



**Office of the Washington State Auditor
Pat McCarthy**

November 24, 2021

Board of Commissioners
Stilly Valley Health Connections
Arlington, 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 financial statements of Stilly Valley Health Connections for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor 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 Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**PUBLIC HOSPITAL DISTRICT NO. 3,
SNOHOMISH COUNTY, WASHINGTON
DBA STILLY VALLEY HEALTH CONNECTIONS**

December 31, 2020 and 2019

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Report of Independent Auditors

To the Board of Commissioners
Public Hospital District No. 3,
Snohomish County, Washington
dba Stilly Valley Health Connections

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–16 and the schedule of changes in total other post-employment benefits and related ratios on page 39 be presented to supplement the financial statements. Such information, 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 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 financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Everett, Washington
April 29, 2021

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

This discussion and analysis provides an overview of the financial position and activities of Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections (the District), doing business as Stilly Valley Health Connections. It should be read in conjunction with the financial statements and accompanying notes that follow.

Financial Highlights

The District's total net position decreased by \$1,058,000 from 2019 to 2020 and decreased from 2018 to 2019 by \$1,883,000 due to the District leasing the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington, per the terms of an Affiliation Agreement effective June 1, 2016.

The District's total operating revenue was \$2.3 million in 2020 and \$2.5 million in 2019 due to the District leasing the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington, per the terms of the Affiliation Agreement effective June 1, 2016.

Overview of the Financial Statements

The District's financial statements consist of 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 activities of the District. The statement of net position includes all the District's assets, liabilities, and net position, as well as a detail of those assets available for general purposes and those restricted for a specific purpose. The statement of revenues, expenses, and changes in net position reports the revenues and expenses during the year. The statement of cash flows reports the cash provided by the District's operating activities, as well as other cash sources such as tax revenue, financing activities, and investment activities.

Organizational Structure

The District is a public hospital district and a municipal corporation formed under the provisions of Chapter 70.44 of the Revised Code of Washington (RCW). The District is located in the northeastern portion of the County. Arlington, the major city in the District, is located 20 miles northeast of Everett and 55 miles northeast of Seattle. The District serves an estimated population of approximately 60,000. The District is governed by a board of five publicly elected commissioners.

Until June 1, 2016, the District operated Cascade Valley Hospital and Clinics, which included Cascade Valley Hospital (the Hospital). The Hospital is a licensed 48-bed facility located on a campus of approximately 17 acres in the city of Arlington, Washington. In addition to the Hospital, until June 1, 2016, the District also operated a freestanding surgery center (the Cascade Valley Arlington Surgery Center) and five medical clinics. As of June 1, 2016, the District leased the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington (Skagit PHD No. 1), which does business as Skagit Regional Health. The initial term of the lease is 30 years.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Organizational Structure (continued)

Description of the Agreement with Skagit PHD No. 1

In accordance with an affiliation agreement with Skagit PHD No. 1 (the Affiliation Agreement), which was dated December 2, 2015, Skagit PHD No. 1 began operating the Hospital on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between the District and Skagit PHD No. 1. Pursuant to the Affiliation Agreement, the District leased substantially all its assets, including the Hospital, certain other clinic facilities, and intangible assets, to Skagit PHD No. 1 for a term of 30 years. Skagit PHD No. 1 will pay the District an annual base rent of \$10.00 and is responsible for costs and expenses associated with the leased assets, including maintenance and capital improvements.

Financial Arrangement

Pursuant to the Affiliation Agreement, the District will transfer all its cash and cash equivalents in excess of a retained amount to Skagit PHD No. 1 by June 2017. The retained amount is equal to the District's known and contingent liabilities and debts plus a minimum cash balance of \$1,000,000. Thereafter, the District will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point Medical Center, LLC, which is owned 50% by the District and 50% by Skagit PHD No. 1. The Smokey Point Medical Center, LLC, building is a two-story, 40,000 square foot ambulatory center. The building is leased to UW Medicine, which operates a maternal fetal medicine clinic and Skagit PHD No. 1, which operates an outpatient chemotherapy unit, an urgent care clinic, primary and specialty care clinics, and laboratory and imaging services. The District's excess property tax levy funds will be used solely for the purpose of paying the debt service on the District's outstanding unlimited tax general obligation bonds. The proceeds from the District's regular property tax levy and the Smokey Point Medical Center, LLC, lease will be used to pay the District's expenses, including the annual debt service on the District's outstanding limited tax general obligation bonds, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by the District from its regular property tax levy and the Smokey Point Medical Center, LLC, lease exceeds the District's existing obligations in any year, and the District's cash balance is equal to \$1,000,000, the excess funds will be transferred to Skagit PHD No. 1.

In accordance with the Affiliation Agreement, the transferred funds will be deposited in Pool A of the PHD No. 3 Support Fund (Pool A). The funds in Pool A will be used by Skagit PHD No. 1 to (1) support the provision of health care services rendered in Snohomish County; (2) pay for capital improvements and equipment located in Snohomish County; (3) pay for health information technology and other capital investments that may be located outside of Snohomish County if it serves both Skagit PHD No. 1 facilities and the Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to the District's usage of the capital investment shall be allocated to the District; and (4) to cover any losses incurred by Skagit PHD No. 1 in the operation of Hospital services.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Organizational Structure (continued)

At the end of each fiscal year, Skagit PHD No. 1 will deposit into a special fund designated as Pool B of the PHD No. 3 Support Fund (Pool B) a portion of Skagit PHD No. 1's net cash flow generated from Skagit PHD No. 1's operations, calculated according to a formula set forth in the Affiliation Agreement, but in no case less than 1.5% of the annual net revenue generated by Skagit PHD No. 1's operation of the Hospital services still in operation, which will be calculated based on a three-year rolling average. The funds in Pool B may generally be used and expended by Skagit PHD No. 1 in the following order of priority: (1) to cover any Hospital operating losses, as defined in the Affiliation Agreement, to the extent the loss is not covered by any remaining funds in Pool A; (2) to reimburse Skagit PHD No. 1 for expenses incurred in prior years to cover such operating losses that were not reimbursed in prior years because there were insufficient funds in Pool A or Pool B; (3) to reimburse Skagit PHD No. 1 for expenses incurred by Skagit PHD No. 1 in prior years to fund capital improvements or equipment located at the Hospital facilities or for health information technology or other capital investments located elsewhere to the extent it serves both Skagit PHD No. 1 and Hospital facilities, but only for such portion that reasonably relates to the District's usage of the health information technology or other capital investment, to the extent that such expenses were not reimbursed in prior years because there were insufficient funds available in Pool A or Pool B; (4) to reimburse Skagit PHD No. 1 for expenses incurred by Skagit PHD No. 1 in the current year to fund Hospital capital improvements, as defined by the Affiliation Agreement; and (5) subject to certain limitations, for other expenditures that support the provision of health care services in Snohomish County.

