net</b>	<u>24,298,008</u>	<u>(2,542,259)</u>	<u>(94,982)</u>	<u>3,895,037</u>	<u>25,555,804</u>
<b>CAPITAL ASSETS, net</b>	<u>\$ 35,775,622</u>	<u>\$ (2,397,880)</u>	<u>\$ (98,232)</u>	<u>\$ -</u>	<u>\$ 33,279,510</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 4 - Lessor Agreements**

As referenced in Note 1, the District entered into a lease and operating agreement (the Agreement) with SHS that was dated and effective September 1, 2010. The terms of the Agreement specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rental payments will freeze at the rate set during year 15 for the duration of the Agreement. The revenue related to this lease is recorded on a straight-line basis by the District in accordance with applicable accounting standards.

The District also has other lease agreements to lease space to various tenants. In accordance with applicable accounting standards, the revenue from some of these lease agreements is recognized on a straight-line basis and some are recognized in an amount equal to their required lease payments.

Rental payments to be received under these agreements are as follows:

	<u>Straight-Line Recognition</u>		Leases Recognized Based on Required Lease Payments	<u>Total</u>
	<u>Lease of Hospital</u>	<u>Other Leases</u>		
2017	\$ 8,683,000	\$ 533,000	\$ 346,000	\$ 9,562,000
2018	8,944,000	549,000	360,000	9,853,000
2019	9,212,000	568,000	30,000	9,810,000
2020	9,488,000	598,000	30,000	10,116,000
2021	9,773,000	504,000	5,000	10,282,000
2022 - 2026	53,330,000	1,123,000	-	54,453,000
2027 - 2031	56,087,000	-	-	56,087,000
2032 - 2036	56,087,000	-	-	56,087,000
2037 - 2040	41,130,000	-	-	41,130,000
	<u>\$ 252,734,000</u>	<u>\$ 3,875,000</u>	<u>\$ 771,000</u>	<u>\$ 257,380,000</u>

**Note 5 - Long-Term Debt**

The balances of the District's long-term debt at December 31 are set forth below:

	<u>2016</u>	<u>2015</u>
LTGO Refunding Bonds, 2012, 2.00% to 3.00%, principal due serially on December 1 in amounts from \$840,000 in 2017 to \$955,000 in 2020, including unamortized premium of \$242,949 in 2016 and \$304,978 in 2015.	\$ 3,827,949	\$ 4,694,978
Less current portion	<u>(840,000)</u>	<u>(805,000)</u>
Long-term debt and obligations under capital leases, net of current portion	<u>\$ 2,987,949</u>	<u>\$ 3,889,978</u>

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Long-Term Debt (continued)**

Long-term debt and other long-term liability activity summary for 2016 and 2015 is as follows:

	January 1, 2016	Additions	Reductions	December 31, 2016	Amounts Due Within One Year
LONG-TERM DEBT					
2012 LTGO Bond	\$ 4,694,978	\$ -	\$ (867,029)	\$ 3,827,949	\$ (840,000)
OTHER LONG-TERM LIABILITIES	725,000	-	(625,000)	100,000	-
	<u>\$ 5,419,978</u>	<u>\$ -</u>	<u>\$ (1,492,029)</u>	<u>\$ 3,927,949</u>	<u>\$ (840,000)</u>
	January 1, 2015	Additions	Reductions	December 31, 2015	Amounts Due Within One Year
LONG-TERM DEBT					
2012 LTGO Bond	\$ 5,527,008	\$ -	\$ (832,030)	\$ 4,694,978	\$ (805,000)
OTHER LONG-TERM LIABILITIES	100,000	625,000	-	725,000	-
	<u>\$ 5,627,008</u>	<u>\$ 625,000</u>	<u>\$ (832,030)</u>	<u>\$ 5,419,978</u>	<u>\$ (805,000)</u>

Scheduled principal and interest repayments on long-term debt are as follows as of December 31, 2016:

	Long-Term Debt	
	Principal	Interest
2017	\$ 840,000	\$ 107,550
2018	875,000	82,350
2019	915,000	56,100
2020	955,000	28,650
	3,585,000	<u>\$ 274,650</u>
Amounts representing net unamortized premium	242,949	
	<u>\$ 3,827,949</u>	

