



Report of Independent Auditors
and Financial Statements for

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

December 31, 2014 and 2013

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District), which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Everett, Washington
May 29, 2015

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

The following discussion and analysis for Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District) provides an overview of the District's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the District's financial statements, which follow this analysis.

Using These Basic Financial Statements

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

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

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

The Statement of Cash Flows

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

The Transition of Operations, Effective September 1, 2010

Until September 1, 2010, Public Hospital District No. 2, Snohomish County, Washington, owned and operated Stevens Hospital. Through a lease and operating agreement, on September 1, 2010, Swedish Health Services, a nonprofit corporation, took over operation of the hospital and renamed it Swedish Edmonds. This transition significantly changed the role of the District. The District retained ownership of the hospital but no longer manages its operations and instead is a landlord to Swedish Health Services. As of December 31, 2014, Swedish Health Services had paid \$32.8 million in total lease payments to the District for the use of real property and personal assets owned by the District.

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

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

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

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

The Verdant Health Commission

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

Verdant began accepting funding proposals in June 2011 in four health priority areas: Education and Empowerment, Prevention, Access to Healthcare Services, and Policy and Advocacy. Funds are available for one-time uses like events and short-term needs in the community, as well as for ongoing health and wellness programs. Verdant paid out approximately \$4.7 million in community program investments during 2014. Each program is managed through a cooperative agreement with partners and is being monitored for performance and compliance by Verdant staff.

Verdant completed a comprehensive needs assessment in 2013 to better understand the health and wellness issues impacting residents of South Snohomish County. The assessment included an analysis of quantitative health and socioeconomic data, input from front-line service providers, a survey of 400 residents, and 12 different focus groups. The results of the needs assessment were compiled into a formal written assessment and appendices that are available on Verdant's website. The needs assessment highlighted two key community issues for the District: adult dental care and behavioral health needs. In 2014, Verdant approved funding for programs and projects in these areas, including a new mobile dental clinic through Medical Teams International, and a fixed-site dental clinic in Lynnwood through the Puget Sound Christian Clinic. Verdant also released a targeted request for proposal (RFP) for preventative behavioral health programs—two projects were selected for a total annual budget of \$500,000, with payouts beginning in 2015. Other significant investments in this area made by Verdant in 2014 include a program through the Center for Human Services that provides onsite counseling at middle and high schools, and a new program through the Edmonds School District that provides student support advocates at each of the middle and high schools.

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

The Verdant Health Commission (continued)

For the third year in a row, Verdant organized the 6 Weeks to a Healthier You program, which was a community health and wellness program that provided information, motivation, community resources, and biometric screenings designed to help participants improve their health. The event ran for 6 consecutive weeks, attracted 259 participants, and led to measurable improvements in participants' health such as reduced total cholesterol, triglycerides, and overall weight.

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

In September 2013, Verdant purchased a building in Lynnwood for the purpose of redeveloping it into a community wellness center. The new Verdant Community Wellness Center opened in January 2015 and offers the residents of the District a resource for accessing health and wellness classes, programs, and information. The center will also serve as the Verdant headquarters and house all administrative staff.

Verdant plans to continue funding effective and sustainable community health programs, as well as convening stakeholders to develop new initiatives that address key community health and wellness needs. Partnerships and support for community providers and employers will also remain a focus for Verdant to improve the lives of South Snohomish County residents.

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

Statement of Net Position

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 35,459	\$ 32,610	\$ 44,093
Capital assets, net	35,776	36,766	26,154
Other noncurrent assets	<u>11,702</u>	<u>8,990</u>	<u>5,993</u>
Total assets	<u>\$ 82,937</u>	<u>\$ 78,366</u>	<u>\$ 76,240</u>
Liabilities			
Current liabilities	\$ 2,582	\$ 2,039	\$ 1,198
Long-term debt, net	4,757	5,590	6,396
Other long-term liabilities	<u>100</u>	<u>100</u>	<u>203</u>
Total liabilities	<u>7,439</u>	<u>7,729</u>	<u>7,797</u>
Net position			
Net investment in capital assets	30,249	30,431	19,038
Restricted for debt service	54	58	95
Unrestricted	<u>45,195</u>	<u>40,148</u>	<u>49,310</u>
Total net position	<u>75,498</u>	<u>70,637</u>	<u>68,443</u>
Total liabilities and net position	<u>\$ 82,937</u>	<u>\$ 78,366</u>	<u>\$ 76,240</u>

Current Assets

Total current assets of \$35.4 million at year-end 2014 reflect an increase of \$2.8 million (8.7%), compared to the balance of \$32.6 million at the end of 2013. Cash and short-term investments increased by \$2.3 million (7.3%) in 2014, compared to a decrease of \$10.4 million (24.5%) in 2013.