Required Services

The Affiliation Agreement obligates Skagit PHD No. 1 to provide certain required services in North Snohomish County (identified by zip codes 98223, 98241, 98292, 98271, 98270, 98258, 98252) for 5-, 10-, and 30-year periods. Skagit PHD No. 1 has the right to determine the appropriate level of required services to meet the needs of the residents of North Snohomish County, such as the number of medical/surgical beds, ICU beds, observation beds, emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and staffing levels, provided it does so reasonably after appropriate evaluation and analysis of any impact a reduction in level of service may have on the residents of North Snohomish County.

During the five-year period following affiliation (the Five-Year Period), Skagit PHD No. 1 must provide OB/GYN, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which Skagit PHD No. 1 reasonably believes will appropriately serve the needs of the residents of North Snohomish County. Skagit PHD No. 1 must, however, continue to provide or cause to be provided primary care services at the Darrington and Granite Falls clinics during the Five-Year Period.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Organizational Structure (continued)

During the 10-year period following the affiliation (the Ten-Year Period), Skagit PHD No. 1 must provide inpatient and outpatient surgery, general inpatient acute services, and orthopedic general surgeons in North Snohomish County. In order to satisfy the Ten-Year Period commitment, Skagit PHD No. 1 is required to continuously maintain and operate the Hospital as a general acute care hospital duly licensed by the state of Washington and certified under the Medicare and Medicaid programs, with at least the following services: general inpatient acute services, inpatient surgery, a 24-hour emergency department, observation unit, ancillary medical services to the extent required to maintain state acute care hospital licensure, and an organized medical staff consisting, at a minimum, of primary care physicians, orthopedic surgeons, and general surgeons. Skagit PHD No. 1 is granted the right during the Ten-Year Period to modify or reduce the level of service provided at the Hospital provided: (1) it continues to provide an appropriate level of such services in North Snohomish County to meet the needs of residents; and (2) it has given notice to the District and allowed the District to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if Skagit PHD No. 1 elects to discontinue outpatient surgery services at the Hospital during the Ten-Year Period, Skagit PHD No. 1 must provide such services during the remainder of the Ten-Year Period at an alternative location within North Snohomish County at appropriate levels to meet the needs of residents.

During the 30-year period following affiliation, the District must provide a 24-hour emergency department, observation unit, ancillary medical services, and primary care physicians in North Snohomish County. After the Ten-Year Period, Skagit PHD No. 1 is entitled to relocate the required services that were subject to the Ten-Year Period commitment and that continue to be subject to the Thirty-Year period commitment to any location within North Snohomish County that it reasonably believes will appropriately meet the needs of the residents of North Snohomish County.

In the event that Skagit PHD No. 1 intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give the District 90 days' advance notice of such intent (the Change Notice). The Change Notice must include a detailed statement of the reasons for the intended action and must be accompanied by an analysis prepared by a qualified independent health care consultant analyzing the potential impact on the accessibility and availability of health care services for residents of North Snohomish County. The District is granted the right to determine, in its sole and absolute discretion, whether it will permit Skagit PHD No. 1 to proceed with the requested change. The District must notify Skagit PHD No. 1 within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If the District fails to respond in writing within 90 days of receipt of the Change Notice, the District will be deemed to have approved the proposed service change.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Organizational Structure (continued)

Termination and Unwinding

The Affiliation Agreement permits termination of the Affiliation Agreement and an unwinding of the affiliation upon the happening of certain conditions. The Affiliation Agreement may be terminated: (1) by mutual written consent of the District and Skagit PHD No. 1; (2) by either the District or Skagit PHD No. 1 in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by Skagit PHD No. 1 in the event that a catastrophic event occurs that was not caused by Skagit PHD No. 1 and makes it no longer viable to continue operating Hospital services as originally contemplated; (4) by either the District or Skagit PHD No. 1 if the District requires Skagit PHD No. 1 to purchase the leased facilities and assets as set forth in a certain provision of the Affiliation Agreement governing damages to the facilities related to Skagit PHD No. 1's negligence; and (5) after six years, by Skagit PHD No. 1, if Skagit PHD No. 1 has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Hospital services.

To affect an unwind, Skagit PHD No. 1 will transfer all the facilities and assets owned by Skagit PHD No. 1 to the District following a process consistent with how they were originally transferred. In addition, Skagit PHD No. 1 will transfer to the District any remaining cash balance in Pool A or Pool B and will assign in part or grant sublicenses under any electronic health records software license, maintenance and support services agreements in effect at Hospital facilities immediately prior to termination.

All of the commitments by the District to provide any cash or similar support to Skagit PHD No. 1 will terminate after the date Skagit PHD No. 1 provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason; provided that the District will remain obligated to provide any cash or similar support on a pro rata basis for the applicable period of time prior to the notice of termination.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Management's Discussion and Analysis**

Statements of Net Position

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Cash and investments	\$ 5,139	\$ 5,259	\$ 6,123
Receivables, net	385	280	447
Assets limited as to use	2,565	4,791	6,380
Net capital assets	25,039	25,377	26,875
Other assets	<u>4,303</u>	<u>4,566</u>	<u>4,860</u>
Total assets	<u>37,431</u>	<u>40,273</u>	<u>44,685</u>
Deferred outflow of resources			
Deferred loss on refunding	<u>729</u>	<u>796</u>	<u>860</u>
Total assets and deferred outflow of resources	<u>\$ 38,160</u>	<u>\$ 41,069</u>	<u>\$ 45,545</u>
Liabilities			
Current liabilities	\$ 3,543	\$ 3,063	\$ 3,168
Long-term obligations, net of current portion	38,805	41,331	43,723
Other liabilities	<u>1,006</u>	<u>811</u>	<u>907</u>
Total liabilities	<u>43,354</u>	<u>45,205</u>	<u>47,798</u>
Net position			
Net investment in capital assets	(5,762)	(7,308)	(7,587)
Restricted for debt service	598	804	1,096
Restricted for capital purchases	310	460	395
Unrestricted	<u>(340)</u>	<u>1,908</u>	<u>3,843</u>
Total net position	<u>(5,194)</u>	<u>(4,136)</u>	<u>(2,253)</u>
Total liabilities and net position	<u>\$ 38,160</u>	<u>\$ 41,069</u>	<u>\$ 45,545</u>

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Management's Discussion and Analysis**

Statements of Net Position (continued)

There was only a slight decrease in cash and investments of \$120,000 from 2019 to 2020. The decrease in cash and investments of \$864,000 from 2018 to 2019 was due to the excess cash that was transferred to Skagit PHD No. 1 in 2019 per the Affiliation Agreement that will be deposited in Pool A of the "PHD No. 3 Support Fund."