In November 2012, the District issued the Limited Tax General Obligation Refunding Bonds, 2012 (2012 LTGO Refunding Bonds) for a par value of \$6,625,000, with a premium of \$496,236. The District has designated its M&O tax levy, approved by the voters of the District in September 1997, to the payment of principal and interest on the 2012 LTGO Refunding Bonds. The proceeds from the bonds were used to refund the remaining balance of the 1999 Series LTGO Bonds, which totaled approximately \$7,000,000. The refunding decreased the District's aggregate debt service payments by \$358,000 over the next eight years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$440,000.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 6 - 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. 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 2016 and 2015, the District's regular tax levy was \$0.091 and \$0.097 per \$1,000 on a total assessed valuation of \$24,348,183,650 and \$22,193,494,490, for a total regular levy of \$2,218,910 and \$2,162,700, 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 7 - Retirement Plan**

The District sponsors a 401(a) plan and a 457 plan that are available to all benefit-eligible employees working over 20 hours per week. Employees are eligible to contribute at their hire date. Employees contribute to the 457 plan at their discretion. Employee contributions were approximately \$38,000 and \$34,200 during the years ended December 31, 2016 and 2015, respectively. The District contributes to the 401(a) plan at 3% of employee wages with an additional matching contribution of up to 3% of the amount contributed by the employee to the 457 plan. The District's policy is to fully fund the contributions. The District contributed approximately \$39,000 and \$36,000 during the years ended December 31, 2016 and 2015, respectively.

**Note 8 - Commitments and Contingencies**

**Litigation and compliance with laws and regulations** - The District is involved in litigation 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.

**PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba  
VERDANT HEALTH COMMISSION  
NOTES TO FINANCIAL STATEMENTS**

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**Note 8 - Commitments and Contingencies (continued)**

The hospital industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government hospital 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 hospital providers. Violations of these laws and regulations could result in expulsion from government hospital 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.

**Program commitments** - The District has a commitment to fund Senior Services of Snohomish County's program future expenditures in the amount of approximately \$47,000 per month through August 2018. The District has also committed to fund a Building Healthy Communities Fund program, with a remaining commitment of \$625,000 as of December 31, 2016, included in accounts and warrants payable in the statement of net position. The \$625,000 was funded in January 2017.

**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***

To the Board of Commissioners  
Public Hospital District No. 2,  
Snohomish County, Washington dba  
Verdant Health Commission

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 statements of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 22, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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 determination of financial statement amounts. 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.



Everett, Washington  
May 22, 2017

## May 2017 Program Oversight Committee Summary

- Karianna Wilson joined Program Committee discussion this month
- Six New Applications for Review:
  - o Three Applications for Funding from Childhood Obesity RFP. The Program Committee is recommending that the RFP remain open through November 2017 for new applications.
  - o Three New Regular Program Grant Requests
- Edmonds Senior Center Presentation

### Program Funding Requests

#### Applications Recommended for Funding

1. **City of Mountlake Terrace – "Kids Krew" Healthy Eating and Active Living (HEAL) Program:** a \$10,000 request to educate children in an existing afterschool program about physical activity and nutrition. The program would serve 175 children at Madrona, Terrace Park, and Mountlake Terrace Elementary as well as pre-k children ages 3-5. The program would add a nutrition and physical activity component to the childcare program, would track pre/post knowledge of children participating, and ask families to report behavior change in exercise and nutrition.

**The committee is recommending fully funding the request on a one-time basis for \$10,000.**

2. **Girls on the Run Snohomish County – Expanded South County & Scholarship Program:** a request for a running program serving girls in the Edmonds School District. The expanded program would serve 150 girls with Verdant funds supporting 60 scholarships. The program runs over 10 weeks and girls (3rd-8th grade) then complete a 5k. The program measures increased self-confidence, physical activity/sedentary behavior, and program participation including completion of a culminating 5k.

**The program committee is recommending fully funding the request at \$11,000 on a one-time basis**

#### Applications that Need Additional Follow-Up

3. **Farmer Frog – Meadowdale Pocket Farm:** a request for \$25,000 in funding to build a small "pocket" farm in Meadowdale Park. The space would be leased from the City of Lynnwood and would be used for school field trips, growing and harvesting produce for backpack programs, how-to-classes on growing and harvesting produce, etc. The proposal referenced three outcomes: crop count, harvest count, and volunteer hours.