Capital Assets

The District's net capital assets decreased \$1 million (2.7%) in 2014, compared to a net increase of \$10.6 million (40.6%) in 2013. In 2013, the District purchased two buildings totaling \$15.4 million: the Kruger Clinic, a medical office building near the campus of the hospital, and a community wellness center, which was opened in 2015.

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

Statement of Net Position (continued)

Other Noncurrent Assets

Other noncurrent assets consist of rent receivable totaling \$11.7 million at year-end 2014, an increase of \$2.7 million (30.2%) from \$9.0 million in 2013. The rent receivable results from straight-line recognition of the 30-year lease of the hospital to Swedish Health Services.

Current Liabilities

Current liabilities increased \$0.5 million (26.6%) from \$2.0 million in 2013 to \$2.6 million in 2014. The increase in 2014 is the result of Swedish Health Services paying rent in advance.

Long-Term Debt

As of December 31, 2014, the District had \$4.8 million in long-term debt and obligations under capital leases, net of current portion, which is a \$0.8 million (14.9%) decrease from 2013. Principal payments during 2014 totaled \$0.8 million. In 2012, outstanding 1999 LTGO refunding bonds were paid in full by the issuance of \$6.6 million of 2012 LTGO refunding bonds. Principal payments during 2012, in excess of the 1999 LTGO refunding bond payments, totaled \$1.0 million.

Other Long-Term Liabilities

Other noncurrent liabilities remained the same at \$0.1 million for 2014 and 2013. These are made up of reserves for self-insured workers' compensation claims.

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

Operating Results and Changes in the District's Net Position

In 2014, the District's net position increased \$4.9 million (6.9%), compared to an increase of \$2.2 million (3.2%) in 2013.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Lease revenue	\$ 11,712	\$ 10,437	\$ 10,398
Other operating revenues	9	12	17
	<u>11,721</u>	<u>10,449</u>	<u>10,415</u>
Operating expenses			
Salaries and benefits	752	675	714
Program expenditures	4,690	3,124	1,866
Other	925	478	481
Depreciation	3,367	4,199	5,004
	<u>9,734</u>	<u>8,476</u>	<u>8,065</u>
Operating income	<u>1,987</u>	<u>1,973</u>	<u>2,350</u>
Nonoperating revenues (expenses)			
Tax levies	2,113	2,033	2,037
Investment income (loss)	564	(914)	1,126
Interest expense and amortization	(106)	(120)	(284)
Loss on disposal of capital assets	19	(595)	(60)
Other income	284	(183)	2,788
	<u>2,874</u>	<u>221</u>	<u>5,607</u>
Net nonoperating revenues	<u>2,874</u>	<u>221</u>	<u>5,607</u>
Increase in net position	4,861	2,194	7,957
Net position, beginning of year	<u>70,637</u>	<u>68,443</u>	<u>60,486</u>
Net position, end of year	<u>\$ 75,498</u>	<u>\$ 70,637</u>	<u>\$ 68,443</u>

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

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

Operating revenues in 2014 totaling \$11.7 million were attributed to lease payments. Of that, \$10.1 million was attributable to the Swedish Health Services lease. Additional lease revenues were received from other lease agreements including Value Village, Healthcare Realty, and the Kruger Clinic.

Overall operating costs of \$9.7 million at year-end 2014 reflect an increase of \$1.3 million (14.8%), compared to the balance of \$8.5 million at the end of 2013. Salaries and benefits did not significantly change, totaling \$0.8 million in 2014 and \$0.7 million in 2013. Program expenditures totaled \$4.7 million in 2014, compared to only \$3.1 million in 2013. Increased program investment expenditures of \$1.6 million made the largest impact on operating expenses in 2014. This was offset by an annual decrease in depreciation expense of \$0.8 million (19.8%).

Net nonoperating revenues for 2014 are \$2.9 million, compared to only \$0.2 million in 2013, an increase of \$2.7 million (1,201.0%). Investment gains at year-end 2014 are \$0.6 million, an increase of \$1.5 million (161.8%) over a 2013 loss of \$0.9 million.