The increase in net receivables of \$105,000 from 2019 to 2020 was due to the delay in receiving our BAB's payment from the IRS for our December 1, 2020, principal and interest payment on our 2010B Limited Tax General Obligation Bonds. The COVID-19 pandemic caused the delay in receiving both of our BAB's payments in 2020. The decrease in the net receivables of \$167,000 from 2018 to 2019 reflects the continued collections of the patient accounts receivable generated prior to June 1, 2016.

The decrease in assets limited to use by \$2,226,000 from 2019 to 2020 was due to the renovation of the vacant Alfy's restaurant building in 2020 into a facility for the District that contains office space and conference rooms that will benefit the provision of healthcare services by the District to its constituents. The District moved into this newly, renovated facility in late October 2020. Assets limited to use decreased by \$1,589,000 from 2018 to 2019. Most of this decrease was due to the District purchasing land and a vacant Alfy's restaurant building located at 3405 173rd Pl. NE in Arlington, Washington.

The decrease in the current liabilities from 2019 to 2020 of \$480,000, and from 2018 to 2019 of \$105,000, was due to the change in the estimated reserves for the prior year's outstanding Medicare and Medicaid cost reports.

The decrease in the long-term obligations from 2019 to 2020 of \$2,526,000, and from 2018 to 2019 of \$2,392,000, was due to the annual payments of principal for the 2010B limited tax general obligation bonds and the 2016 unlimited tax general obligation bonds.

The decrease in total net position from 2019 to 2020 of \$1,058,000, and from 2018 to 2019 of \$1,883,000, was due to the District leasing the Hospital and its clinics to Public Hospital District No. 1, Skagit County, Washington, per the terms of the Affiliation Agreement effective June 1, 2016. The majority of the change was from the accounting for the transfer of the excess cash that was transferred to Skagit PHD No. 1 in 2018, 2019, and in 2020 per the Affiliation Agreement that will be deposited in Pool A of the "PHD No. 3 Support Fund."

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Management's Discussion and Analysis**

Statements of Revenues, Expenses, and Changes in Net Position

The following is a summary of operations in 2020 compared with 2019 and 2018 (amounts in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenue			
Revenue from tax levies for maintenance and operations	\$ 1,596	\$ 1,489	\$ 1,464
Other revenue	<u>665</u>	<u>1,036</u>	<u>1,092</u>
Total operating revenue	<u>2,261</u>	<u>2,525</u>	<u>2,556</u>
Operating expenses			
Salaries and wages	365	349	352
Benefits	299	11	61
Purchased services	121	118	43
Supplies	64	10	(2)
Licenses and taxes	2	3	2
Other operating expenses	<u>3,233</u>	<u>3,660</u>	<u>3,951</u>
Total operating expenses	<u>4,084</u>	<u>4,151</u>	<u>4,407</u>
Operating loss	(1,823)	(1,626)	(1,851)
Net nonoperating income	<u>2,167</u>	<u>1,972</u>	<u>2,452</u>
Excess of revenue over expenses before transfers	344	346	601
Transfer of assets	<u>(1,402)</u>	<u>(2,229)</u>	<u>(2,109)</u>
Change in net position	(1,058)	(1,883)	(1,508)
Net position, beginning of year	(4,136)	(2,253)	177
Cumulative effect of restatement	<u>-</u>	<u>-</u>	<u>(922)</u>
Net position, beginning of the year, restated	<u>(4,136)</u>	<u>(2,253)</u>	<u>(745)</u>
Net position, end of year	<u>\$ (5,194)</u>	<u>\$ (4,136)</u>	<u>\$ (2,253)</u>

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Management's Discussion and Analysis**

Statements of Revenues, Expenses, and Changes in Net Position (continued)

Other operating revenue includes primarily tax revenue and third-party settlements. Other operating revenue was \$264,000 less in 2020 as compared to 2019 because the District recorded final Medicaid CPE settlements in 2019. There was no significant change from 2018 to 2019.

The decrease in operating expenses from 2019 to 2020 of \$ 67,000, and from 2018 to 2019 of \$256,000, was primarily due to the decrease in the depreciation on the Hospital and clinic assets that the District is leasing to Public Hospital District No. 1, Skagit County, Washington, per the terms of the Affiliation Agreement effective June 1, 2016.

Licenses and taxes consist primarily of Washington State Business and Occupation taxes.

Net nonoperating income includes interest income on the various cash and investment accounts, gain or loss on disposal of assets, bond amortization, the tax income and interest expense associated with the unlimited tax general obligation bonds, and the gain and/or loss from the joint venture clinic with Skagit County Public Hospital District No. 1. The increase in net nonoperating income from 2019 to 2020 of \$195,000 was due to an increase in the revenue from the tax levies for the unlimited general obligation bonds. The decrease in net nonoperating income from 2018 to 2019 of \$480,000 is due to a decrease in the revenue from the tax levies for the general obligation bonds and there was no benefit of the one-time reversal of the insurance settlement accrual that happened in 2018.

Another change in net position was the loss on transfer of assets to Skagit PHD No. 1. of \$1.4 million in 2020, \$2.2 million in 2019, and \$2.1 million in 2018 per the Affiliation Agreement for the assets that were deposited in Pool A of the "PHD No. 3 Support Fund" and for the cash collected on the patient accounts receivable generated prior to June 1, 2016.

Statements of Cash Flows

The following is a summary of 2020 compared with 2019 and 2018 (amounts in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities	\$ 35	\$ 265	\$ 786
Net cash from noncapital financing activities	1,536	1,484	1,470
Net cash from capital and related financing activities	(4,790)	(5,105)	(2,825)
Net cash from investing activities	<u>769</u>	<u>902</u>	<u>991</u>
Net change in cash and cash equivalents	<u>\$ (2,450)</u>	<u>\$ (2,454)</u>	<u>\$ 422</u>

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Statements of Cash Flows (continued)

The decrease in cash flow from operating activities from 2019 to 2020 of \$230,000 was due to no longer receiving net receipts from patient revenue that was generated prior to June 1, 2016, as the patient accounts had either been paid or written off in 2019. The decrease in cash flow from operating activities from 2018 to 2019 of \$521,000 was due to net receipts from patient revenue that was generated prior to June 1, 2016, being much less in 2019 as collections on patient accounts has been completed. Payments to suppliers were also down by \$155,000 from 2018 to 2019.

The net cash from capital and related financing activities saw a net decline from 2019 to 2020. The purchase of capital assets increased in 2020 as compared to 2019. The renovations of the vacant Alfy's building purchased in 2019 were the main reason for the increase and were completed in 2020. This increase in purchase of capital assets was offset by reduction in cash paid for the transfer of assets to Skagit PHD No. 1. The net cash from capital and related financing activities increased from 2018 to 2019 by \$2,280,000 due to the purchase of capital assets, which increased by \$1.4 million from 2018 to 2019 as the District purchased land and a vacant Alfy's restaurant building located at 3405 173rd Pl. NE in Arlington, Washington, which will provide office space and conference rooms that will benefit the provision of healthcare services by the District to its constituents.

