



Office of the Washington State Auditor
Pat McCarthy

March 27, 2017

Board of Commissioners
Public Hospital District No 2 of Snohomish County
Lynnwood, Washington

Contracted CPA Firm's Audit Report on Financial Statements


We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Public Hospital District No 2 of Snohomish County's financial statements for the fiscal year ended December 31, 2015. The District contracted with the CPA firm for this audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA



Report of Independent Auditors
and Financial Statements for

Public Hospital District No. 2,
Snohomish County, Washington dba
Verdant Health Commission

December 31, 2015 and 2014

MOSS-ADAMS_{LLP}

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 Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion 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. 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.

Opinion

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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 9 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, which 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.

A handwritten signature in dark ink, appearing to read "Ross Adams LLP", is written over a light blue horizontal line.

Everett, Washington
May 24, 2016

**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, 2015 and 2014. 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 of 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, 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 Swedish Health Services. As of December 31, 2015, Swedish Health Services had paid \$41.0 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 Swedish Health Services 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, Swedish Health Services agrees 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 (continued)**

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

The District will maintain investments sufficient to take back the operation of the hospital in the event of default by Swedish Health Services 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 Swedish Health Services, 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 our 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 Swedish Health Services, 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 \$6.8 million in community program investments during 2015. Each program is managed through a cooperative agreement with partners and is being monitored for performance and compliance by Verdant staff.

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. Verdant also released a targeted request for proposal (RFP) for preventative behavioral health programs—two projects were selected for a total annual budget of \$500,000, with payouts beginning in 2015. Other significant investments in this area made by Verdant in 2014 include a program through the Center for Human Services that provides onsite counseling at middle and high schools, and a new program through the Edmonds School District that provides student support advocates at each of the middle and high schools.

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

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 the next three years. Both projects will collect and deliver program results over the next several years.

In 2015, Verdant funded several new 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 2016) and a program focused on serving teens with mental health and drug and alcohol challenges through Therapeutic Health Services. Verdant also renewed and expanded funding for the Community Paramedic program through Snohomish County Fire District 1 and the City of Lynnwood Fire Department. Additionally, Verdant provided increased funding for the Enhance Wellness program offered by the Edmonds Senior Centers to add an evidence-based depression program called PEARLS.

In September 2013, Verdant purchased a building in Lynnwood for the purpose of redeveloping it into a community wellness center. The new Verdant Community Wellness Center (VCWC) opened in January 2015 and 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 8,000 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.

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

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>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets	\$ 37,552	\$ 35,459	\$ 32,610
Capital assets, net	33,280	35,776	36,766
Other noncurrent assets	<u>13,617</u>	<u>11,702</u>	<u>8,990</u>
Total assets	<u>\$ 84,449</u>	<u>\$ 82,937</u>	<u>\$ 78,366</u>
Liabilities			
Current liabilities	\$ 2,839	\$ 2,582	\$ 2,039
Long-term debt, net	3,890	4,757	5,590
Other long-term liabilities	<u>725</u>	<u>100</u>	<u>100</u>
Total liabilities	<u>7,454</u>	<u>7,439</u>	<u>7,729</u>
Net position			
Net investment in capital assets	28,585	30,249	30,431
Restricted for debt service	47	54	58
Unrestricted	<u>48,363</u>	<u>45,195</u>	<u>40,148</u>
Total net position	<u>76,995</u>	<u>75,498</u>	<u>70,637</u>
Total liabilities and net position	<u>\$ 84,449</u>	<u>\$ 82,937</u>	<u>\$ 78,366</u>

Current Assets

Total current assets of \$37.6 million at year-end 2015 reflect an increase of \$2.1 million (5.9%), compared to the balance of \$35.5 million at the end of 2014. Cash and short-term investments increased by \$2.4 million (7.1%) in 2015, compared to an increase of \$2.3 million (7.3%) in 2014.

Capital Assets

The District's net capital assets decreased \$2.5 million (7.0%) in 2015, compared to a net decrease of \$1.0 million (2.7%) in 2014. 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 (continued)**

Statement of Net Position (continued)

Other Noncurrent Assets

Other noncurrent assets consist of rent receivable totaling \$13.6 million at year-end 2015, an increase of \$1.9 million (16.4%) from \$11.7 million in 2014. The rent receivable results from straight-line recognition of the 30-year lease of the hospital to Swedish Health Services.