Contacting the District's Financial Management

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

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

ASSETS		December 31,	
		<u>2014</u>	<u>2013</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 3,189,901	\$ 3,218,690
Investments		30,988,240	28,633,976
Receivables		262,234	265,559
Estimated third-party payor settlements		-	370,281
Prepaid expenses and other		963,479	63,207
Assets whose use is limited		<u>54,692</u>	<u>57,942</u>
Total current assets		<u>35,458,546</u>	<u>32,609,655</u>
CAPITAL ASSETS			
Nondepreciable capital assets		11,477,614	9,113,752
Depreciable capital assets, net of accumulated depreciation		<u>24,298,008</u>	<u>27,651,823</u>
Capital assets, net of accumulated depreciation		<u>35,775,622</u>	<u>36,765,575</u>
RENT RECEIVABLE		<u>11,702,643</u>	<u>8,990,731</u>
Total assets		<u><u>\$ 82,936,811</u></u>	<u><u>\$ 78,365,961</u></u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Current portion of long-term debt		\$ 770,000	\$ 745,000
Accounts and warrants payable		304,613	233,376
Prepaid lease income		734,028	708,134
Accrued interest		12,900	14,142
Accrued salaries and benefits		53,308	34,839
Tenant improvements		101,460	-
Estimated self-insured liabilities		<u>605,514</u>	<u>303,992</u>
Total current liabilities		2,581,823	2,039,483
LONG-TERM DEBT, net of current portion		4,757,008	5,589,038
OTHER LONG-TERM LIABILITIES		<u>100,000</u>	<u>100,000</u>
Total liabilities		<u>7,438,831</u>	<u>7,728,521</u>
NET POSITION			
Net investment in capital assets		30,248,614	30,431,537
Restricted for debt service		54,692	57,942
Unrestricted		<u>45,194,674</u>	<u>40,147,961</u>
Total net position		<u>75,497,980</u>	<u>70,637,440</u>
Total liabilities and net position		<u><u>\$ 82,936,811</u></u>	<u><u>\$ 78,365,961</u></u>

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

	Years Ended December 31,	
	2014	2013
OPERATING REVENUES		
Lease revenue	\$ 11,712,097	\$ 10,437,565
Other operating revenue	8,875	11,752
Total operating revenues	11,720,972	10,449,317
OPERATING EXPENSES		
Salaries and wages	598,993	567,308
Employee benefits	153,306	107,397
Program expenditures	4,690,105	3,123,647
Professional services	261,983	267,311
Other	662,878	210,991
Depreciation	3,367,091	4,199,458
Total operating expenses	9,734,356	8,476,112
Operating income	1,986,616	1,973,205
NONOPERATING REVENUES (EXPENSES)		
Maintenance and operations tax levy	2,112,763	2,033,221
Investment income and unrealized gain (loss)	564,584	(913,854)
Other interest expense and amortization	(106,428)	(119,764)
Gain (loss) on disposal of capital assets, net	18,577	(595,280)
Other revenues (expenses)	284,428	(183,423)
Net nonoperating revenues	2,873,924	220,900
Increase in net position	4,860,540	2,194,105
NET POSITION, beginning of year	70,637,440	68,443,335
NET POSITION, end of year	\$ 75,497,980	\$ 70,637,440

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

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for leasing and other operations	\$ 9,034,954	\$ 8,159,210
Cash paid to employees	(733,830)	(674,081)
Cash paid on community programs	(4,690,105)	(3,123,647)
Cash paid to suppliers for goods and services	<u>(956,369)</u>	<u>(612,327)</u>
Net cash from operating activities	<u>2,654,650</u>	<u>3,749,155</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from maintenance and operations tax levy for noncapital purposes	2,116,013	2,070,097
Cash received from Swedish Health Services	262,802	1,102,692
Other, net	<u>687</u>	<u>(63,407)</u>
Net cash from noncapital financing activities	<u>2,379,502</u>	<u>3,109,382</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(745,000)	(720,000)
Interest paid on long-term debt	(169,700)	(182,652)
Proceeds from sale of capital assets	40,286	-
Acquisition and construction of capital assets	<u>(2,398,847)</u>	<u>(15,405,909)</u>
Net cash from capital and related financing activities	<u>(3,273,261)</u>	<u>(16,308,561)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments, net	(2,197,645)	9,549,818
Investment income	<u>407,965</u>	<u>1,030,727</u>
Net cash from investing activities	<u>(1,789,680)</u>	<u>10,580,545</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(28,789)	1,130,521
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,218,690</u>	<u>2,088,169</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,189,901</u>	<u>\$ 3,218,690</u>