Debt

Total long-term debt as of the end of 2020 is \$41,065,242, compared with \$43,466,371 in 2019.

In 2016, new debt of \$35,015,000 in the form of Unlimited Tax General Obligation Refunding Bonds, 2016, was issued to provide the funds with which to pay the cost of advance refunding the District's Unlimited Tax General Obligation Bonds, 2007, and paying the administrative costs of such refunding and the costs of issuance and sale of the bonds. The remaining principal amount at the end of 2020 and 2019 was \$27,895,000 and \$29,520,000, respectively.

In 2010, new debt of \$12,180,000 in the form of limited tax general obligation bonds, Series 2010B (federally taxable Build America Bonds), was issued for the purpose of constructing and operating a clinic. The remaining principal amount at the end of 2020 and 2019 was \$10,265,000 and 10,775,000, respectively.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

The District in 2020 and Beyond

The District will continue to levy and collect its regular tax levy and its portion of the rental income on the Smokey Point Medical Center, LLC, building co-owned with Skagit PHD No. 1. In addition, the District receives the subsidy on its 2010B Bonds. These items are recorded as revenues.

The District will use this income to pay its operating expenses and to make the principal and interest payments on the 2010B Limited Tax General Obligation Bonds. Operating expenses, bond interest and depreciation expense on the buildings and equipment owned and utilized by the District and the depreciation on the buildings and equipment leased to Skagit PHD No. 1 are recorded as expenses.

The District will maintain a minimum cash balance of \$1,000,000 plus an amount sufficient to pay operating expenses plus principal and interest on bond payments for the coming year. All cash in excess of those amounts is transferred to Skagit PHD No. 1 to be used for Cascade Valley Hospital and Clinic capital purchases.

In addition, the District will levy annually and collect property taxes in a sufficient amount to make principal and interest payments on the Bonds. These transactions will be recorded on the District's books as separate line items.

Now that the operations of Cascade Valley Hospital and Clinics have transitioned to Skagit Regional Health, Public Hospital District No. 3, Snohomish County, has primarily become a landlord and is offering other medical services within Snohomish County as defined and allowed in the Affiliation Agreement.

The following is the current Strategic Plan for Public Hospital District #3, Snohomish County, dba, Stilly Valley Health Connections:

Vision – The District envisions a community where residents achieve optimal health and wellness.

Mission – The District will provide and promote programs and resources that support a healthier community.

Strategic Direction

Leadership for Providing and/or Developing Programs
Outreach and Education
Partnerships and Collaborations
Resource Development
Marketing, Communication, and Community Engagement
Continual Improvement and Evaluation

Areas of Focus

Mental Health
Health and Wellness
Drug & Alcohol Awareness and Abuse Prevention

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

The District in 2020 and Beyond (continued)

Potential Strategies

Mental Health

- Find and work with partners and experts for addressing mental health issues.
- Facilitate mental health programs, community forums, and information sessions.
- Connect people to resources and support services.

Health and Wellness

- Partner/fund/create/support community health and wellness programs.
- Connect people to resources and support services.

Drug and Alcohol Prevention

- Support/promote education programs.
- Develop partnerships with existing organizations who are already working on these issues.
- Connect people to resources and services.

Strategic Plan Accomplishments

Mental Health:

The District started expanding program development and outreach in 2018. Arlington Public Schools identified a need for elementary age students to have access to mental health counseling. The District put together a pilot program to bring a mental health counselor into a local elementary school starting in April 2018 through the end of the summer. Grant funding was received from Cascade Valley Health Foundation and the Rotary Club of Arlington. The program was very successful, and as a result, expanded in the 2018/2019 and the 2019/2020 school years.

Since the inception of this program, we have received additional funding from The Stillaguamish Tribe of Indians, United Way and the Association of Washington Public Hospital Districts. With this funding, there are now three mental health counselors bringing services to the four elementary schools in the Arlington School District and both the elementary and secondary schools in the Darrington School District. With the introduction and continuation of the COVID-19 pandemic, the District has been able to maintain the program while students are either schooling on-line or in hybrid models by providing mental health counseling to the students via telehealth. In 2021, as schools are reopening, the mental health counselors are also now able to see some students in person again.

In late spring, it became evident that COVID-19 closures and restrictions were creating a need for increased mental health counseling. In the rural community of Darrington, there are no mental health counselors. Most counselors who were available via telehealth do not take Medicare or Medicaid insurance. The District was able to fund a small program, allowing Darrington residents residing within the Darrington School District boundaries to book sessions with five mental health counselors, regardless of insurance coverage.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Strategic Plan Accomplishments (continued)

Health & Wellness:

2020 started off strong with continued growth for the District with additional health and wellness programs and classes. At the start of the year, the District was offering three yoga classes, monthly healthy cooking and nutrition classes, presentations from the American Lung Association, Hospice of the Northwest, a weekly Living Well with Diabetes series taught by Homage and an expanding line-up for spring. Most programs were offered in Arlington with several brought to the Darrington community. Our Germ Busters program also visited Pioneer Elementary in March to teach handwashing classes to students as there was a growing concern about a virus called COVID-19. Within several weeks, all our in-person classes, programs and workshops were cancelled due to the COVID-19 pandemic.

After a month, it was apparent that we would need to adapt outreach to our district residents. We started offering pre-recorded online cooking education classes, which were added to our website every few weeks. Starting in April, our yoga instructor started a series of weekly check-ins, which offered yoga education, meditation, and links to online resources. In May, we also offered an on-line program called *Creating Emotional Success During Times of Stress* to help people cope with the enormous toll COVID-19 has taken, in increasing stress, anxiety and fear.

In late fall 2020, we moved into our new location and needed time to learn how to operate our space, cameras and operate in an online capacity. Starting in 2021, we are now able to offer online, live training in our space and have resumed our monthly cooking and nutrition classes and have a line-up including Hospice classes, Narcan training, drug awareness and education and mental health education. The District also plans to start offering small, in person classes and support groups as soon as it is safe to do so.

Drug & Alcohol Awareness and Abuse Prevention:

In February 2019, the District was notified that it had received a grant from the Seattle Cancer Care Alliance to bring nicotine cessation programs and vaping training classes to our district residents. An on-line smoking cessation program is now available to community members. With COVID-19 restrictions, much of our 2020 plans in growing the program were put on-hold. In 2021, we hope to revisit offering in person smoking cessation programs, vaping education, and other ways to increase awareness of the dangers of nicotine.