The program committee was interested in the concept of a community garden to produce healthy food for food banks/backpack programs and for nutrition education. **However, committee members would like to see more specific health estimates for the number of people educated or provided with food.**

4. **Edmonds School District Family Resource Advocate:** a request for an average of \$253,400 per year for three years to place Family Resource Advocates at 4 elementary schools. Funding would be used to expand the capacity of an existing program that is currently staffed part-time using school district Title 1 funds. The focus of the program would be to meet immediate basic needs like food and housing, advocate for health services, assist with transition to middle school and do home visits with families in crisis.

**The program committee was interested in the concept of supporting children and youth at the elementary level but would like to see:**

- Expanded program outcomes. The goals outlined in the proposal were modest given the funding level: 120 families served per year with 25 families connected to counseling, 40 to basic needs, and 10 families to healthcare access
- An explanation of how this program fits into larger family/student support plans. Verdant supports Student Support Advocates in middle and high schools and this project would support 4 elementary schools. Is there a larger expansion or sustainability plan for this program?

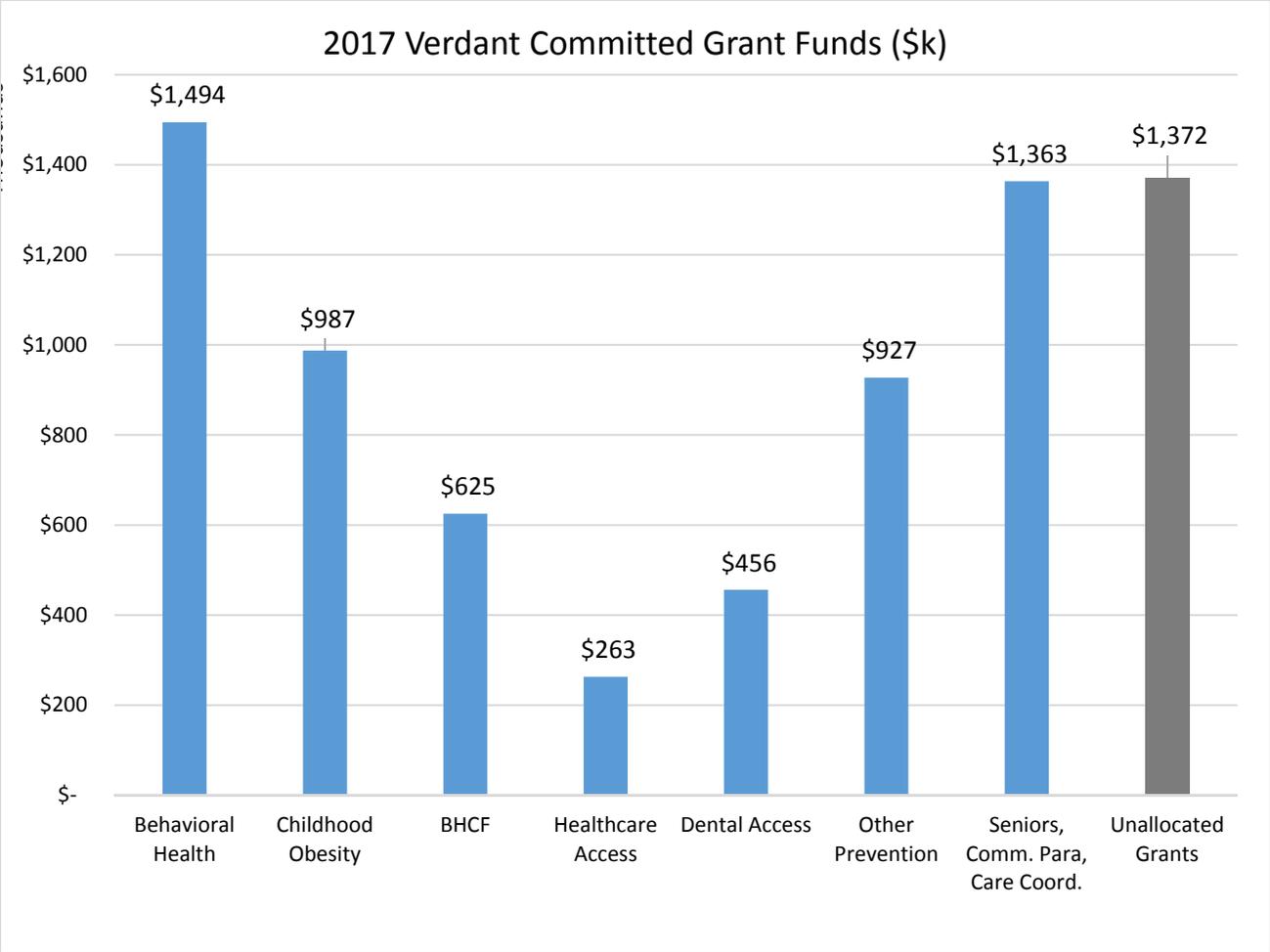
- 5. Puentes – Community Care Network:** a request for \$85,000 per year to train and support 40 Community Care Workers (aka community health workers) to support families with mental health resources. The project is focused on reaching immigrants to overcome fear and stress, and to help connect them with needed mental health resources. The applicant makes the case that immigration status is an important social determinant of health and would seek to support families dealing with consequences of immigration policies.

