



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

October 31, 2022

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, 2021 and 2020. 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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive.

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, 2021 and 2020



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## Report of Independent Auditors

The Board of Commissioners  
Public Hospital District No. 3,  
Snohomish County, Washington  
Dba Stilly Valley Health Connections

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the accompanying financial statements of Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections (the "District"), which comprise the statements of net position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Public Hospital District No. 3, Snohomish County, Washington, dba Stilly Valley Health Connections as of December 31, 2021 and 2020, and the changes in their net positions and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–18 and the schedule of changes in total other post-employment benefits and related ratios on page 42 be presented to supplement the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis and schedule of changes in total other post-employment benefits and related ratios is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2022, 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.

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

Everett, Washington

May 13, 2022

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

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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 \$152,000 from 2020 to 2021 and decreased from 2019 to 2020 by \$1,058,000 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 \$2.0 million in 2021 and \$2.3 million in 2020. Operating revenues primarily result from tax revenue from the maintenance and operations levy, Build America Bond subsidies, and grants.

## **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, deferred outflows of resources, 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 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**

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## **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**

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## **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**

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## **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**

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## **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

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### 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):

	2021	2020	2019
<b>Assets</b>			
Cash and investments	\$ 5,033	\$ 5,139	\$ 5,259
Receivables, net	148	385	280
Assets limited as to use	1,623	2,565	4,791
Net capital assets	22,803	25,039	25,377
Other assets	4,030	4,303	4,566
<b>Total assets</b>	<b>33,637</b>	<b>37,431</b>	<b>40,273</b>
<b>Deferred outflow of resources</b>			
Deferred loss on refunding	662	729	796
<b>Total assets and deferred outflow of resources</b>	<b>\$ 34,299</b>	<b>\$ 38,160</b>	<b>\$ 41,069</b>
<b>Liabilities</b>			
Current liabilities	\$ 3,677	\$ 3,543	\$ 3,063
Long-term obligations, net of current portion	35,089	38,805	41,331
Other liabilities	879	1,006	811
<b>Total liabilities</b>	<b>39,645</b>	<b>43,354</b>	<b>45,205</b>
<b>Net position</b>			
Net investment in capital assets	(5,996)	(5,762)	(7,308)
Restricted for debt service	979	598	804
Restricted for capital purchases	183	310	460
Unrestricted	(512)	(340)	1,908
<b>Total net position</b>	<b>(5,346)</b>	<b>(5,194)</b>	<b>(4,136)</b>
<b>Total liabilities and net position</b>	<b>\$ 34,299</b>	<b>\$ 38,160</b>	<b>\$ 41,069</b>

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

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## **Statements of Net Position (continued)**

The decrease in cash and investments of \$106,000 from 2020 to 2021 and the decrease in cash and investments of \$120,000 from 2019 to 2020 was due to the excess cash that was transferred to Skagit PHD No. 1 in 2020 and 2021 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 net receivables of \$237,000 from 2020 to 2021 is due to receiving the outstanding BAB's payment due from the IRS in 2021 and no longer receiving the BAB's payment from the IRS due to the refunding of the 2010B Limited Tax General Obligation bonds in July 2021. Property tax receivables at the end of 2021 were also less than the end of 2020 by \$64,000.

The decrease in assets limited to use by \$942,000 from 2020 to 2021 was due to using \$1,200,000 as an equity contribution for the refunding of the 2010B Limited Tax General Obligation bonds with the issuance of the Limited Tax General Obligation Refunding Bond, Series 2021 in July of 2021.

The decrease in assets limited to use by \$2,226,000 from 2019 to 2020 was due to the renovation of the vacant Alf'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. The District had purchased the land and the vacant Alf's restaurant building located at 3405 173rd Pl. NE in Arlington, Washington to be renovated in September 2019.