Facility Growth:

With the expansion of the classes and programs that were held in 2019, a need for additional space to continue to expand our health services to our District community was identified. In September 2019, the District purchased land and a vacant Alfy's restaurant building located at 3405 173rd Pl. NE in Arlington, Washington.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Management's Discussion and Analysis

Strategic Plan Accomplishments (continued)

Pursuant to RCW 70.44.140 and other provisions of state law, the District put out a notice to General Contractors to bid on the renovation project in February 2020 with bids due for a public bid opening on April 3, 2020. Wilcox Construction, Inc., a general corporation located in Edmonds, Washington, was the lowest responsible bidder for the project and was approved by the District's Board of Commissioners as the General Contractor for the project at the April 15, 2020, Board meeting. Construction started in June 2020 and was completed in October 2020. The District staff moved into the new location on October 23, 2020, and spent the remainder of the year training on the new equipment, overseeing the finishing of equipment and furniture installation and getting the space ready for the public once the COVID-19 restrictions are lifted.

COVID-19:

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to other countries, including the U.S. On March 22, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. On March 23, 2020, Washington's Governor Inslee announced a statewide order, the "Stay Home, Stay Healthy" order, that required everyone in the state to stay home. The order required every Washingtonian to stay home unless they needed to pursue an essential activity. Since that time, we continue to follow the guidelines and phase restrictions as outlined by our state and county governments. Now that anyone 16 years old or older is allowed to get the Coronavirus vaccination, we are optimistic that we will be able to resume some small, in person classes and support groups in the late second or third quarter of the year. While the District is not able to predict the future, we are preparing to be able to offer a hybrid of on-line and in person services for the remainder of 2021.

Contacting the District

This financial report is designed to provide residents, taxpayers, and creditors with a general overview of the District's finances. If you have questions or need additional financial information, contact the District's Superintendent at Public Hospital District No. 3, 3405 173rd Place NE, Arlington, WA 98223.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Statements of Net Position**

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	December 31,	
	2020	2019
CURRENT ASSETS		
Cash	\$ 1,791,993	\$ 1,688,595
Short-term investments	3,347,340	3,570,519
Other receivables, net	276,541	231,444
Taxes receivable from tax levies for maintenance and operations	108,435	48,281
Prepaid expenses	21,886	17,599
Assets limited as to use required for current liabilities	403,303	714,157
	<hr/>	<hr/>
Total current assets	5,949,498	6,270,595
 ASSETS LIMITED AS TO USE, net of amounts required for current liabilities	 2,162,172	 4,077,269
 CAPITAL ASSETS		
Land	766,473	766,473
Construction in progress	19,903	960,878
Depreciable capital assets, net of accumulated depreciation	24,252,351	23,649,794
	<hr/>	<hr/>
	25,038,727	25,377,145
 INVESTMENT IN JOINT VENTURE	 4,280,597	 4,548,495
	<hr/>	<hr/>
Total assets	37,430,994	40,273,504
 DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on refunding	728,972	795,748
	<hr/>	<hr/>
Total assets and deferred outflow of resources	<u>\$ 38,159,966</u>	<u>\$ 41,069,252</u>

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Statements of Net Position**

LIABILITIES AND NET POSITION

	December 31,	
	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 690,803	\$ 483,415
Accrued liabilities		
Wages and benefits	37,215	37,518
Interest	151,358	158,673
Other	21,157	65,373
Estimated third-party payor settlements	382,547	183,080
Current portion of long-term debt obligations	2,260,000	2,135,000
Total current liabilities	3,543,080	3,063,059
LONG-TERM DEBT OBLIGATIONS, net of current portion	38,805,242	41,331,371
OPEB LIABILITY	1,006,074	807,170
RENT PAYABLE	-	4,157
Total liabilities	43,354,396	45,205,757
NET POSITION		
Net investment in capital assets	(5,761,515)	(7,308,337)
Restricted for		
Debt service	597,519	803,759
Capital projects	309,412	459,990
Unrestricted	(339,846)	1,908,083
Total net position	(5,194,430)	(4,136,505)
Total liabilities and net position	\$ 38,159,966	\$ 41,069,252

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Statements of Revenues, Expenses, and Changes in Net Position**

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Revenue from tax levies for maintenance and operations	\$ 1,596,342	\$ 1,488,882
Other revenue	664,662	1,035,692
Total operating revenues	<u>2,261,004</u>	<u>2,524,574</u>
OPERATING EXPENSES		
Salaries	365,373	349,310
Employee benefits	298,699	10,833
Purchased services	120,846	118,407
Professional fees	47,614	44,114
Supplies	63,535	9,583
Utilities	17,053	8,856
Leases and rentals	57,123	53,651
Other direct expenses	7,295	15,381
Licenses and taxes	2,215	2,582
Insurance	24,965	20,076
Depreciation	2,445,198	2,861,469
Interest	634,326	656,167
Total operating expenses	<u>4,084,242</u>	<u>4,150,429</u>
Operating loss	<u>(1,823,238)</u>	<u>(1,625,855)</u>
NONOPERATING INCOME (EXPENSE)		
Revenue from tax levies for general obligation bonds	2,678,238	2,519,787
Interest income	118,945	226,614
Interest expense for general obligation bonds, net	(1,063,680)	(1,132,113)
Other income (expense)	51,640	(19,897)
Income from investment in Smokey Point Medical Center, LLC	382,102	376,945
Net nonoperating income, net	<u>2,167,245</u>	<u>1,971,336</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE TRANSFERS	344,007	345,481
TRANSFER OF ASSETS	<u>(1,401,932)</u>	<u>(2,228,775)</u>
CHANGE IN NET POSITION	(1,057,925)	(1,883,294)
NET POSITION, beginning of year	<u>(4,136,505)</u>	<u>(2,253,211)</u>
NET POSITION, end of year	<u>\$ (5,194,430)</u>	<u>\$ (4,136,505)</u>

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Statements of Cash Flows**

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from revenue, net	\$ 199,467	\$ (185,050)
Payments to suppliers and contractors	(314,565)	(300,154)
Payments to employees and vendors	(465,471)	(453,724)
Other receipts and payments, net	615,408	1,204,086
Net cash from operating activities	<u>34,839</u>	<u>265,158</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash from tax levies considered a noncapital financing activity	<u>1,536,188</u>	<u>1,484,079</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(2,113,160)	(1,394,851)
Principal payments on long-term debt obligations	(2,135,000)	(2,010,000)
Interest payments on long-term obligations	(1,904,674)	(1,986,998)
Cash from tax levies for general obligation bonds	2,573,624	2,518,256
Cash paid in transfer of assets	(1,269,128)	(2,242,820)
Other	58,020	11,617
Net cash from capital and related financing activities	<u>(4,790,318)</u>	<u>(5,104,796)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Distribution from joint venture	650,000	675,000
Interest received	<u>118,945</u>	<u>226,614</u>
Net cash from investing activities	<u>768,945</u>	<u>901,614</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,450,346)	(2,453,945)
CASH AND CASH EQUIVALENTS, beginning of year	<u>9,960,938</u>	<u>12,414,883</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,510,592</u>	<u>\$ 9,960,938</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	\$ 1,791,993	\$ 1,688,595
Short-term investments considered cash equivalents	3,347,340	3,570,519
Assets limited as to use considered cash equivalents	<u>2,371,259</u>	<u>4,701,824</u>
Total cash and cash equivalents	<u>\$ 7,510,592</u>	<u>\$ 9,960,938</u>