Current Liabilities

Current liabilities increased \$0.2 million (10.0%) from \$2.6 million in 2014 to \$2.8 million in 2015.

Long-Term Debt

As of December 31, 2015, the District had \$3.9 million in long-term debt, net of current portion, which is a \$0.9 million (18.2%) decrease from 2014. Principal payments during 2015 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 increased by \$0.6 million from \$0.1 million in 2014. These are made up of reserves for self-insured workers' compensation claims (\$0.1 million) and a community program liability (\$0.6 million).

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

Operating Results and Changes in the District's Net Position

In 2015, the District's net position increased \$1.5 million (2.0%), compared to an increase of \$4.9 million (6.9%) in 2014.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues			
Lease revenue	\$ 11,838	\$ 11,712	\$ 10,437
Other operating revenues	<u>16</u>	<u>9</u>	<u>12</u>
Total operating revenues	<u>11,854</u>	<u>11,721</u>	<u>10,449</u>
Operating expenses			
Salaries and benefits	769	752	675
Program expenditures	8,021	4,690	3,124
Other	1,121	925	478
Depreciation	<u>2,641</u>	<u>3,367</u>	<u>4,199</u>
Total operating expenses	<u>12,552</u>	<u>9,734</u>	<u>8,476</u>
Operating income (loss)	<u>(698)</u>	<u>1,987</u>	<u>1,973</u>
Nonoperating revenues (expenses)			
Tax levies	2,167	2,113	2,033
Investment income (loss)	133	564	(914)
Interest expense and amortization	(91)	(106)	(120)
Gain (loss) on disposal of capital assets	(98)	19	(595)
Other revenues (expenses)	<u>84</u>	<u>284</u>	<u>(183)</u>
Net nonoperating revenues	<u>2,195</u>	<u>2,874</u>	<u>221</u>
Increase in net position	1,497	4,861	2,194
Net position, beginning of year	<u>75,498</u>	<u>70,637</u>	<u>68,443</u>
Net position, end of year	<u>\$ 76,995</u>	<u>\$ 75,498</u>	<u>\$ 70,637</u>

Operating revenues in 2015 totaling \$11.9 million were attributed to lease payments. Of that, \$8.2 million was attributable to the Swedish Health Services lease. 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 (continued)**

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

Overall operating costs of \$12.6 million at year-end 2015 reflect an increase of \$2.8 million (29.0%), compared to the balance of \$9.7 million at the end of 2014. Salaries and benefits totaled \$0.8 million in 2015, a 2.2% increase over 2014. Program expenditures totaled \$8.0 million in 2015 (including program liabilities of \$1.3 million that will be paid in 2016 and 2017), compared to only \$4.7 million in 2014. Increased program investment expenditures of \$3.3 million made the largest impact on operating expenses in 2015. This was offset by an annual decrease in depreciation expense of \$0.7 million (21.6%).

Net nonoperating revenues for 2015 are \$2.2 million, compared to \$2.9 million in 2014, a decrease of \$0.7 million (23.6%). Investment gains at year-end 2015 are \$0.1 million, a decrease of \$0.4 million (76.5%) over a 2014 gain of \$0.6 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,	
	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,928,195	\$ 3,189,901
Investments	33,671,131	30,988,240
Receivables	71,993	262,234
Estimated third-party payor settlements	183,190	-
Prepaid expenses and other	650,078	963,479
Assets whose use is limited	46,957	54,692
Total current assets	37,551,544	35,458,546
CAPITAL ASSETS		
Nondepreciable capital assets	7,723,706	11,477,614
Depreciable capital assets, net of accumulated depreciation	25,555,804	24,298,008
Capital assets, net of accumulated depreciation	33,279,510	35,775,622
RENT RECEIVABLE	13,618,154	11,702,643
Total assets	\$ 84,449,208	\$ 82,936,811

