



REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

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

December 31, 2021 and 2020



MOSSADAMS

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of December 31, 2021 and 2020, and the 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (Government Auditing Standards), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2022, on our consideration of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control over financial reporting and compliance.

Morse Adams LLP

Everett, Washington
June 13, 2022

Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission Management's Discussion and Analysis

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, 2021 and 2020. Please read it in conjunction with the District's financial statements, which follow this analysis.

Using These 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, assumed 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, 2021, SHS had paid \$95.5 million in total lease payments to the District for the use of hospital real property and personal assets owned by the District.

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)

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 level 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. If SHS fails to meet the capital requirement for three consecutive years, this would constitute a breach of the lease and operating agreement. In 2018 and 2019, SHS neglected to meet its annual \$6.0 million requirements by \$1.9 million, and \$1 million, respectively. In 2020, SHS met the capital requirement with capital improvements of \$6.2 million. In 2021, \$11.6 million in capital improvements including CT and mammography equipment, surgery center flooring, behavioral health expansion, autoclave replacements, MRI space build out and generator replacement were identified. \$4 million in capital expenditures are forecasted for 2022.

The capital investment 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.

Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission Management's Discussion and Analysis

The Verdant Health Commission (continued)

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 \$11.6 million in total program expenditures and grants during 2021, of which \$11.3 million related to community program investments, including \$3.2 million on the Building Health Communities Initiative. Each program is managed through a cooperative agreement with partners and is being monitored for performance and compliance by Verdant staff. Verdant also spent \$0.3 million on internal programs at the Verdant Community Wellness Center (VCWC) in 2021.

Aligned with industry best practice, Verdant implemented an electronic grants management software in 2021 which supports the entire life cycle of the grantmaking process from the initial application through award, payment administration and contract maintenance. Verdant accepts proposals for emergency COVID-19 requests on an ongoing basis for emerging community health needs resulting from the prolonged impacts of the pandemic on all aspects of the social determinants of health. Verdant also accepts applications for traditional multi-year application through four quarterly cycles. Proposals are scored within the grants management software by staff and Commissioners serving on the Program Committee, and the Board approves all awarded funding.

Verdant completed a comprehensive needs assessment in 2013 to better understand the health and wellness issues impacting residents of South Snohomish County. This assessment was formally updated in 2016. Frequent community outreach, partner communication and collaboration inform the Commission during the interim. A full reassessment is planned for 2022.

Verdant continues to fund projects focused on improving the health and wellbeing of residents, with focus on the priority areas of access to healthcare, dental care, behavioral health, childhood obesity, supporting seniors, and education and prevention. In 2020, Verdant Commissioners also added housing and food security as priority areas in response to changing needs of the community and increased vulnerability due to COVID-19. Notable new programs that were approved in 2021 include investments in programs that support diverse community groups to navigate and access the services they need for their health and wellbeing, emergency shelter and eviction prevention programming and mobile outreach-based clinical services. Verdant also renewed funding for several large grants during the year including the Move60 Program in Edmonds School District to support students and families to increase physical fitness, and Homage's Care Coordination Program to support elderly and disabled residents in accessing services.

In 2018 Verdant released a request for proposal (RFP) and reviewed applications through its Building Health Communities Fund, approving \$5 million in funding for capital grants. These included a community health clinic through Sea Mar Community Health Center, an integrated pain management and recovery services program through Community Health Centers of Snohomish County, a physical activity project through the City of Mountlake Terrace, and several other smaller projects. \$3.2M was paid out related to these awards in 2021. Previous funding related to this initiative includes \$47,500 paid in 2018 for a walking program in the town of Woodway, \$359,000 paid in 2019 for a mobile dental van operated by Medical Teams International, and \$125,000 paid in 2019 for the first installment on the integrated pain management and recovery services program, with the final payment made in 2020.