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Statements of Cash Flows (continued)**

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (1,823,238)	\$ (1,625,855)
Adjustments to reconcile operating loss to net cash from operating activities		
Net change in OPEB liability	198,904	(91,567)
Interest expense considered a capital financing activity	634,326	656,167
Revenue from tax levies considered a noncapital financing activity	(1,596,342)	(1,488,882)
Depreciation	2,445,198	2,861,469
Change in assets and liabilities		
Accounts receivable	(45,097)	172,561
Prepaid expenses	(4,287)	(4,726)
Accounts payable	74,584	(35,012)
Estimated third-party payor settlements	199,467	(185,050)
Accrued liabilities and rent payable	(48,676)	6,053
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 34,839</u>	<u>\$ 265,158</u>

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections Notes to Financial Statements

Note 1 – Organization

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections (the District), serving Arlington, Washington, and surrounding communities, is organized as a municipal corporation pursuant to the laws of the state of Washington.

The District and PHD No. 1 entered into an Affiliation Agreement regarding the Lease and Operation of Cascade Valley Hospital and Clinics, dated December 4, 2015 (the Affiliation Agreement). In accordance with the Affiliation Agreement, PHD No. 1 began operating the District on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between PHD No. 1 and the District. PHD No. 1 leased substantially all of its assets, certain other clinic facilities, the District's interest as lessor in certain leases, and intangible assets to PHD No. 1 for a term of 30 years. PHD No. 1 will pay the District an annual base rent of \$10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, the District transferred all of its cash and cash equivalents in excess of a retained amount to PHD No. 1 in June 2017. The retained amount is equal to the District's known and contingent liabilities and debts plus a minimum cash balance of \$1,000,000. Thereafter, the District will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point Medical Center, LLC. Smokey Point Medical Center, LLC is owned 50% by the District and 50% by PHD No. 1. The proceeds from the District's regular property tax levy and the Smokey Point Medical Center, LLC, lease will be used to pay the District's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by the District from its regular property tax levy and the Smokey Point Medical Center, LLC, lease exceeds the District's existing obligations in any year, and the District cash balance is equal to \$1,000,000, the excess funds will be transferred to PHD No. 1 annually. Cash transferred by the District to PHD No. 1 totaled \$1,269,128 and \$2,242,820 for the years ended December 31, 2020 and 2019, respectively. Due to the transfer of operations in 2016, revenues and expenses related to its hospital and clinic operations will no longer be received or incurred. The District recorded a loss on transfer of assets of \$1,401,932 and \$2,228,775 for the years ended December 31, 2020 and 2019, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Note 2 – Summary of Significant Accounting Policies

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

Accrual basis – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipts or disbursement of cash.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of the 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – The District defines cash on deposit, investments in the local government investment pool (LGIP) included in short-term investments and assets limited as to use, and other highly liquid investments with initial maturity periods of three months or less to be cash and cash equivalents for purposes of the statements of cash flows.

Accounts receivable – Receivables arising from services are reduced by an allowance for estimated uncollectible amounts based on past experience and other circumstances. Accounts deemed uncollectible are charged against this allowance.

Assets limited as to use and short-term investments – Assets limited as to use and investments include assets set aside by the Board of Commissioners for future capital improvements, other uses over which the Board retains control, and bond funds. The Snohomish County Treasurer is the ex-officio treasurer of the District. Excess cash is invested in certificates of deposit, a county investment pool, or a state government investment pool. Cash and pooled investments are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Amounts required to meet current liabilities have been classified as current assets in the accompanying statements of net position.

Capital assets – Capital asset acquisitions are recorded at cost. Donated assets are recorded at fair market value at the date of contribution, which is thereafter treated as cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows:

Land improvements	5–12 years
Buildings	10–31 years
Fixed equipment	5–20 years
Movable equipment	3–20 years

Expenditures for maintenance and repairs are charged to operations as incurred. Betterments and major renewals are capitalized. Expenditures that materially increase value, change capacities, or extend useful lives of buildings and equipment are capitalized. The District's capitalization policy is \$1,000 and a useful life of three years.

Investment in joint venture – The District has an investment in a joint venture that provides health care services (Note 6). The District accounts for this investment using the equity method, under which its share of net income is reported in nonoperating income.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Postemployment benefits other than pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates.

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 outstanding balances of the 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 particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with the county treasurer as required by bond indentures. The *unrestricted* component of net position is the remaining net amount of assets and liabilities that is not included in the determination of net investment in capital assets or the restricted component of net position.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues primarily result from tax revenue from maintenance and operations levy, Build America Bond subsidies, and grants. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred by the District, other than financing costs paid by specific tax proceeds.

Property taxes are levied by the county on the District's behalf and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values. Tax levy proceeds used to fund operating costs of the District are reported as operating revenue. Tax levy proceeds pledged for repayment of general obligation bonds are reported as nonoperating income.

The District's estimates of final settlements to or from Medicare and Medicaid have been recorded in the accompanying statements of net position. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement.

From prior to affiliation, when reimbursement settlements are received, or when information becomes available regarding changes in recorded reimbursement, variations from amounts previously established as preliminary settlements are accounted for as a contractual adjustment in the period the settlements are received, or when information regarding reimbursement changes becomes available.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Federal income tax – No provision has been made for federal income taxes, because the District is a municipal corporation and is exempt from federal income tax.

Subsequent events – Subsequent events are events or transactions that occur after the statement 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 statement 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 statement of net position but arose after the statement of net position date and before the financial statements are available to be issued.

The District has evaluated subsequent events through April 29, 2021, which is the date the financial statements are available to be issued.

Note 3 – Deposits, Investments, and Assets Limited as to Use

Under resolution, the Hospital pledges to levy taxes annually in an amount sufficient to pay the principal of and interest on the unlimited tax general obligation bonds. Upon collection, the funds are to be deposited in the bond fund.

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool, eligible bankers' acceptances, and repurchase agreements (up to 30 days).