The increase in the current liabilities from 2020 to 2021 of \$134,000 was due to an increase in the accrued amount of excess 2021 Maintenance and Operations levy dollars due to Public Hospital District No. 1, Skagit County, Washington, per the terms of the Affiliation Agreement effective June 1, 2016. The decrease in the current liabilities from 2019 to 2020 of \$480,000 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 2020 to 2021 of \$3,716,000 was due to the annual payments of principal for the 2016 Unlimited Tax General Obligation bonds and the Limited Tax General Obligation Refunding Bond, Series 2021. The decrease in the long-term obligations from 2019 to 2020 of \$2,526,000, 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 2020 to 2021 of \$152,000, and from 2019 to 2020 of \$1,058,000, 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 2019, 2020, and in 2021 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

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## Statements of Revenues, Expenses, and Changes in Net Position

The following is a summary of operations in 2021 compared with 2020 and 2019 (amounts in thousands):

	2021	2020	2019
Operating revenue			
Revenue from tax levies for maintenance and operations	\$ 1,708	\$ 1,596	\$ 1,489
Other revenue	284	665	1,036
Total operating revenue	1,992	2,261	2,525
Operating expenses			
Salaries and wages	353	365	349
Benefits	(69)	299	11
Purchased services	315	121	118
Supplies	26	64	10
Licenses and taxes	1	2	3
Other operating expenses	2,903	3,233	3,660
Total operating expenses	3,529	4,084	4,151
Operating loss	(1,537)	(1,823)	(1,626)
Net nonoperating income	2,767	2,167	1,972
Excess of revenue over expenses before transfers	1,230	344	346
Transfer of assets	(1,382)	(1,402)	(2,229)
Change in net position	(152)	(1,058)	(1,883)
Net position, beginning of year	(5,194)	(4,136)	(2,253)
Net position, end of year	<u>\$ (5,346)</u>	<u>\$ (5,194)</u>	<u>\$ (4,136)</u>

Total operating revenue includes primarily tax revenue and third-party settlements. Total operating revenue was \$269,000 less in 2021 than 2020 as third-party settlements in 2021 were less than 2020 by \$177,000. The BAB's revenue from the IRS was \$98,000 less in 2021 compared to 2020 due to the refinancing of the 2010B LTGO Bonds. Other operating revenue was \$264,000 less in 2020 as compared to 2019 because the District recorded final Medicaid CPE settlements in 2019 and reduced prior year Medicare estimated settlements.

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

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

The decrease in operating expenses from 2020 to 2021 of \$555,000 was 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, the decrease in interest expense of \$210,000 due to the refinancing of the 2010B LTGO bonds, and the decrease of \$127,000 for the change in estimate for the GASB 75 OPEB liability. The decrease in operating expenses from 2019 to 2020 of \$ 67,000 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 2020 to 2021 of \$600,000 and 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.

Another change in net position was the loss on transfer of assets to Skagit PHD No. 1. of \$1.4 million in 2021, \$1.4 million in 2020, and \$2.2 million 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 2021 compared with 2020 and 2019 (amounts in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities	\$ (632)	\$ 35	\$ 265
Net cash from noncapital financing activities	1,772	1,536	1,484
Net cash from capital and related financing activities	(2,783)	(4,790)	(5,105)
Net cash from investing activities	<u>704</u>	<u>769</u>	<u>902</u>
Net change in cash and cash equivalents	<u>\$ (939)</u>	<u>\$ (2,450)</u>	<u>\$ (2,454)</u>



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

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## **Statements of Cash Flows (continued)**

The decrease in cash flow from operating activities from 2020 to 2021 of \$667,000 was due to a full year of payments related to expenses for operating our new building. 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 net cash from capital and related financing activities saw a net decline from 2019 to 2020 and 2020 to 2021. The purchase of capital assets increased in 2020 as compared to 2019. The renovations of the vacant Alf'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.

## **Debt**

Total long-term debt as of the end of 2021 is \$37,524,113, compared with \$41,065,242 in 2020.

In 2021, new debt of \$9,295,000 in the form of Limited Tax General Obligation Refunding Bond, Series 2021, was issued to provide the funds with which to pay the cost of advance refunding of the District's 2010B Limited Tax General Obligation bonds and paying the administrative costs of such refunding and the costs of issuance and the sale of the bonds. The District contributed \$1,200,000 as an equity contribution in the refunding of the 2010B Limited Tax General Obligation bonds. The remaining principal amount at the end of 2021 was \$8,725,000.