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 805,000	\$ 770,000
Accounts and warrants payable	913,851	304,613
Prepaid lease income	760,110	734,028
Accrued interest	10,975	12,900
Accrued salaries and benefits	55,232	53,308
Tenant improvements	-	101,460
Estimated self-insured liabilities	294,194	605,514
Total current liabilities	2,839,362	2,581,823
LONG-TERM DEBT, net of current portion	3,889,978	4,757,008
OTHER LONG-TERM LIABILITIES	725,000	100,000
Total liabilities	7,454,340	7,438,831
NET POSITION		
Net investment in capital assets	28,584,532	30,248,614
Restricted for debt service	46,957	54,692
Unrestricted	48,363,379	45,194,674
Total net position	76,994,868	75,497,980
Total liabilities and net position	\$ 84,449,208	\$ 82,936,811

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

	<u>Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Lease revenue	\$ 11,837,651	\$ 11,712,097
Other operating revenue	<u>16,030</u>	<u>8,875</u>
Total operating revenues	<u>11,853,681</u>	<u>11,720,972</u>
OPERATING EXPENSES		
Salaries and wages	665,188	598,993
Employee benefits	103,814	153,306
Program expenditures	8,021,280	4,690,105
Professional services	319,644	261,983
Other	800,929	662,878
Depreciation	<u>2,640,840</u>	<u>3,367,091</u>
Total operating expenses	<u>12,551,695</u>	<u>9,734,356</u>
Operating income (loss)	<u>(698,014)</u>	<u>1,986,616</u>
NONOPERATING REVENUES (EXPENSES)		
Maintenance and operations tax levy	2,166,756	2,112,763
Investment income and unrealized gain (loss)	132,957	564,584
Other interest expense and amortization	(90,899)	(106,428)
Gain (loss) on disposal of capital assets, net	(98,232)	18,577
Other revenues	<u>84,320</u>	<u>284,428</u>
Net nonoperating revenues	<u>2,194,902</u>	<u>2,873,924</u>
Increase in net position	1,496,888	4,860,540
NET POSITION, beginning of year	<u>75,497,980</u>	<u>70,637,440</u>
NET POSITION, end of year	<u>\$ 76,994,868</u>	<u>\$ 75,497,980</u>

PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba

**VERDANT HEALTH COMMISSION
STATEMENTS OF CASH FLOWS**

Increase (Decrease) in Cash and Cash Equivalents

	<u>Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for leasing and other operations	\$ 9,964,252	\$ 9,034,954
Cash paid to employees	(767,078)	(733,830)
Cash paid on community programs	(6,771,280)	(4,690,105)
Cash paid to suppliers for goods and services	<u>(1,209,060)</u>	<u>(956,369)</u>
Net cash from operating activities	<u>1,216,834</u>	<u>2,654,650</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from maintenance and operations tax levy for noncapital purposes	2,174,491	2,116,013
Cash received from Swedish Health Services	59,244	262,802
Other	<u>5,473</u>	<u>687</u>
Net cash from noncapital financing activities	<u>2,239,208</u>	<u>2,379,502</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(770,000)	(745,000)
Interest paid on long-term debt	(154,854)	(169,700)
Proceeds from sale of capital assets	-	40,286
Acquisition and construction of capital assets	<u>(242,960)</u>	<u>(2,398,847)</u>
Net cash from capital and related financing activities	<u>(1,167,814)</u>	<u>(3,273,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments, net	(3,039,388)	(2,197,645)
Investment income	<u>489,454</u>	<u>407,965</u>
Net cash from investing activities	<u>(2,549,934)</u>	<u>(1,789,680)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(261,706)	(28,789)
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,189,901</u>	<u>3,218,690</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,928,195</u>	<u>\$ 3,189,901</u>

PUBLIC HOSPITAL DISTRICT NO. 2, SNOHOMISH COUNTY, WASHINGTON dba

**VERDANT HEALTH COMMISSION
STATEMENTS OF CASH FLOWS**

Increase (Decrease) in Cash and Cash Equivalents

	<u>Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM		
OPERATING ACTIVITIES		
Operating income (loss)	\$ (698,014)	\$ 1,986,616
Adjustments to reconcile operating income (loss) to net cash from		
operating activities		
Depreciation	2,640,840	3,367,091
Changes in operating assets and liabilities		
Receivables	130,997	(259,477)
Estimated third-party payor settlements	27,814	840,034
Prepaid expenses and other	313,401	(900,272)
Rent receivable	(1,915,511)	(2,711,912)
Accounts and warrants payable	609,238	71,237
Prepaid lease income	26,082	25,894
Tenant improvements	(101,460)	101,460
Accrued salaries and benefits	1,924	18,469
Self-insured liabilities	(443,477)	115,510
Other long-term liabilities	<u>625,000</u>	<u>-</u>
Net cash from operating activities	<u>\$ 1,216,834</u>	<u>\$ 2,654,650</u>