Public Hospital District No. 2, Snohomish County, Washington

dba Verdant Health Commission

Management's Discussion and Analysis

The Verdant Health Commission (continued)

The VCWC in Lynnwood continues to offer residents of the District a resource for accessing health and wellness classes, programs, and information. The center serves as the headquarters for Verdant and houses all District staff. During 2018, Verdant added a Community Social Worker to provide case management services to clients with complex health and social service needs. Community classes were offered at the VCWC in 2021 in English and Spanish, focusing on lifestyle modification, prevention, and managing chronic conditions with topics like healthy cooking, weight management, positive parenting, stress reduction, and behavioral health support groups.

Although a public facility, Verdant remained closed to group activities and facility rental during 2021 due to the continued Pandemic. Internal program delivery was accomplished through live streaming. Strict safety protocols were adhered to for the safety and wellbeing of staff and community.

Verdant's community impacts are published annually on the Verdant website at www.verdanthealth.org and include:

- \$11,600,000 in total program funding
- 162 sponsored classes and events, 4,714 registered participants
- 440 patients connected to specialty medical care
- \$970,510 in special Covid-19 funding
- 40,000 Covid-19 vaccines administered
- 53 community organizations received funding across all strategic priorities

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).

	2021	2020	2019
Assets			
Current assets	\$ 58,620	\$ 59,396	\$ 55,573
Capital assets, net	22,613	23,989	25,502
Other noncurrent assets	19,234	19,025	18,466
Total assets	\$ 100,467	\$ 102,410	\$ 99,541
Liabilities			
Current liabilities	\$ 1,459	\$ 1,406	\$ 2,586
Total liabilities	1,459	1,406	2,586
Net position			
Net investment in capital assets	22,613	23,989	24,490
Restricted for debt service	-	39	44
Unrestricted	76,395	76,976	72,421
Total net position	99,008	101,004	96,955
Total liabilities and net position	\$ 100,467	\$ 102,410	\$ 99,541

**Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Management's Discussion and Analysis**

Current Assets

Total current assets of \$58.6 million at year-end 2021 reflect a decrease of \$0.8 million (1.3%), compared to the balance of \$59.4 million at the end of 2020. Cash and cash equivalents increased by \$1.3 million (30.8 %) in 2021, compared to an increase of \$2.1 million (110.3%) in 2020.

Capital Assets

The District's net capital assets decreased \$1.4 million (5.7%) in 2021, compared to a net decrease of \$1.5 million (5.9%) in 2020. Depreciation and surplusings of aging hospital assets continue to contribute to this decrease.

Other Noncurrent Assets

Other noncurrent assets consist of rent receivable totaling \$19.2 million at year-end 2021, an increase of \$0.2 million (1.1%), compared to an increase of \$0.6 million (3.0%) in 2020. The rent receivable results from straight-line recognition of the 30-year lease of the hospital to SHS.

Current Liabilities

Current liabilities increased \$0.05 million (3.8%) from \$1.4 million in 2020 to \$1.45 million in 2021.

Long-Term Debt

As of December 31, 2020, the District no longer had long-term debt. All outstanding bonds were paid off during 2020. Principal payments during 2020 totaled \$1.0 million.

Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Management's Discussion and Analysis

Operating Results and Changes in the District's Net Position

In 2021, the District's net position decreased \$2.0 million (2.0%), compared to an increase of \$4.0 million (4.2%) in 2020 (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues			
Lease revenue	\$ 11,597	\$ 11,760	\$ 11,749
Other operating revenues	96	1	36
Total operating revenues	<u>11,693</u>	<u>11,761</u>	<u>11,785</u>
Operating expenses			
Salaries and benefits	1,085	721	941
Program expenditures	11,560	8,410	7,325
Other	1,786	1,594	1,352
Depreciation	1,375	1,608	1,756
Total operating expenses	<u>15,806</u>	<u>12,333</u>	<u>11,374</u>
Operating (loss) income	<u>(4,113)</u>	<u>(572)</u>	<u>411</u>
Nonoperating revenues (expenses)			
Tax levies	2,466	2,407	2,368
Investment income (loss)	(314)	1,843	1,827
Interest expense and amortization	-	31	8
Other revenues (expenses)	(35)	340	(11)
Net nonoperating revenues	<u>2,117</u>	<u>4,621</u>	<u>4,192</u>
Increase in net position	(1,996)	4,049	4,603
Net position, beginning of year	<u>101,004</u>	<u>96,955</u>	<u>92,352</u>
Net position, end of year	<u>\$ 99,008</u>	<u>\$ 101,004</u>	<u>\$ 96,955</u>

Operating revenues in 2021 totaled \$11.7 million. Of that, \$9.8 million was attributable to the SHS lease for operation of the hospital. Additional lease revenues were received from other lease agreements, including Healthcare Realty and the Swedish Kruger Medical Office Building (formerly known as the Kruger Clinic). Verdant also received a small amount of revenue for internally hosted community programs at the VCWC.