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 2021 and 2020 was \$26,160,000 and \$27,895,000, 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. In 2021, the Limited Tax General Obligation Bonds, Series 2010B (federally taxable Build America Bonds) were advance refunded with the issuance of the Limited Tax General Obligation Refunding Bond, Series 2021.

## **The District in 2021 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. These items are recorded as revenues.



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

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## The District in 2021 and Beyond (continued)

The District will use this income to pay its operating expenses and to make the principal and interest payments on the Limited Tax General Obligation Refunding Bond, Series 2021. 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 2016 Unlimited Tax General Obligation and Refunding 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 as revised and approved by the Board of Commissioners at their March 16, 2022, PHD #3 board meeting:

**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

Continual Learning, Evaluation, and Improvement  
Leadership in Providing and Developing Programs  
Marketing, Communication, and Community Engagement  
Outreach and Education  
Partnerships and Collaborations  
Resource Development

## Areas of Focus

Drug Abuse Prevention  
Health and Wellness  
Mental Health

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

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## The District in 2021 and Beyond (continued)

### Strategies

**Connect** people to resources and offer support services

**Collaborate** with partners and organizations

**Develop** needed programs and services

**Promote** internal and external programs and activities

**Fund** programs, activities, and events for our community

### 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 has continued in the 2019/2020 and the 2020/2021 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 were 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 in 2021. With the introduction and continuation of the COVID-19 pandemic, the District has been able to maintain the program while students were either schooling on-line or in hybrid models by providing mental health counseling to the students via telehealth. In 2021, as schools reopened, the mental health counselors transitioned back to counseling students in person again.

In late spring of 2020, 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 program allowing Darrington residents residing within the Darrington School District boundaries to book sessions with five mental health counselors, regardless of insurance coverage. We continued this program in 2021 and plan to continue providing this program through 2022 and possibly beyond.

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

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### **Strategic Plan Accomplishments (continued)**

Our work with mental health also includes community outreach and education. In 2021, we hosted two online mental health training sessions from Nami Seattle. We had a guest speaker, Kevin Hines, provide an online presentation regarding suicide prevention and wellness. Our most popular parenting class was Managing Anxiety/Depression and Suicide with Kids. Looking ahead to 2022, we plan to continue offering a variety of classes, workshops, and presentations that educate both individuals living with mental health issues, as well as provide understanding and support to their families, friends, and community.

#### *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 were 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 offered small, in person classes and support groups starting in the summer of 2021 as it was safe to do so following the appropriate COVID-19 protocol. We also have American Red Cross Blood Drives on a quarterly basis in our building. Two COVID-19 vaccination clinics in collaboration with the Snohomish County Health District were offered to the public in late 2021 and early 2022. Looking ahead to 2022, we plan to expand our class offerings. Some of the topics we are looking at are preventing diabetes, diabetes friendly living, and Getting to Goal health coaching. CPR/First Aid, babysitting classes, and parenting classes. We have found virtual education works well for many of our participants, so classes will be offered in person, on-line, or as a hybrid.

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

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## Strategic Plan Accomplishments (continued)

### *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 continuing throughout most of 2021, many of our 2021 plans in growing the program were again put on-hold. However, in late spring of 2021, we hosted an online presentation for parents by the Snohomish Health District called "Not In Our House". This program helped educate the parents about the warning signs of drug abuse in their child and the trends of drug use in Snohomish County. In 2022, 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.

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 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. declared a state of emergency. On March 23, 2020, Washington's Governor Inslee announced a statewide order, the "Stay Home, Stay Healthy" order, which 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 12 years old or older is allowed to get the Coronavirus vaccination and the majority of the state and county restrictions have been lifted in 2022, we are optimistic that we will be able to offer in person classes and support groups in 2022. 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 2022 following any appropriate COVID-19 protocol required.