**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, 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 Swedish Health Services, 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 facilities. 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. SHS has committed to an initial capital investment of \$90 million over the first 10 years of the lease, including the installation of the Epic electronic medical record system at the facility. An additional capital investment by SHS is committed each year based on 25% of the defined profitability of the facility. In addition, a potential commitment of a major expansion project of up to \$60 million will be undertaken, provided there is adequate return on investment and demand criteria are met, and the SHS board of trustees approves such a project. The District and SHS will form 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**

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

In September 1997, the voters of the District approved a maintenance and operations (M&O) tax levy upon the taxable property within the District; the M&O tax provided approximately \$2,160,000 of funding in 2015 and \$2,105,000 of funding in 2014. 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. Changes in estimates resulted in a decrease to other nonoperating income of approximately \$79,000 and \$284,000 for the years ended December 31, 2015 and 2014, respectively.

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.

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, 2015, project advances were \$625,000.

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.

**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)

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 \$394,000 and \$706,000 as of December 31, 2015 and 2014, 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**

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.

Reclassifications - Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation to more consistently present financial information between years.

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 24, 2016, 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**

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

The composition of cash, cash equivalents, investments, and deposits at December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Assets whose use is not restricted		
Cash in banks - interest-bearing	\$ 2,928,195	\$ 3,189,901
Governmental mutual fund	<u>33,671,131</u>	<u>30,988,240</u>
 Total cash, cash equivalents, investments, and deposits	 <u>\$ 36,599,326</u>	 <u>\$ 34,178,141</u>

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, 2015 and 2014, 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.

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, 2015 and 2014, were as follows:

	Beginning Balance January 1, 2015	Additions	Retirements	Account Transfers	Ending Balance December 31, 2015
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	<u>3,753,908</u>	<u>144,379</u>	<u>(3,250)</u>	<u>(3,895,037)</u>	<u>-</u>
	<u>11,477,614</u>	<u>144,379</u>	<u>(3,250)</u>	<u>(3,895,037)</u>	<u>7,723,706</u>
DEPRECIABLE CAPITAL ASSETS					
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
LESS ACCUMULATED DEPRECIATION					
Land improvements	2,057,189	92,171	-	-	2,149,360
Buildings and building improvements	29,934,084	1,602,273	-	-	31,536,357
Equipment	<u>42,072,272</u>	<u>946,396</u>	<u>(4,928,207)</u>	<u>-</u>	<u>38,090,461</u>
DEPRECIABLE CAPITAL ASSETS, net	<u>24,298,008</u>	<u>(2,542,259)</u>	<u>(94,982)</u>	<u>3,895,037</u>	<u>25,555,804</u>
CAPITAL ASSETS, net	<u>\$ 35,775,622</u>	<u>\$ (2,397,880)</u>	<u>\$ (98,232)</u>	<u>\$ -</u>	<u>\$ 33,279,510</u>
	Beginning Balance January 1, 2014	Additions	Retirements	Account Transfers	Ending Balance December 31, 2014
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	<u>1,390,046</u>	<u>2,363,862</u>	<u>-</u>	<u>-</u>	<u>3,753,908</u>
	<u>9,113,752</u>	<u>2,363,862</u>	<u>-</u>	<u>-</u>	<u>11,477,614</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,285,382	-	-	-	2,285,382
Buildings and building improvements	49,754,268	-	(38,135)	-	49,716,133
Equipment	46,692,201	34,985	(367,148)	-	46,360,038
LESS ACCUMULATED DEPRECIATION					
Land improvements	1,976,179	81,010	-	-	2,057,189
Buildings and building improvements	28,399,904	1,555,640	(21,460)	-	29,934,084
Equipment	<u>40,703,945</u>	<u>1,730,441</u>	<u>(362,114)</u>	<u>-</u>	<u>42,072,272</u>
DEPRECIABLE CAPITAL ASSETS, net	<u>27,651,823</u>	<u>(3,332,106)</u>	<u>(21,709)</u>	<u>-</u>	<u>24,298,008</u>
CAPITAL ASSETS, net	<u>\$ 36,765,575</u>	<u>\$ (968,244)</u>	<u>\$ (21,709)</u>	<u>\$ -</u>	<u>\$ 35,775,622</u>

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.