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

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 1,986,616	\$ 1,973,205
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	3,367,091	4,199,458
Changes in operating assets and liabilities		
Receivables	(259,477)	(591,438)
Estimated third-party payor settlements	840,034	679,634
Prepaid expenses and other	(900,272)	(33,925)
Rent receivable	(2,711,912)	(2,998,241)
Accounts and warrants payable	71,237	49,309
Prepaid lease income	25,894	708,134
Tenant improvements	101,460	-
Accrued salaries and benefits	18,469	624
Self-insured liabilities	115,510	(237,605)
	<u>\$ 2,654,650</u>	<u>\$ 3,749,155</u>
Net cash from operating activities	<u>\$ 2,654,650</u>	<u>\$ 3,749,155</u>

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

Note 1 - Organization and Summary of Accounting Policies

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

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

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

The terms of the Lease specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rent is on an absolute net basis, with SHS being responsible for all operating costs associated with the facilities. The Lease calls for certain approvals by the District that affect the operation of the facility for the following: change in license, major service line changes, union contract representation, and maintenance of an independent medical staff. SHS has committed to an initial capital investment of \$90 million over the first 10 years of the Lease, including the installation of the Epic electronic medical record system at the facility. An additional capital investment by SHS is committed each year based on 25% of the defined profitability of the facility. In addition, a potential commitment of a major expansion project of up to \$60 million will be undertaken, provided there is adequate return on investment and demand criteria are met, and the SHS board of trustees approves such a project. The District and SHS will form a strategic collaboration committee to provide oversight for the Lease and strategic planning activities for the facility.

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

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

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

In September 1997, the voters of the District approved a maintenance and operations (M&O) tax levy upon the taxable property within the District; the M&O tax provided approximately \$2,105,000 of funding in 2014 and \$2,033,000 of funding in 2013. The levy is ongoing in future years. The M&O tax levy funds are reported in the accompanying statements of revenues, expenses, and changes in net position as nonoperating revenues.

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

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

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates include useful lives of capital assets, third-party cost report settlements, and self-insured liabilities. Changes in estimates resulted in a decrease to other nonoperating income of \$284,000 and a decrease of \$120,000 for the years ended December 31, 2014 and 2013, respectively.

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

Restricted assets - As described further in Note 7, the District receives tax levy funds that are used solely for debt service associated with the general obligation bonds. Taxes and interest receivable and scheduled debt service payments temporarily invested prior to becoming due are recorded as restricted assets. All receipts and earnings generated on such investments are reported as nonoperating revenues and expenses.

Prepaid expenses and other - Related assets include future expenses that have been paid in advance. The District entered into new agreements in 2014 with scheduled payments. For each agreement, the amount of District payments in excess of the costs incurred were recorded as project advances and included in prepaid expenses and other. As of December 31, 2014, project advances was \$935,000.

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

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

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

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

The following is a summary of asset lives used:

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

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

Self-insurance liabilities - The District accrues an estimate of losses and related expenses for its self-insured workers' compensation claims. The District maintains stop-loss insurance for workers' compensation claims in excess of specified amounts. This estimated liability is recorded in the accompanying statements of net position within accrued salaries and benefits. The amount is approximately \$706,000 and \$347,000 as of December 31, 2014 and 2013, respectively. The District also records a liability for estimated professional liabilities (Note 6).

Estimated third-party payor settlements - Under a contractual agreement with Medicare, the Hospital is paid at an interim rate during the year for certain services and programs. The difference between interim payments and estimated final reimbursement for the cost report year results in a settlement receivable or payable, which may be adjusted in future periods as final settlements are determined. The Medicare program's administrative procedures preclude final determination of settlement amounts until after the annual cost reports have been audited or otherwise reviewed and settled by Medicare. The District's cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009. The estimated settlement amount for the 2010 cost report is included in the accompanying financial statements.

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

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

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

Net position - Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

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

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

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

The District has evaluated subsequent events through May 29, 2015, which is the date the financial statements are available to be issued.

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

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

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

	<u>2014</u>	<u>2013</u>
Assets whose use is not restricted		
Cash in banks - interest-bearing	\$ 3,189,901	\$ 3,218,690
Governmental mutual fund	<u>30,988,240</u>	<u>28,633,976</u>
 Total cash, cash equivalents, investments, and deposits	 <u>\$ 34,178,141</u>	 <u>\$ 31,852,666</u>

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, eligible bankers' acceptances, and repurchase agreements (up to 30 days).