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

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## **Strategic Plan Accomplishments (continued)**

### *Stilly Valley Health Connections Foundation:*

On January 31, 2022, the state of Washington Secretary of State approved our Articles of Incorporation for the establishment of our Stilly Valley Health Connections Foundation. The Stilly Valley Health Connections Foundation was created as a nonprofit corporation under Chapter 24.03A RCW for the primary purpose of soliciting charitable donations and raising funds on behalf of Public Hospital District #3, Snohomish County and the Stilly Valley Health Connections Foundation. The sole Member of the Foundation is Public Hospital District #3, Snohomish County.

## **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**

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**ASSETS AND DEFERRED OUTFLOW OF RESOURCES**

	December 31,	
	2021	2020
<b>CURRENT ASSETS</b>		
Cash	\$ 2,035,238	\$ 1,791,993
Short-term investments	2,997,676	3,347,340
Other receivables	104,035	276,541
Taxes receivable from tax levies for maintenance and operations	44,176	108,435
Prepaid expenses	20,044	21,886
Assets limited as to use required for current liabilities	893,186	403,303
Total current assets	6,094,355	5,949,498
 ASSETS LIMITED AS TO USE, net of amounts required for current liabilities	 730,300	 2,162,172
 <b>CAPITAL ASSETS</b>		
Land	766,473	766,473
Construction in progress	-	19,903
Depreciable capital assets, net of accumulated depreciation	22,036,773	24,252,351
	22,803,246	25,038,727
 INVESTMENT IN JOINT VENTURE	 4,008,802	 4,280,597
Total assets	33,636,703	37,430,994
 <b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred loss on refunding	662,196	728,972
Total assets and deferred outflow of resources	\$ 34,298,899	\$ 38,159,966

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

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**LIABILITIES AND NET POSITION**

	December 31,	
	2021	2020
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 794,383	\$ 690,803
Accrued liabilities		
Wages and benefits	36,906	37,215
Interest	107,575	151,358
Other	10,433	21,157
Estimated third-party payor settlements	292,374	382,547
Current portion of long-term debt obligations	2,435,000	2,260,000
	<hr/>	<hr/>
Total current liabilities	3,676,671	3,543,080
 LONG-TERM DEBT OBLIGATIONS, net of current portion	 35,089,113	 38,805,242
 OPEB LIABILITY	 879,178	 1,006,074
	<hr/>	<hr/>
Total liabilities	39,644,962	43,354,396
	<hr/>	<hr/>
<b>NET POSITION</b>		
Net investment in capital assets	(5,995,867)	(5,761,515)
Restricted for		
Debt service	978,438	597,519
Capital projects	182,975	309,412
Unrestricted	(511,609)	(339,846)
	<hr/>	<hr/>
Total net position	(5,346,063)	(5,194,430)
	<hr/>	<hr/>
Total liabilities and net position	\$ 34,298,899	\$ 38,159,966
	<hr/>	<hr/>

**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,	
	2021	2020
<b>OPERATING REVENUES</b>		
Revenue from tax levies for maintenance and operations	\$ 1,708,175	\$ 1,596,342
Other revenue	284,320	664,662
Total operating revenues	1,992,495	2,261,004
<b>OPERATING EXPENSES</b>		
Salaries	353,492	365,373
Employee benefits	(68,529)	298,699
Purchased services	315,338	120,846
Professional fees	138,521	47,614
Supplies	25,764	63,535
Utilities	19,025	17,053
Leases and rentals	-	57,123
Other direct expenses	12,842	7,295
Licenses and taxes	860	2,215
Insurance	23,821	24,965
Depreciation	2,284,078	2,445,198
Interest	424,054	634,326
Total operating expenses	3,529,266	4,084,242
Operating loss	(1,536,771)	(1,823,238)
<b>NONOPERATING INCOME (EXPENSE)</b>		
Revenue from tax levies for general obligation bonds	3,315,026	2,678,238
Interest income	53,673	118,945
Interest expense for general obligation bonds, net	(996,868)	(1,063,680)
Other income	17,067	51,640
Income from investment in Smokey Point Medical Center, LLC	378,205	382,102
Net nonoperating income, net	2,767,103	2,167,245
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE TRANSFERS</b>	1,230,332	344,007
<b>TRANSFER OF ASSETS</b>	(1,381,965)	(1,401,932)
<b>CHANGE IN NET POSITION</b>	(151,633)	(1,057,925)
<b>NET POSITION, beginning of year</b>	(5,194,430)	(4,136,505)
<b>NET POSITION, end of year</b>	<u>\$ (5,346,063)</u>	<u>\$ (5,194,430)</u>