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

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 3 – Deposits, Investments, and Assets Limited as to Use (continued)

At December 31, 2020 and 2019, all deposits and investments of the District are categorized as Category 1 and, including limited use taxes receivable, consist of the following:

	<u>2020</u>	<u>2019</u>
Unrestricted cash	<u>\$ 1,791,993</u>	<u>\$ 1,688,595</u>
Short-term investments		
Investment in LGIP	<u>3,347,340</u>	<u>3,570,519</u>
Assets whose use is limited		
Restricted for investment in joint venture		
Investment in LGIP	1,967,956	3,987,667
Restricted bond fund		
Investment in LGIP	403,303	714,157
Taxes receivable	<u>194,216</u>	<u>89,602</u>
	<u>2,565,475</u>	<u>4,791,426</u>
Total deposits, investments, and taxes receivable	<u>\$ 7,704,808</u>	<u>\$ 10,050,540</u>

The District participates in the Washington State Local Government Pool and Snohomish County Investment Pools (LGIP). The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST, and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the FDIC. Collateral protection is provided by the PDPC.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections

Notes to Financial Statements

Note 3 – Deposits, Investments, and Assets Limited as to Use (continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments that will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

Note 4 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457, §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 7% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

Under the §401(a) plan, the District contributes up to 7% of the employee's eligible compensation as long as the employee contributes a minimum of 4%. The District contributes up to 7%, not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the §415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

The District's contributions to the employee plans totaled approximately \$34,000 and \$35,000 in 2020 and 2019, respectively. Contributions made by employees to the benefit plans totaled approximately \$31,000 and \$29,000 in 2020 and 2019, respectively. For more information on the plans, contact the District's human resources office.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 5 – Capital Assets

The schedule of capital asset activity for the years ended December 31, 2020 and 2019, was as follows:

	Beginning Balance January 1, 2020	Additions	Retirements	Account Transfers	Ending Balance December 31, 2020
ASSETS AT COST					
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 766,473	\$ -	\$ -	\$ -	\$ 766,473
Construction in progress	960,878	2,113,160	-	(3,054,135)	19,903
DEPRECIABLE CAPITAL ASSETS					
Land improvements	3,434,849	-	-	183,793	3,618,642
Buildings	33,097,004	-	-	1,869,785	34,966,789
Equipment	32,496,379	-	(1,195,622)	1,000,557	32,301,314
LESS ACCUMULATED DEPRECIATION					
Land improvements	2,240,160	148,777	-	-	2,388,937
Buildings	18,952,494	888,471	-	-	19,840,965
Equipment	24,185,784	1,407,950	(1,189,242)	-	24,404,492
DEPRECIABLE CAPITAL ASSETS, net	23,649,794	(2,445,198)	(6,380)	3,054,135	24,252,351
CAPITAL ASSETS, net	\$ 25,377,145	\$ (332,038)	\$ (6,380)	\$ 3,054,135	\$ 25,038,727

	Beginning Balance January 1, 2019	Additions	Retirements	Account Transfers	Ending Balance December 31, 2019
ASSETS AT COST					
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 333,947	\$ 432,526	\$ -	\$ -	\$ 766,473
Construction in Progress	-	960,878	-	-	960,878
DEPRECIABLE CAPITAL ASSETS					
Land improvements	3,434,849	-	-	-	3,434,849
Buildings	33,097,004	-	-	-	33,097,004
Equipment	32,983,760	1,447	(488,828)	-	32,496,379
LESS ACCUMULATED DEPRECIATION					
Land improvements	2,063,358	176,802	-	-	2,240,160
Buildings	17,852,995	1,099,499	-	-	18,952,494
Equipment	23,057,930	1,585,168	(457,314)	-	24,185,784
DEPRECIABLE CAPITAL ASSETS, net	26,541,330	(2,860,022)	(31,514)	-	23,649,794
CAPITAL ASSETS, net	\$ 26,875,277	\$ (1,466,618)	\$ (31,514)	\$ -	\$ 25,377,145

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 6 – Investment in Joint Venture

Smokey Point Medical Center, LLC – Together with PHD No. 1, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns buildings, land, and equipment leased to operate the Skagit Regional Clinics - Smokey Point. The District has a 50% interest in SPMC at December 31, 2020 and 2019. During the years ended December 31, 2020 and 2019, the District recognized income of \$382,102 and \$376,945, respectively, for its share of the net income realized by Smokey Point Medical Center, LLC. The District’s recorded investment in Smokey Point Medical Center, LLC was \$4,280,597 and \$4,548,495 at December 31, 2020 and 2019, respectively. The District received dividends of \$650,000 and \$675,000 in the years ending December 31, 2020 and 2019, respectively.

Financial information for the District’s joint venture is summarized below:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 48,270	\$ 14,970
Noncurrent assets, net	<u>9,168,944</u>	<u>9,700,250</u>
	<u>\$ 9,217,214</u>	<u>\$ 9,715,220</u>
Equity	<u>9,217,214</u>	<u>9,715,220</u>
	<u>\$ 9,217,214</u>	<u>\$ 9,715,220</u>
Revenue	\$ 1,333,301	\$ 1,333,501
Expenses	<u>531,306</u>	<u>541,819</u>
Net income	<u>\$ 801,995</u>	<u>\$ 791,682</u>

**Public Hospital District No. 3, Snohomish County, Washington, dba
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Notes to Financial Statements**

Note 7 – Long-Term Debt Obligations and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt obligations of the District at December 31, 2020 and 2019, consisted of the following:

	2020	2019
Limited tax general obligation bonds, 2010B, 4.47% to 6.33%, due serially on December 1, in amounts from \$525,000 in 2021 to \$885,000 in 2035, plus interest paid semiannually.	\$ 10,265,000	\$ 10,775,000
Unlimited tax general obligation and refunding bonds, 2016, 3.00% to 5.00%, due serially on December 1, in amounts from \$1,735,000 in 2021 to \$3,385,000 in 2031, plus interest paid semiannually, net of unamortized premium of \$2,905,242 and \$3,171,371 in 2020 and 2019, respectively.	30,800,242	32,691,371
Long-term debt	41,065,242	43,466,371
Less current portion	2,260,000	2,135,000
Long-term portion	\$ 38,805,242	\$ 41,331,371

Changes in the District's long-term debt obligations and other noncurrent liabilities during the years ended December 31, 2020 and 2019, are summarized below:

	January 1, 2020	Additions	Reductions	December 31, 2020	Amounts Due Within One Year
LONG-TERM DEBT					
Limited tax general obligation bonds, 2010B	\$ 10,775,000	\$ -	\$ 510,000	\$ 10,265,000	\$ 525,000
Unlimited tax general obligation and refunding bonds, 2016	32,691,371	-	1,891,129	30,800,242	1,735,000
Total long-term debt	43,466,371	-	2,401,129	41,065,242	2,260,000
OTHER NONCURRENT LIABILITIES					
Rent payable	4,157	-	4,157	-	-
Total noncurrent liabilities	\$ 43,470,528	\$ -	\$ 2,405,286	\$ 41,065,242	\$ 2,260,000

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 7 – Long-Term Debt Obligations and Other Noncurrent Liabilities (continued)