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

Note 4 - Lessor Agreements (continued)

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	
	<u>Lease of</u>	<u>Other Leases</u>	<u>Based on Required</u>	<u>Total</u>
	<u>Hospital</u>		<u>Lease Payments</u>	
2016	\$ 8,430,000	\$ 503,000	\$ 706,000	\$ 9,639,000
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 - 2025	51,886,000	1,628,000	5,000	53,519,000
2026 - 2030	56,087,000	-	-	56,087,000
2031 - 2035	56,087,000	-	-	56,087,000
2036 - 2040	<u>52,348,000</u>	<u>-</u>	<u>-</u>	<u>52,348,000</u>
	<u>\$ 261,165,000</u>	<u>\$ 4,379,000</u>	<u>\$ 1,477,000</u>	<u>\$ 267,021,000</u>

Note 5 - Long-Term Debt

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

	<u>2015</u>	<u>2014</u>
LTGO Refunding Bonds, 2012, 2.00% to 3.00%, principal due serially on December 1 in amounts from \$805,000 in 2016 to \$955,000 in 2020, including unamortized premium of \$304,978 in 2015 and \$367,008 in 2014.	\$ 4,694,978	\$ 5,527,008
Less current portion	<u>(805,000)</u>	<u>(770,000)</u>
Long-term debt and obligations under capital leases, net of current portion	<u>\$ 3,889,978</u>	<u>\$ 4,757,008</u>

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

Note 5 - Long-Term Debt (continued)

Long-term debt and capital lease obligations' activity summary for 2015 and 2014 is as follows:

	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>
	January 1, 2014	Additions	Reductions	December 31, 2014	Amounts Due Within One Year
LONG-TERM DEBT					
2012 LTGO Bond	\$ 6,334,038	\$ -	\$ (807,030)	\$ 5,527,008	\$ (770,000)
OTHER LONG-TERM LIABILITIES	100,000	-	-	100,000	-
	<u>\$ 6,434,038</u>	<u>\$ -</u>	<u>\$ (807,030)</u>	<u>\$ 5,627,008</u>	<u>\$ (770,000)</u>

Scheduled principal and interest repayments on long-term debt are as follows as of December 31, 2015:

	Long-Term Debt	
	Principal	Interest
2016	\$ 805,000	\$ 131,700
2017	840,000	107,550
2018	875,000	82,350
2019	915,000	56,100
2020	<u>955,000</u>	<u>28,650</u>
	4,390,000	<u>\$ 406,350</u>
Amounts representing net unamortized premium	<u>304,978</u>	
	<u>\$ 4,694,978</u>	

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

Note 5 - Long-Term Debt (continued)

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.

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 2015 and 2014, the District's regular tax levy was \$0.097 and \$0.106 per \$1,000 on a total assessed valuation of \$22,193,494,490 and \$19,859,116,132, for a total regular levy of \$2,162,700 and \$2,104,800, 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

Effective July 1, 2010, the District sponsored 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 \$34,200 and \$25,800 during the years ended December 31, 2015 and 2014, 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 \$36,000 and \$32,000 during the years ended December 31, 2015 and 2014, respectively.

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

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.

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 two Building Healthy Communities Fund programs, with a remaining commitment of \$1,974,000 as of December 31, 2015. Based on the terms and status of one of those programs, a portion of that commitment, \$1,250,000, was determined to be a liability as of December 31, 2015. Because a portion of the program payment is due in 2016 and the other portion is due in 2017, \$625,000 was included in accounts and warrants payable and \$625,000 was included in other long-term liabilities in the statements of net position.