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

<b>Increase (Decrease) in Cash and Cash Equivalents</b>		
	Years Ended December 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and contractors	\$ (586,733)	\$ (314,565)
Payments to employees and vendors	(412,168)	(465,471)
Other receipts and payments, net	366,653	814,875
Net cash from operating activities	(632,248)	34,839
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash from tax levies considered a noncapital financing activity	1,772,434	1,536,188
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(65,100)	(2,113,160)
Principal payments on long-term debt obligations	(2,305,000)	(2,135,000)
Interest payments on long-term debt obligations	(1,664,058)	(1,904,674)
Proceeds from issuance of general obligation bonds	9,295,000	-
Escrow payment for refunding of general obligation bonds	(10,351,861)	-
Cash paid for bond issuance costs	(143,139)	-
Cash from tax levies for general obligation bonds	3,423,990	2,573,624
Cash paid in transfer of assets	(1,236,705)	(1,269,128)
Other	263,570	58,020
Net cash from capital and related financing activities	(2,783,303)	(4,790,318)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Distribution from joint venture	650,000	650,000
Interest received	53,673	118,945
Net cash from investing activities	703,673	768,945
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(939,444)	(2,450,346)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	7,510,592	9,960,938
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 6,571,148</u>	<u>\$ 7,510,592</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>		
Cash	\$ 2,035,238	\$ 1,791,993
Short-term investments considered cash equivalents	2,997,676	3,347,340
Assets limited as to use considered cash equivalents	1,538,234	2,371,259
Total cash and cash equivalents	<u>\$ 6,571,148</u>	<u>\$ 7,510,592</u>

See accompanying notes.

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

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Increase (Decrease) in Cash and Cash Equivalents		
	Years Ended December 31,	
	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (1,536,771)	\$ (1,823,238)
Adjustments to reconcile operating loss to net cash from operating activities		
Net change in OPEB liability	(126,896)	198,904
Interest expense considered a capital financing activity	424,054	634,326
Revenue from tax levies considered a noncapital financing activity	(1,708,175)	(1,596,342)
Depreciation	2,284,078	2,445,198
Change in assets and liabilities		
Accounts receivable	172,506	(45,097)
Prepaid expenses	1,842	(4,287)
Accounts payable	(41,680)	74,584
Estimated third-party payor settlements	(90,173)	199,467
Accrued liabilities and rent payable	(11,033)	(48,676)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ (632,248)</u>	<u>\$ 34,839</u>

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

## Notes to Financial Statements

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### 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 \$1,236,705 and \$1,269,128 for the years ended December 31, 2021 and 2020, 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 \$1,381,965 and \$1,401,932 for the years ended December 31, 2021 and 2020, 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

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### 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.

**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

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### 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. Voter-approved, excess 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

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### **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 the 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 May 13, 2022, 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 District 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 restricted for debt service on the unlimited general obligation bonds.

Under resolution, the District established and deposited funds into a project fund to acquire and construct an ambulatory health care facility to be owned by Smokey Point Medical Center, LLC, and improvements to other health care facilities of the District, as well as acquire, construct and install all necessary furniture, equipment, apparatus, fixtures, and appurtenances in the foregoing.

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**

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

At December 31, 2021 and 2020, all deposits and investments of the District are categorized as Category 1 and, including limited use taxes receivable, consist of the following:

	2021	2020
Unrestricted cash	\$ 2,035,238	\$ 1,791,993
Short-term investments		
Investment in LGIP	2,997,676	3,347,340
Assets whose use is limited		
Restricted for capital improvements		
Investment in LGIP	645,048	1,967,956
Restricted for debt service on general obligation bonds		
Investment in LGIP	893,186	403,303
Taxes receivable	85,252	194,216
	1,623,486	2,565,475
Total deposits, investments, and taxes receivable	\$ 6,656,400	\$ 7,704,808