The program committee was interested in the concept of supporting the mental health needs of community residents, but had questions about the capacity of Puentes to deliver the program in Snohomish County given that it is a small non-profit based in King County. **The committee would like Puentes to rework the proposal at a reduced request size and to clarify the mental health services and supports that would be offered by the Community Care Workers vs. Puente’s counselors.**

#### **Applications Not Recommended for Funding**

- 6. Edmonds Community College - Veteran’s Training Support Center:** a request for an average of \$145,700 per year for three years to support a Veterans Training Support Center (VTSC), which is a prevention program teaching service providers how to bridge the cultural gap to prevent suicide, mental illness and/or substance abuse. The project would seek to expand services to Snohomish County, build collaboration amongst service providers, and train South Snohomish County providers to better understand and serve veterans. The program would include 8 core workshops; 16 customized trainings, and connect with 130 licensed and 110 non-licensed providers.

**The program committee is not recommending the program for funding because it is a large request for a program that indirectly supports residents and is not a top Verdant priority.**



**Verdant Community Wellness Center Summary  
May 2017**

**Completed Programs**

<b>1. General Community and Provider Events</b>	<b>Attendance</b>
1. PEPS: Baby Peppers Weekly Support Group (April 6 – June 22)*	6-8
2. Aging Mastery Program (4/24-5/22)	22
3. Monthly Hero's Café for Veterans (4/25)	100+
4. Engaging Community Voice Workshop (5/1)*	38
5. SHIBA Monthly Training with OIC (5/2)	25
6. Basic Food Education Forum (5/3)	40
7. Korean Women's Association: Everyday Prevention Program (5/4)*	45
8. Pulmonary Hypertension Support Group (5/5)	6
9. ARC Mothers of Children with Disabilities Monthly Support Network (5/6)	26
10. Foster Parent Core Training Series (5/ 6, 10)	24
11. Evergreen Home Health (5/10, 16)	25
12. Latino Education & Training Institute Culminating Event (5/13)	35
13. Natural Leaders Training (5/15)	20
14. It Takes Two to Talk Parent Education Program (5/19-6/23)	16
15. Understanding Medicare Monthly Workshops (5/19)	18
16. Sea Mar Weekly Health Insurance & Basic Food Enrollment	varies
17. Ongoing – Community Support for Prescription Assistance (weekly)*	varies
<b>2. Nutrition and Healthy Behaviors</b>	<b>Attendance</b>
1. Learn & Work Out Home Fitness Series (April 29-June 7)*	22
2. Surviving & Thriving with Chronic Kidney Disease (5/3- 6/7)*	16
3. Kids in the Kitchen: Sensational Snacking (5/6)*	47
4. Cooking Demo: The Flavors of Spain (5/9)	23
5. SC Health Leadership Coalition Nutrition Accelerator Workshop (5/10)	36
6. Getting to Goal Weight Reduction Program (5/18)	34
7. Spanish Language Weekly Women's Health Series (5/2-30)*	18
8. Lifestyle Change Check-Ins (drop – in 1 <sup>st</sup> and 3 <sup>rd</sup> Tuesdays)*	Varies
9. Getting to Goal Program (Weight Management/Activity Consultations)*	8-12 Clients
<b>3. Behavioral Health &amp; Substance Use</b>	<b>Attendance</b>
1. YWCA Women's Art Therapy Group (3/7 – 5/2)*	8-10
2. YWCA Intro to Mindfulness (4/11 – 5/30)*	10-14
3. Brain Health and Wellness Classes (4/24, 27; 5/4, 8, 11, 15, 22)*	Varies
4. YWCA Managing Difficult Emotions (4/26 – 6/14)*	6-8
5. National Alliance on Mental Illness "Connections" Group (4/27; 5/10, 25)	3-8
6. THS Parent Coaching Group (5/2 – 5/23)*	Varies
7. Snohomish Co. Caregiver & Kinship Caregiver Support Groups (5/4, 16, 18)	4-12
8. Foster Parent Training on the Drug Impacted Child (5/9)	14
9. Powerful Tools for Caregivers Workshop Series (5/17 – 6/21)	18
10. Adult Children of Alcoholics Weekly Support Group (weekly)	10-20
11. Veterans Drop-In Support (weekly - City of Lynnwood & monthly - County)	varies
<b>4. Other Programs</b>	<b>Attendance</b>
1. Play and Learn Group, Wonderland Development Center (weekly)*	30+

