



Communications with Those  
Charged with Governance

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

December 31, 2023

## **Communications with Those Charged with Governance**

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

We have audited the financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission (the District) as of and for the year ended December 31, 2023, and have issued our report thereon dated June 18, 2024. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards***

As stated in our engagement letter dated January 3, 2024, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*. As part of an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we considered the District's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

As a part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with certain provision of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

## **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter and our planning meeting with you.

## **Significant Audit Findings and Issues**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements.

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (Statement 96). Statement 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). Statement 96 defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. Statement 96 is effective for the year ending December 31, 2023. The impact of the adoption was not considered material to the financial statements.

Additionally, in March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (Statement 94). Statement 94 is effective for the year ending December 31, 2023. Statement 94 improves financial reporting by address issues related to public-private and public-public partnership arrangements. The District did not have any such arrangements as of December 31, 2023.

No other new accounting policies were adopted and there were no changes in the application of existing policies during 2023. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### ***Significant Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The useful lives of fixed assets have been estimated based on the intended use and are within the American Hospital Association or Medicare guidelines.
- Calculation of lease receivable and deferred inflow of resources are determined by evaluating contracts, and related terms, and are based on significant lease assumptions and judgements.
- Investments in securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in securities are included in nonoperating results when earned.

### ***Financial Statement Disclosures***

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no disclosures in the financial statements that would be considered sensitive.

### ***Significant Unusual Transactions***

We encountered no significant unusual transactions during our audit of the District's financial statements.

### ***Significant Difficulties Encountered in Performing the Audit***

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the District's financial statements.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

### ***Circumstances that Affect the Form and Content of the Auditor's Report***

There may be circumstances in which we would consider it necessary to include additional information in the auditor's report in accordance with auditing standards generally accepted in the United States of America. There were no circumstances that affected the form and content of the auditor's report.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any corrected or uncorrected misstatements during our audit procedures.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 18, 2024.

### ***Management Consultation with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Significant Audit Findings or Issues***

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Board of Commissioners and management of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Moss Adams LLP*

Everett, Washington

June 18, 2024





Reports of Independent Auditors  
and Financial Statements

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

December 31, 2023 and 2022

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## **Report of Independent Auditors**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of December 31, 2023 and 2022, and the changes in financial position and 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 Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

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

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

In performing an audit in accordance with GAAS 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 Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2024, on our consideration of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington  
June 18, 2024

## **Management's Discussion and Analysis**

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

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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, 2023, 2022, and 2021. Please read it in conjunction with the District's financial statements, which follow this analysis.

## **Using These Financial Statements**

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

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

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

## **The Statement of Cash Flows**

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

## **The Transition of Operations, Effective September 1, 2010**

Until September 1, 2010, Public Hospital District No. 2, Snohomish County, Washington, owned and operated Stevens Hospital. Through a lease and operating agreement, on September 1, 2010, Swedish Health Services (SHS), a nonprofit corporation, assumed operation of the hospital and renamed it Swedish Edmonds. This transition significantly changed the role of the District. The District retained ownership of the hospital but no longer manages its operations and, instead, is a landlord to SHS. In 2012, Providence Health Systems and Swedish finalized an affiliation agreement with Providence acquiring Swedish. The entities retained separate branding of facilities and services and continue as non profit medical facilities. In 2022, 10 years after the affiliation, the entities rebranded under a unified name in the Puget Sound Region as Providence-Swedish. The name applies to hospitals in Lewis, Thurston, King and Snohomish Counties. Each continues to honor one another's district identities. Swedish remains a secular organization, Providence remains faith based.

As of December 31, 2023, SHS had paid \$106 million in total cash lease payments to the District for the use of hospital real property and personal assets owned by the District.

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

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The negotiated agreement terms for use of the hospital by SHS are for 30 years, with options to renew, wherein the District will receive monthly lease payments that increase 3.0% per year for the first 15 years, after which time the monthly payments will be level for the remainder of the agreement. Additionally, SHS agreed to invest a minimum of \$90.0 million into hospital capital improvements over the course of the first 10 years, with no less than \$6.0 million per year in each of those 10 years. If SHS fails to meet the capital requirement for three consecutive years, this would constitute a breach of the lease and operating agreement. In 2018 and 2019, SHS neglected to meet its annual \$6.0 million requirements by \$1.9 million, and \$1 million, respectively. In 2020, SHS met the capital requirement with capital improvements of \$6.2 million. In 2021, \$11.6 million in capital improvements including CT and mammography equipment, surgery center flooring, behavioral health expansion, and autoclave replacements. The capital investment obligations under the lease have been met by Swedish and exceeded its obligation. Total investment by Swedish over the required term was \$151 million.

The capital investment commitment included the installation of the Epic electronic medical record system. Additional capital investment by SHS may be committed each year based on 25% of the defined profitability of the facility. In addition, SHS committed to a major expansion project of at least \$60 million, provided there was adequate return on investment, demand criteria were met, and the SHS board of trustees approved such a project. An expansion of the Emergency Department was completed in 2016 that met the major expansion project criteria above. The District and SHS formed a strategic collaboration committee to provide oversight for the lease and strategic planning activities for the facility.

The District has a capital reserve policy to maintain investments sufficient to bridge a transition in the event of default by SHS or some other extraordinary event. The amount is discussed annually in strategic planning. In 2022, the reserve policy was again revisited with the risk mitigation action resulting from the proposed discontinuance of the labor and delivery services by Swedish Edmonds. This action would have been in breach of the SHS lease with the District. After public meetings coordinated by the District Superintendent, Commissioners and residents, Swedish Edmonds Hospital abandoned their plan to discontinue labor and delivery and services remain intact. This combined with unprecedented pressures on health systems reinforced the District's need to maintain its reserve policy and funding.