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

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### 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 3%. 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. This plan was terminated effective January 1, 2021. 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 \$27,000 and \$34,000 in 2021 and 2020, respectively. Contributions made by employees to the benefit plans totaled approximately \$25,000 and \$31,000 in 2021 and 2020, 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, 2021 and 2020, was as follows:

	Beginning Balance January 1, 2021	Additions	Retirements	Account Transfers	Ending Balance December 31, 2021
<b>ASSETS AT COST</b>					
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 766,473	\$ -	\$ -	\$ -	\$ 766,473
Construction in progress	19,903	65,100	-	(85,003)	-
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	3,618,642	-	-	54,033	3,672,675
Buildings	34,966,789	-	(385,713)	-	34,581,076
Equipment	32,301,314	-	(2,118,195)	30,970	30,214,089
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	2,388,937	149,267	-	-	2,538,204
Buildings	19,840,965	928,449	(385,713)	-	20,383,701
Equipment	24,404,492	1,206,362	(2,101,692)	-	23,509,162
<b>DEPRECIABLE CAPITAL ASSETS, net</b>	<b>24,252,351</b>	<b>(2,284,078)</b>	<b>(16,503)</b>	<b>85,003</b>	<b>22,036,773</b>
<b>CAPITAL ASSETS, net</b>	<b>\$ 25,038,727</b>	<b>\$ (2,218,978)</b>	<b>\$ (16,503)</b>	<b>\$ -</b>	<b>\$ 22,803,246</b>
	Beginning Balance January 1, 2020	Additions	Retirements	Account Transfers	Ending Balance December 31, 2020
<b>ASSETS AT COST</b>					
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 766,473	\$ -	\$ -	\$ -	\$ 766,473
Construction in progress	960,878	2,113,160	-	(3,054,135)	19,903
<b>DEPRECIABLE CAPITAL ASSETS</b>					
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
<b>LESS ACCUMULATED DEPRECIATION</b>					
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
<b>DEPRECIABLE CAPITAL ASSETS, net</b>	<b>23,649,794</b>	<b>(2,445,198)</b>	<b>(6,380)</b>	<b>3,054,135</b>	<b>24,252,351</b>
<b>CAPITAL ASSETS, net</b>	<b>\$ 25,377,145</b>	<b>\$ (332,038)</b>	<b>\$ (6,380)</b>	<b>\$ -</b>	<b>\$ 25,038,727</b>

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

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**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, 2021 and 2020. During the years ended December 31, 2021 and 2020, the District recognized income of \$378,205 and \$382,102, 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 \$4,008,802 and \$4,280,597 at December 31, 2021 and 2020, respectively. The District received dividends of \$650,000 and \$650,000 in the years ending December 31, 2021 and 2020, respectively.

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

	2021	2020
Current assets	\$ 39,505	\$ 48,270
Noncurrent assets, net	<u>8,671,910</u>	<u>9,168,944</u>
	<u><u>\$ 8,711,415</u></u>	<u><u>\$ 9,217,214</u></u>
Equity	<u>8,711,415</u>	<u>9,217,214</u>
	<u><u>\$ 8,711,415</u></u>	<u><u>\$ 9,217,214</u></u>
Revenue	\$ 1,333,260	\$ 1,333,301
Expenses	<u>539,060</u>	<u>531,306</u>
Net income	<u><u>\$ 794,200</u></u>	<u><u>\$ 801,995</u></u>

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

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**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, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Limited Tax General Obligation Bonds, 2010B, refunded in 2021.	\$ -	\$ 10,265,000
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 \$2,639,113 and \$2,905,242 in 2021 and 2020, respectively.	28,799,113	30,800,242
Limited Tax General Obligation Refunding Bond, 2021, 2.00%, due serially on December 1, in amounts from \$555,000 in 2022 to \$700,000 in 2035, plus interest paid semiannually.	<u>8,725,000</u>	<u>-</u>
Long-term debt	37,524,113	41,065,242
Less: current portion	<u>2,435,000</u>	<u>2,260,000</u>
Long-term portion	<u><u>\$ 35,089,113</u></u>	<u><u>\$ 38,805,242</u></u>

During 2021, the District issued the Limited Tax General Obligation Refunding Bond, 2021, to carry out a refunding of the 2010B Limited Tax General Obligation Bonds. The refunding decreased the District's aggregate debt service payments by \$3,027,000 over the next 14 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$1,418,000.