## Verdant Community Wellness Center Summary May 2017

### Upcoming Programs

#### A. General Community and Provider Events

1. PEPS: Baby Peppers Weekly Support Group (April 6 – June 22)\*
2. Aging Mastery Program (April 24-May 22)
3. Foster Parent Core Training Series (May 6, 10; June 10, 17)
4. Monthly Hero's Café for Veterans (May 30, June 27)
5. Little Wonders Parent Support for Premature Infants (May 30 – August 8)\*
6. Korean Women's Association: Everyday Prevention Program (June 1)\*
7. ARC Mothers of Children with Disabilities Monthly Support Network (June 3)
8. SHIBA Monthly Training with OIC (June 6)
9. SCAEYC Board Meeting (June 7)
10. Alzheimer's Association Staff Retreat (June 7)
11. WA Serves Veterans Training (June 8)
12. Childcare Provider STARS Training: Red Flags in Child Development (June 10)\*
13. South County Walks – Walk Leader Info Session (June 12)
14. Evergreen Home Health (June 14, 20)
15. Understanding Medicare Monthly Workshops (June 16)
16. Early Achievers Childcare Provider Training (June 24)

#### B. Nutrition and Healthy Behaviors

1. Spanish Language Weekly Women's Health Series (May 2-30)\*
2. Surviving & Thriving with Chronic Kidney Disease (May 3 - June 7)\*
3. Farmers Market Cooking Demo: Spring into Local Eating (May 22)\*
4. Cooking Demo: Meal in a Bowl (June 1)\*
5. Feeding your Gut Microbiome – Pre & Probiotics (June 8)\*
6. Childcare Provider STARS Training: A Healthy Dose of Delicious (June 10)\*
7. Cooking Demo: Summer Salads (June 13)\*
8. Using Apps & Devices to Track Your Steps, Nutrition & Weight Loss (June 19)\*
9. Sit, Sleep and Move to Improve Your Mild Back Pain (June 20, 22, 27, 29)\*
10. Cooking Demo: Delicious Smoothies for Adults (June 22)\*
11. Farmers Market Cooking Demo: (June 26)\*
12. Road Back to Life Kidney Support Group (June 27)

#### C. Behavioral Health & Substance Use Focus

1. YWCA Intro to Mindfulness (April 11 – May 30)\*
2. YWCA Managing Difficult Emotions (April 26 – June 14)\*
3. THS – Parent Coaching Group (May 2 – 23)\*
4. Powerful Tools for Caregivers Workshop Series (May 17 – June 21)
5. Brain Health and Wellness Classes (May 22, 25; June 1, 5, 10, 15, 19, 22, 26, 29)\*
6. National Alliance on Mental Illness "Connections" Support Group (May 25; June 8, 22)
7. Snohomish County Caregiver Support Group (June 1, 15, 20)
8. Adult Children of Alcoholics Weekly Support Group (weekly)
9. Veterans Drop-In Support (weekly - City of Lynnwood & monthly - County)

\* = Grant/Program Funded Partner