Overall operating costs of \$15.8 million at year-end 2021 reflect an increase of \$3.5 million (28.2%), compared to operating costs of \$12.3 million at the end of 2020. Salaries and benefits totaled \$1.1 million in 2021, an increase of 50.5% from 2020. Program expenditures totaled \$11.6 million in 2021 compared to \$8.4 million in 2020, an increase of 37.5%.

Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission Management's Discussion and Analysis

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

Net nonoperating revenues in 2021 totaled \$2.1 million, compared to \$4.6 million in 2020, a decrease of \$2.5 million (54.2%). There was also a net decrease in investment return of \$2.2 million (117%) over 2020, which consisted of \$0.3 million decrease in investment income, and a \$1.9 million decrease in net unrealized and realized gains (losses). As a Public Hospital district, the investment portfolio is governed by a policy established under RCW Chapters 39.59 and 43.250 which defines the investment objectives and authorized investment options.

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,	
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,324,633	\$ 4,069,648
Investments	53,251,626	55,019,161
Prepaid expenses and other	43,339	268,694
Assets whose use is limited	-	38,854
Total current assets	<u>58,619,598</u>	<u>59,396,357</u>
CAPITAL ASSETS		
Nondepreciable capital assets	7,723,706	7,723,706
Depreciable capital assets, net of accumulated depreciation	<u>14,888,873</u>	<u>16,265,194</u>
Capital assets, net of accumulated depreciation	<u>22,612,579</u>	<u>23,988,900</u>
RENT RECEIVABLE	<u>19,234,605</u>	<u>19,024,353</u>
Total assets	<u><u>\$ 100,466,782</u></u>	<u><u>\$ 102,409,610</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts and warrants payable	\$ 398,252	\$ 329,725
Prepaid lease income	904,911	921,683
Accrued salaries and benefits	31,276	29,747
Estimated self-insured liabilities	<u>125,000</u>	<u>125,000</u>
Total current liabilities	<u>1,459,439</u>	<u>1,406,155</u>
NET POSITION		
Net investment in capital assets	22,612,579	23,988,900
Restricted for debt service	-	38,854
Unrestricted	<u>76,394,764</u>	<u>76,975,701</u>
Total net position	<u>99,007,343</u>	<u>101,003,455</u>
Total liabilities and net position	<u><u>\$ 100,466,782</u></u>	<u><u>\$ 102,409,610</u></u>

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,	
	2021	2020
OPERATING REVENUES		
Lease revenue	\$ 11,596,958	\$ 11,759,642
Other operating revenue	95,843	1,163
Total operating revenues	<u>11,692,801</u>	<u>11,760,805</u>
OPERATING EXPENSES		
Salaries and wages	924,176	625,493
Employee benefits	160,615	95,118
Program expenditures	11,559,753	8,409,947
Professional services	618,749	670,897
Purchased services, utilities, and other	1,167,570	923,508
Depreciation	<u>1,375,092</u>	<u>1,608,086</u>
Total operating expenses	<u>15,805,955</u>	<u>12,333,049</u>
Operating loss	<u>(4,113,154)</u>	<u>(572,244)</u>
NONOPERATING REVENUES (EXPENSES)		
Maintenance and operations tax levy	2,466,426	2,406,758
Investment income and net unrealized/realized (loss) gain	(314,461)	1,843,383
Other interest expense and amortization	-	30,597
Other revenues (expenses)	<u>(34,923)</u>	<u>339,553</u>
Net nonoperating revenues	<u>2,117,042</u>	<u>4,620,291</u>
Change in net position	(1,996,112)	4,048,047
NET POSITION, beginning of year	<u>101,003,455</u>	<u>96,955,408</u>
NET POSITION, end of year	<u>\$ 99,007,343</u>	<u>\$ 101,003,455</u>

Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for leasing and other operations	\$ 11,465,777	\$ 11,207,497
Cash paid to employees	(1,083,262)	(761,460)
Cash paid on community programs	(11,559,753)	(8,409,947)
Cash paid to suppliers for goods and services	(1,492,437)	(1,946,807)
	<u>(2,669,675)</u>	<u>89,283</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from maintenance and operations tax levy for noncapital purposes	2,505,280	2,411,770
Other	(33,694)	339,553
	<u>2,471,586</u>	<u>2,751,323</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	-	(955,000)
Interest paid on long-term debt	-	(28,651)
Purchase of capital assets	-	(95,058)
	<u>-</u>	<u>(1,078,709)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in investments	1,161,064	(1,302,998)
Investment income	292,010	1,675,488
	<u>1,453,074</u>	<u>372,490</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,254,985	2,134,387
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,069,648</u>	<u>1,935,261</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,324,633</u>	<u>\$ 4,069,648</u>

**Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Statements of Cash Flows**

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (4,113,154)	\$ (572,244)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,375,092	1,608,086
Changes in operating assets and liabilities		
Prepaid expenses and other	225,355	(223,569)
Rent receivable	(210,252)	(557,663)
Accounts and warrants payable	68,527	(153,833)
Prepaid lease income	(16,772)	4,355
Accrued salaries and benefits	1,529	(40,849)
Other liabilities	-	25,000
	\$ (2,669,675)	\$ 89,283
Net cash from operating activities	\$ (2,669,675)	\$ 89,283

Public Hospital District No. 2, Snohomish County, Washington

dba Verdant Health Commission

Notes to Financial Statements

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 as Stevens Hospital (the Hospital), located in Edmonds, Washington. The Hospital is an acute care community hospital with 217 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 District-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.

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 \$2,430,000 of funding in 2021 and \$2,420,000 of funding in 2020. 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.

**Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Notes to Financial Statements**

Note 1 – Organization and Summary of Accounting Policies (continued)

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.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – 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.

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 \$125,000 as of December 31, 2021 and 2020, is recorded in the accompanying statements of net position within estimated self-insured liabilities.

Public Hospital District No. 2, Snohomish County, Washington

dba Verdant Health Commission

Notes to Financial Statements

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 position – 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.

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 June 13, 2022, which is the date the financial statements are available to be issued.

Note 2 – Deposits, Investments, and Assets Whose Use is Limited

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, 2021 and 2020, all deposits and investments of the District are categorized as Category 1.

**Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Notes to Financial Statements**

Note 2 – Deposits, Investments, and Assets Whose Use is Limited (continued)

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, 2021 and 2020, and excluding unrestricted cash, and other assets limited as to use balances of \$5,359,481 and \$4,108,502, respectively, is as follows:

Investment Type as of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Inputs other than quoted prices that are directly or indirectly observable (Level 2)	Total	Percentage of Totals
U.S. Treasury securities	\$ 26,316,725	\$ -	\$ 26,316,725	49%
U.S. government agency obligations	-	14,809,867	14,809,867	28%
Domestic corporate bonds	-	12,125,034	12,125,034	23%
	<u>\$ 26,316,725</u>	<u>\$ 26,934,901</u>	<u>\$ 53,251,626</u>	<u>100%</u>

Investment Type as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Inputs other than quoted prices that are directly or indirectly observable (Level 2)	Total	Percentage of Totals
U.S. Treasury securities	\$ 28,317,383	\$ -	\$ 28,317,383	52%
U.S. government agency obligations	-	14,957,933	14,957,933	27%
Domestic corporate bonds	-	11,743,845	11,743,845	21%
	<u>\$ 28,317,383</u>	<u>\$ 26,701,778</u>	<u>\$ 55,019,161</u>	<u>100%</u>

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.

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.

Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Notes to Financial Statements

Note 3 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2021 and 2020, were as follows:

	Beginning Balance January 1, 2020	Additions	Retirements	Account Transfers	Ending Balance December 31, 2020
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	-	-	-	-	-
	<u>7,723,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,723,706</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,370,444	-	-	-	2,370,444
Buildings and building improvements	52,731,537	-	-	-	52,731,537
Equipment	35,756,068	-	(32,565)	-	35,723,503
LESS ACCUMULATED DEPRECIATION					
Land improvements	2,319,849	9,041	-	-	2,328,890
Buildings and building improvements	37,775,286	1,091,009	-	-	38,866,295
Equipment	34,497,720	275,042	(31,336)	-	34,741,426
DEPRECIABLE CAPITAL ASSETS, net	<u>16,265,194</u>	<u>(1,375,092)</u>	<u>(1,229)</u>	<u>-</u>	<u>14,888,873</u>
CAPITAL ASSETS, net	<u>\$ 23,988,900</u>	<u>\$ (1,375,092)</u>	<u>\$ (1,229)</u>	<u>\$ -</u>	<u>\$ 22,612,579</u>
	Beginning Balance January 1, 2019	Additions	Retirements	Account Transfers	Ending Balance December 31, 2019
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	44,155	-	-	(44,155)	-
	<u>7,767,861</u>	<u>-</u>	<u>-</u>	<u>(44,155)</u>	<u>7,723,706</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,370,444	-	-	-	2,370,444
Buildings and building improvements	52,661,594	43,614	-	26,329	52,731,537
Equipment	36,936,185	51,444	(1,249,387)	17,826	35,756,068
LESS ACCUMULATED DEPRECIATION					
Land improvements	2,310,808	9,041	-	-	2,319,849
Buildings and building improvements	36,595,188	1,180,098	-	-	37,775,286
Equipment	35,328,160	418,947	(1,249,387)	-	34,497,720
DEPRECIABLE CAPITAL ASSETS, net	<u>17,734,067</u>	<u>(1,513,028)</u>	<u>-</u>	<u>44,155</u>	<u>16,265,194</u>
CAPITAL ASSETS, net	<u>\$ 25,501,928</u>	<u>\$ (1,513,028)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,988,900</u>

**Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Notes to Financial Statements**

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. Other lease agreements include a lease that matures in 2101. The future lease payments for this lease from 2042 to 2101 are approximately \$56,000 per year for a total \$3,358,000. This portion is excluded from the table below.

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

	<u>Straight-Line Recognition</u>		<u>Leases Recognized Based on Required Lease Payments</u>	<u>Total</u>
	<u>Lease of Hospital</u>	<u>Other Leases</u>		
2022	\$ 10,066,000	\$ 674,000	\$ 330,000	\$ 11,070,000
2023	10,368,000	692,000	340,000	11,400,000
2024	10,679,000	479,000	221,000	11,379,000
2025	11,000,000	252,000	94,000	11,346,000
2026	11,217,000	139,000	76,000	11,432,000
2027–2031	56,087,000	280,000	229,000	56,596,000
2032–2036	56,087,000	280,000	-	56,367,000
2037–2041	41,130,000	280,000	-	41,410,000
	<u>\$ 206,634,000</u>	<u>\$ 3,076,000</u>	<u>\$ 1,290,000</u>	<u>\$ 211,000,000</u>

Note 5 – 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. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

**Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Notes to Financial Statements**

Note 5 – Property Taxes (continued)

For 2021 and 2020, the District's regular tax levy was \$0.064 per \$1,000 on a total assessed valuation of \$39,951,784,413 and \$37,653,556,246, for a total regular levy of \$2,433,525 and \$2,419,661, 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 6 – 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 \$46,000 and \$36,000 during the years ended December 31, 2021 and 2020, 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 \$45,000 and \$32,000 during the years ended December 31, 2021 and 2020, respectively.

Note 7 – 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.

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

The Board of Commissioners
Public Hospital District No. 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 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's financial statements, and have issued our report thereon dated June 13, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission'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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Morse Adams LLP

Everett, Washington
June 13, 2022