To refund and defease the Limited Tax General Obligation Bonds, 2010B, the District irrevocably deposited the proceeds of the Limited Tax General Obligation Refunding Bond, 2021, proceeds into an escrow fund held by an escrow agent. As a result of the refinancing, the Limited Tax General Obligation Bonds, 2010B, have been legally satisfied and are no longer outstanding.

**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)**

Changes in the District's long-term debt obligations and other noncurrent liabilities during the years ended December 31, 2021 and 2020, are summarized below:

	January 1, 2021	Additions	Reductions	December 31, 2021	Amounts Due Within One Year
<b>LONG-TERM DEBT</b>					
Limited Tax General Obligation Bonds, 2010B	\$ 10,265,000	\$ -	\$ 10,265,000	\$ -	\$ -
Unlimited Tax General Obligation and Refunding Bonds, 2016	30,800,242	-	2,001,129	28,799,113	1,880,000
Limited Tax General Obligation and Refunding Bonds, 2021	-	9,295,000	570,000	8,725,000	555,000
Total noncurrent liabilities	<u>\$ 41,065,242</u>	<u>\$ 9,295,000</u>	<u>\$ 12,836,129</u>	<u>\$ 37,524,113</u>	<u>\$ 2,435,000</u>
	January 1, 2020	Additions	Reductions	December 31, 2020	Amounts Due Within One Year
<b>LONG-TERM DEBT</b>					
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
<b>OTHER NONCURRENT LIABILITIES</b>					
Rent payable	4,157	-	4,157	-	-
Total noncurrent liabilities	<u>\$ 43,470,528</u>	<u>\$ -</u>	<u>\$ 2,405,286</u>	<u>\$ 41,065,242</u>	<u>\$ 2,260,000</u>

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

	Principal	Interest
2022	\$ 2,435,000	\$ 1,290,900
2023	2,580,000	1,185,800
2024	2,745,000	1,073,600
2025	2,920,000	953,450
2026	3,105,000	824,850
2027–2031	18,375,000	2,089,450
2032–2035	2,725,000	137,400
	34,885,000	\$ 7,555,450
Plus amount representing net unamortized bond premium	2,639,113	
	<u>\$ 37,524,113</u>	

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

## Notes to Financial Statements

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

The District has pledged regular and excess tax levies and set aside revenue of the District, if necessary, sufficient to make principal and interest payments on the general obligation bonds. Further, tax levies collected and restricted for debt service on unlimited tax general obligation bonds are in assets limited as to use.

### **Note 8 – Commitments and Contingencies**

**Litigation** – In the general course of operations, the District may be named as a defendant in legal proceedings. Significant legal proceedings are generally related to matters covered by insurance. The District may be liable for payment of a deductible in some cases. However, management is of the opinion that such amounts will not result in any significant liability to the District in relation to its financial position or liquidity.

**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.

**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.

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

## Notes to Financial Statements

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### 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, 2020, the subsidy was increased to \$183 per month, and remains at that amount in 2022.

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, 2021 and 2020, the following employees were covered by the benefit terms:

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

*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>.

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

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

**Total OPEB liability**

The District's total OPEB liability was \$879,178 and \$1,006,074 as of the reporting date of December 31, 2021 and 2020, respectively. The corresponding measurement date was June 30, 2021 and 2020, 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, 2021 and 2020, 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 2021 and 2020
Salary increases	3.50% as of 2021 and 2020, plus service-based increases
Healthcare cost trend rate	As of 2021, initial rate ranges from about 2.00% to 11.00%, reaching an ultimate rate of approximately 4.30% in 2075; As of 2020, initial rate is approximately 7.00%, trends down to approximately 5.00% in 2080
Discount rate (liabilities)	2.16% and 2.21% as of 2021 and 2020, 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.

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2019 actuarial valuation for Washington State Public Employees' Retirement System (PERS).