	January 1, 2019	Additions	Reductions	December 31, 2019	Amounts Due Within One Year
LONG-TERM DEBT					
Limited tax general obligation bonds, 2010B	\$ 11,270,000	\$ -	\$ 495,000	\$ 10,775,000	\$ 510,000
Unlimited tax general obligation and refunding bonds, 2016	34,462,531	-	1,771,160	32,691,371	1,625,000
Total long-term debt	45,732,531	-	2,266,160	43,466,371	2,135,000
OTHER NONCURRENT LIABILITIES					
Rent payable	8,324	-	4,167	4,157	-
Total noncurrent liabilities	<u>\$ 45,740,855</u>	<u>\$ -</u>	<u>\$ 2,270,327</u>	<u>\$ 43,470,528</u>	<u>\$ 2,135,000</u>

Scheduled principal and interest repayments on long-term debt are as follows:

	Principal	Interest
2021	\$ 2,260,000	\$ 1,816,288
2022	2,425,000	1,701,881
2023	2,580,000	1,579,170
2024	2,755,000	1,448,669
2025	2,940,000	1,309,365
2026–2030	17,720,000	4,150,258
2031–2035	7,480,000	899,638
	38,160,000	<u>\$ 12,905,269</u>
Plus amount representing net unamortized bond premium	2,905,242	
	<u>\$ 41,065,242</u>	

The District has pledged to levy taxes and set aside revenue of the District, if necessary, sufficient to make principal and interest payments on the general obligation bonds. Further, assets limited as to use collateralize these obligations.

Note 8 – Commitments and Contingencies

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

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 8 – Commitments and Contingencies (continued)

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The District has implemented a voluntary corporate compliance program that includes guidance for all District employees' adherence to applicable laws and regulations. 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.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters, and no claims have exceeded such coverage in any of the preceding years.

Note 9 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB), which is an agent multiple-employer defined benefit plan. The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits provided – The subsidies provided by PEBB include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy was increased to \$168 per month, and as of January 1, 2020, the subsidy will be increased to \$183 per month.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees covered by benefit terms – At December 31, 2020 and 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	11
Active plan members	<u>3</u>
	<u><u>14</u></u>

Contributions – PEBB administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. Contributions are set each biennium as part of the Washington State’s budget process. The benefits are funded on a pay-as you-go basis.

Other information – PEBB does issue a stand-alone financial report, but information about PEBB can be found at <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

Total OPEB liability

The District’s total OPEB liability was \$1,006,074 and \$807,170 as of the reporting date of December 31, 2020 and 2019, respectively. The corresponding measurement date was June 30, 2020 and 2019, respectively. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Assumptions and other inputs – The total OPEB liability in December 31, 2020 and 2019, was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% as of 2020 and 2019
Salary increases	3.50% as of 2020 and 2019, plus service based increases
Healthcare cost trend rate	Initial rate is approximately 7.00%, trends down to approximately 5.00% in 2080 as of 2020 and 2019
Discount rate (liabilities)	2.21% and 3.50% as of 2020 and 2019, respectively

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years as of the measurement date. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2018 actuarial valuation for Washington State Public Employees' Retirement System (PERS).

The assumptions used for the December 31, 2020 and 2019, reporting were based on a census date of June 30, 2020 and 2019, respectively.

Changes in the total OPEB liability

	Total OPEB Liability
Balance at December 31, 2018	\$ 898,737
Changes for the year	
Service cost	6,038
Interest	34,303
Changes of assumptions or other inputs and differences between expected and actual experience	(94,752)
Benefit payments	(37,156)
Net changes	(91,567)
Balance at December 31, 2019	\$ 807,170
Changes for the year	
Service cost	\$ 6,302
Interest	27,818
Changes of assumptions or other inputs and differences between expected and actual experience	202,425
Benefit payments	(37,641)
Net changes	198,904
Balance at December 31, 2020	\$ 1,006,074

Changes of assumptions and other inputs reflect a change in the discount rate from 3.50% in 2019 to 2.21% in 2020.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
2020			
Total OPEB liability	<u>\$ 1,163,570</u>	<u>\$ 1,006,074</u>	<u>\$ 878,343</u>
	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
2019			
Total OPEB liability	<u>\$ 925,265</u>	<u>\$ 807,170</u>	<u>\$ 710,434</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
2020			
Total OPEB liability	<u>\$ 878,061</u>	<u>\$ 1,006,074</u>	<u>\$ 1,163,460</u>
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
2019			
Total OPEB liability	<u>\$ 709,828</u>	<u>\$ 807,170</u>	<u>\$ 924,903</u>

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of approximately 7.00% to 5.00% in 2080.

Note 10 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county. 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.

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Notes to Financial Statements**

Note 10 – Property Taxes (continued)

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general 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. Additional amounts of tax need to be authorized by a vote of the residents of the District.

For 2020 and 2019, the District's regular levy was \$0.27 and \$0.28 per \$1,000 on a total assessed valuation of \$5,268,139,129 and \$4,888,037,095, for a total regular levy of \$1,415,704 and \$1,384,765, respectively. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2020 and 2019, the tax levy for bond service was \$0.48 and \$0.51 per \$1,000 on a total assessed valuation of \$5,235,300,179 and \$4,847,113,285, for a total additional levy of \$2,504,636 and \$2,468,372, respectively.

Property taxes are recorded as receivables when levied. Because state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 11 – COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. The global crisis resulting from the spread of COVID-19 has caused business disruption through mandated and voluntary closings of businesses. There is still considerable uncertainty around the pandemic and related impacts. The impact to the financial statements and duration cannot be estimated at this time.

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

To the Board of Commissioners
Public Hospital District No. 3,
Snohomish County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statements of net position as of December 31, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington
April 29, 2021

Required Supplementary Information

**Public Hospital District No. 3, Snohomish County, Washington, dba
Stilly Valley Health Connections
Schedule of Changes in Total Other Post-Employment Benefits
and Related Ratios**

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 6,302	\$ 6,038	\$ 6,545
Interest	27,818	34,303	32,793
Changes of assumptions or other inputs and differences between expected and actual experience	202,425	(94,752)	(36,877)
Benefit payments	<u>(37,641)</u>	<u>(37,156)</u>	<u>(26,156)</u>
Net change in total OPEB liability	198,904	(91,567)	(23,695)
Total OPEB liability - beginning	<u>807,170</u>	<u>898,737</u>	<u>922,432</u>
Total OPEB liability - ending	<u>\$ 1,006,074</u>	<u>\$ 807,170</u>	<u>\$ 898,737</u>
Plan fiduciary net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability	<u>\$ 1,006,074</u>	<u>\$ 807,170</u>	<u>\$ 898,737</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered-employee payroll	<u>\$ 371,533</u>	<u>\$ 339,973</u>	<u>\$ 329,329</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>270.79%</u>	<u>237.42%</u>	<u>272.90%</u>

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for available years.

Changes in benefit terms – There were no applicable changes during the period.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate changed from 3.50% in 2019 to 2.21% in 2020.