Because the District is a political subdivision of the state, deposits and investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held in the District's name. Category 2 includes uninsured and unregistered investments that are held by a broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name. At December 31, 2014 and 2013, all deposits and investments of the District are categorized as Category 1.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited.

Deposits - All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation. Collateral protection is provided by the Washington Public Deposit Protection Commission.

Custodial credit risk - Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District is not exposed to concentration of credit risk because all deposits and investments are insured or collateralized.

Interest rate risk - Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District is not exposed to interest rate risk because all deposits and investments are extremely liquid.

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

Note 3 - Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2014 and 2013, were as follows:

	Beginning Balance January 1, 2014	Additions	Retirements	Account Transfers	Ending Balance December 31, 2014
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	1,390,046	2,363,862	-	-	3,753,908
	<u>9,113,752</u>	<u>2,363,862</u>	<u>-</u>	<u>-</u>	<u>11,477,614</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,285,382	-	-	-	2,285,382
Buildings and building improvements	49,754,268	-	(38,135)	-	49,716,133
Equipment	46,692,201	34,985	(367,148)	-	46,360,038
LESS ACCUMULATED DEPRECIATION					
Land improvements	1,976,179	81,010	-	-	2,057,189
Buildings and building improvements	28,399,904	1,555,640	(21,460)	-	29,934,084
Equipment	40,703,945	1,730,441	(362,114)	-	42,072,272
DEPRECIABLE CAPITAL ASSETS, net	<u>27,651,823</u>	<u>(3,332,106)</u>	<u>(21,709)</u>	<u>-</u>	<u>24,298,008</u>
CAPITAL ASSETS, net	<u>\$ 36,765,575</u>	<u>\$ (968,244)</u>	<u>\$ (21,709)</u>	<u>\$ -</u>	<u>\$ 35,775,622</u>
	Beginning Balance January 1, 2013	Additions	Retirements	Account Transfers	Ending Balance December 31, 2013
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 3,996,406	\$ 3,727,300	\$ -	\$ -	\$ 7,723,706
Construction in progress	-	1,390,046	-	-	1,390,046
	<u>3,996,406</u>	<u>5,117,346</u>	<u>-</u>	<u>-</u>	<u>9,113,752</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,285,382	-	-	-	2,285,382
Buildings and building improvements	39,487,921	10,266,347	-	-	49,754,268
Equipment	48,091,076	19,488	(1,418,363)	-	46,692,201
LESS ACCUMULATED DEPRECIATION					
Land improvements	1,894,589	81,590	-	-	1,976,179
Buildings and building improvements	27,162,358	1,237,546	-	-	28,399,904
Equipment	38,649,434	2,877,594	(823,083)	-	40,703,945
DEPRECIABLE CAPITAL ASSETS, net	<u>22,157,998</u>	<u>6,089,105</u>	<u>(595,280)</u>	<u>-</u>	<u>27,651,823</u>
CAPITAL ASSETS, net	<u>\$ 26,154,404</u>	<u>\$ 11,206,451</u>	<u>\$ (595,280)</u>	<u>\$ -</u>	<u>\$ 36,765,575</u>

Note 4 - Lessor Agreements

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

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

Note 4 - Lessor Agreements (continued)

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

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

	<u>Straight-Line Recognition</u>		<u>Leases Recognized Based on Required Lease Payments</u>	<u>Total</u>
	<u>Lease of Hospital</u>	<u>Other Leases</u>		
2015	\$ 8,185,000	\$ 498,000	\$ 688,000	\$ 9,371,000
2016	8,430,000	485,000	706,000	9,621,000
2017	8,683,000	514,000	346,000	9,543,000
2018	8,944,000	529,000	360,000	9,833,000
2019	9,212,000	548,000	30,000	9,790,000
2020 - 2024	50,375,000	2,126,000	36,000	52,537,000
2025 - 2029	55,869,000	-	-	55,869,000
2030 - 2034	56,087,000	-	-	56,087,000
2035 - 2039	56,087,000	-	-	56,087,000
2040	7,478,000	-	-	7,478,000
	<u>\$ 269,350,000</u>	<u>\$ 4,700,000</u>	<u>\$ 2,166,000</u>	<u>\$ 276,216,000</u>