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

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

The assumptions used for the December 31, 2021 and 2020, reporting were based on a census date of June 30, 2021 and 2020, respectively.

**Changes in the total OPEB liability**

Balance at December 31, 2019	<u>\$ 807,170</u>
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	<u>(37,641)</u>
Net changes	<u>198,904</u>
Balance at December 31, 2020	<u>1,006,074</u>
Changes for the year	
Service cost	8,807
Interest	21,993
Changes of assumptions or other inputs and differences between expected and actual experience	(118,021)
Benefit payments	<u>(39,675)</u>
Net changes	<u>(126,896)</u>
Balance at December 31, 2021	<u><u>\$ 879,178</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.21% in 2020 to 2.16% in 2021.



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

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**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 (2.16%)	1% Increase (3.21%)
2021			
Total OPEB liability	\$ 1,007,420	\$ 879,178	\$ 774,287
	1% Decrease (2.50%)	Discount Rate (2.21%)	1% Increase (4.50%)
2020			
Total OPEB liability	\$ 1,163,570	\$ 1,006,074	\$ 878,343

*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
2021			
Total OPEB liability	\$ 773,749	\$ 879,178	\$ 1,007,808
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
2020			
Total OPEB liability	\$ 878,061	\$ 1,006,074	\$ 1,163,460

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of approximately 11.00% to 4.30% in 2075.

**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.

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

## **Notes to Financial Statements**

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### **Note 10 – Property Taxes (continued)**

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 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 2021 and 2020, the District's regular levy was \$0.26 and \$0.27 per \$1,000 on a total assessed valuation of \$5,758,211,924 and \$5,268,139,129, for a total regular levy of \$1,470,910 and \$1,415,704, respectively. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2021 and 2020, the tax levy for bond service was \$0.52 and \$0.48 per \$1,000 on a total assessed valuation of \$5,698,401,084 and \$5,235,300,179, for a total additional levy of \$2,956,778 and \$2,504,636, 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 – Subsequent Event**

On January 31, 2022, the state of Washington Secretary of State approved the Articles of Incorporation for the establishment of the Stilly Valley Health Connections Foundation (Foundation). The Foundation was created as a nonprofit corporation under Chapter 24.03A RCW for the primary purpose of soliciting charitable donations and raising funds on behalf of the District and the Stilly Valley Health Connections Foundation. The sole Member the Foundation is the District.

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

The Board of Commissioners  
Public Hospital District No. 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Public Hospital District No. 3, Snohomish County, Washington (the District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 3, Snohomish County, Washington's basic financial statements, and have issued our report thereon dated May 13, 2022.

### **Report on 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 were not identified.

## **Report on 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

May 13, 2022

## **Required Supplementary Information**

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**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**

	2021	2020	2019
Total OPEB liability			
Service cost	\$ 8,807	\$ 6,302	\$ 6,038
Interest	21,993	27,818	34,303
Changes of assumptions or other inputs and differences between expected and actual experience	(118,021)	202,425	(94,752)
Benefit payments	(39,675)	(37,641)	(37,156)
Net change in total OPEB liability	(126,896)	198,904	(91,567)
Total OPEB liability – beginning	1,006,074	807,170	898,737
Total OPEB liability – ending	<u>\$ 879,178</u>	<u>\$ 1,006,074</u>	<u>\$ 807,170</u>
Plan fiduciary net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability	<u>\$ 879,178</u>	<u>\$ 1,006,074</u>	<u>\$ 807,170</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>\$ 323,635</u>	<u>\$ 371,533</u>	<u>\$ 339,973</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>271.66%</u>	<u>270.79%</u>	<u>237.42%</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, election, demographic and health assumptions each period. The discount rate changed from 2.21% in 2020 to 2.16% in 2021. The demographic assumptions were updated consistent with the 2013-2018 Demographic Experience Study. The healthcare trend rates and medical claims and premiums were updated consistent with the 2020 PEBB OPEB Actuarial Report. Beginning with December 31, 2019, the Medicare contribution trend reflects the January 1, 2020, Medicare explicit subsidy increase to \$183 per month. As this is a newly adopted standard, a full 10-year trend is not available.