Note 5 - Long-Term Debt

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

	<u>2014</u>	<u>2013</u>
LTGO Refunding Bonds, 2012, 2.00% to 3.00%, principal due serially on December 1 in amounts from \$745,000 in 2014 to \$955,000 in 2020, including unamortized premium of \$367,008 in 2014 and \$429,038 in 2013.	\$ 5,527,008	\$ 6,334,038
Less current portion	<u>(770,000)</u>	<u>(745,000)</u>
Long-term debt and obligations under capital leases, net of current portion	<u>\$ 4,757,008</u>	<u>\$ 5,589,038</u>

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

Note 5 - Long-Term Debt (continued)

Long-term debt and capital lease obligations' activity summary for 2014 and 2013 is as follows:

	January 1, 2014	Additions	Reductions	December 31, 2014	Amounts Due Within One Year
LONG-TERM DEBT					
2012 LTGO Bond	\$ 6,334,038	\$ -	\$ (807,030)	\$ 5,527,008	\$ (770,000)
OTHER LONG-TERM LIABILITIES	100,000	-	-	100,000	-
	<u>\$ 6,434,038</u>	<u>\$ -</u>	<u>\$ (807,030)</u>	<u>\$ 5,627,008</u>	<u>\$ (770,000)</u>
	January 1, 2013	Additions	Reductions	December 31, 2013	Amounts Due Within One Year
LONG-TERM DEBT					
2012 LTGO Bond	\$ 7,116,067	\$ -	\$ (782,029)	\$ 6,334,038	\$ (745,000)
OTHER LONG-TERM LIABILITIES	202,870	-	(102,870)	100,000	-
	<u>\$ 7,318,937</u>	<u>\$ -</u>	<u>\$ (884,899)</u>	<u>\$ 6,434,038</u>	<u>\$ (745,000)</u>

Scheduled principal and interest repayments on long-term debt are as follows as of December 31, 2014:

	Long-Term Debt	
	Principal	Interest
2015	\$ 770,000	\$ 154,800
2016	805,000	131,700
2017	840,000	107,550
2018	875,000	82,350
2019	915,000	56,100
2020	955,000	28,650
	5,160,000	<u>\$ 561,150</u>
Amounts representing net unamortized premium and deferred loss	<u>367,008</u>	
	<u>\$ 5,527,008</u>	

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

Note 5 - Long-Term Debt (continued)

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

Note 6 - Professional Liability Insurance

Prior to September 1, 2010, the District maintained a claims-made professional liability insurance policy through a commercial carrier with a self-insured retention per claim. Effective September 1, 2010, the District purchased a tail policy to cover all claims incurred prior to that date. Under this policy, there is a deductible amount of \$100,000 per claim. The policy was purchased to provide maximum coverage for the exposure to the deductible for all claims. At December 31, 2010, the District had estimated a liability for amounts to be paid under the deductible of this policy. This liability is included in the accompanying statements of net position at \$0 and \$57,000 at December 31, 2014 and 2013.

Note 7 - Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer. The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2014 and 2013, the District's regular tax levy was \$0.10 and \$0.11 per \$1,000 on a total assessed valuation of \$19,859,116,132 and \$18,066,449,142, for a total regular levy of \$2,105,000 and \$2,033,000, 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.

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

Note 8 - Retirement Plan

Effective July 1, 2010, the District sponsored a 401(a) plan and a 457 plan that are available to all benefit-eligible employees working over 20 hours per week. Employees are eligible to contribute at their hire date. Employees contribute to the 457 plan at their discretion. Employee contributions were approximately \$22,000 and \$19,000 during the years ended December 31, 2014 and 2013, respectively. The District contributes to the 401(a) plan at 3% of employee wages with an additional matching contribution of up to 3% of the amount contributed by the employee to the 457 plan. The District's policy is to fully fund the contributions. The District contributed approximately \$32,000 and \$30,000 during the years ended December 31, 2014 and 2013, respectively.

Note 9 - Commitments and Contingencies

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

The hospital industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government hospital program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by hospital providers. Violations of these laws and regulations could result in expulsion from government hospital programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Program commitments - The District has a commitment to fund a program recipient's future expenditures in the amount of approximately \$47,000 per month through August 2018. The District has also committed to fund two additional programs, with a remaining commitment of \$3,305,000 as of December 31, 2014. Payments of \$1,331,000, \$1,349,000, and \$625,000 are due in 2015, 2016, and 2017, respectively.