The Commissioners voted to fund the reserve in the amount of \$1.2 million for 2022 and in an amount equal to 20% of the annual Swedish Hospital rent for 2023 forward. This figure was \$2.0 million for 2023 and is \$2.1 million for 2024.

### **The Verdant Health Commission**

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

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

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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. Since this time the needs and demographics of South Snohomish County have evolved.

In 2022, Verdant completed a comprehensive Community Health Needs Assessment incorporating feedback from more than 500 residents, focus groups, and 10 community partner agencies in order to better understand the current climate and changing needs of the residents of South Snohomish County. Commissioners studied the results from this assessment and 14 other health studies conducted by peer organizations. This work informed strategic planning during summer and fall of 2022. Based on the findings, the District identified Mental Health, Healthcare Access, and Food Security as the key priorities to support the health of district residents. Extensive communication with the community took place in order to inform and educate partners. Educational workshops, 1:1 meetings, public meetings, community outreach, and partner roundtables took place throughout fall and winter 2022 and continue at each award cycle. In 2023, Verdant continued to evaluate the evolving needs of South Snohomish County by hosting Partner Roundtables, seeking input through outreach and inviting partners to speak at monthly board meetings to communicate the challenges they are facing in the community.

Verdant invested approximately \$8.1 million in total program expenditures during 2023, of which \$7.8 million related to community partnership investments, and \$.3 million of internal programming.

Verdant closed the Covid-19 emergency funding as of December 31, 2022, but continues to accept applications for emergent and innovative funding requests through its Superintendent Discretionary Fund. The Building Healthy Communities fund was also closed as of December 31, 2022. Verdant continues to support the CHART program and the VOA Community Resource Advocate Program and multiple internal programs separate from the competitive award process.

Aligned with industry best practice, Verdant implemented an electronic grants management software in 2022 which supports the entire life cycle of the award making process from the initial application through award, payment administration, and contract maintenance. In 2022, the Verdant Board of Commissioners voted to discontinue the three-year renewable community grant contracts and moved to a single year award with full reapplication requirements for any subsequent funding. The District also moved to two award cycles annually. Partner education, training, and communication continues to be a priority for Verdant to ensure all applicants are well informed of its award making process. In late 2023, the Commissioners voted to move to a single calendar year award cycle versus two application cycles annually. This change will be effective January 1, 2025. Proposals are evaluated for eligibility, completeness, and alignment with the strategic priorities of the District. Applications are then scored by Commissioners within the grants management system. The Board meets, reviews the scoring outputs, and approves all awards. Contracts are issued and awards are paid in monthly electronic installments. Each partnership investment is governed by a contract and is monitored for performance and compliance by Verdant staff.

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

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The VCWC in Lynnwood continues to offer residents of the District a resource for accessing health and wellness classes, programs, and information. The center serves as the headquarters for Verdant and houses all District staff. Verdant staffs a resident Community Social Worker to provide case management services to clients with complex health and social service needs. This program continues with an average case management of 15 at any given time. Community classes, workshops, and events are held in the center in English and Spanish, focusing on lifestyle modification, prevention, and managing chronic conditions with topics like healthy cooking, weight management, positive parenting, stress reduction, physical activity, substance abuse education, and a variety of behavioral health support groups.

Verdant's community impacts are published annually on the Verdant website at [www.verdanthealth.org](http://www.verdanthealth.org) and through its published Community Impact Report. Highlights including:

- More than 150 separate organizations have received funding from Verdant since inception
- Since 2011 Verdant has invested more than \$80 million in health programs and services
- \$8.1 million expended in community award making, community health programs, and internal programmatic services in 2023
- \$3.50 investment to the community for every \$1.00 in public funding received by the District
- 2,335 community members served in classes and training
- 40 different marginalized and high need clients received extensive care coordination and referral support in 2023 with 15 cases being managed at any given time and approximately 220 client interactions in service to them
- 153 free of charge Partner Facility uses were held at the Verdant Community Wellness Center for meetings, classes, and program delivery to residents of the District

### **District owned Facilities**

#### **Kruger Clinic**

In 2023, the District began working with JPC Architects on the Kruger Clinic building refresh designs. The facility purchased in 2012 by the District is in need of an interior and exterior updates including siding, windows, doors, paint, carpet and HVAC systems. Axiom Construction was selected as the General Contractor after a competitive bid process ending in October 2023. Total projected cost including construction materials, signage, project management, landscape, generator backup, and furnishings is estimated at \$8.2 million. Work is scheduled to begin in Q-1 2024 with the goal of completion by late fall 2024. Tenants are not being displaced during construction. In addition, the Board of Commissioners voted to rename the Kruger Clinic after long time Commissioner Fred Langer. This will take place officially with the grand re-opening.



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

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Hospital Campus

In 2023, the Commissioners agreed to submit RFQ's for a Comprehensive Facility Study of the Hospital owned by the District and leased to Swedish under a 30 year agreement. The lease is currently in year 14 of 30 and the district wishes to have the facility evaluated by a qualified independent consulting firm. The RFQ will be let in early 2024 with a goal of study completion by the end of 2024.

Vacant Property - 21558 Highway 99 Edmonds, WA

This property formerly leased to Savers Inc., and referred to as "Value Village" has been vacant since late 2020. The property has been for sale with an interested buyer since that time. However environmental studies identified contamination in the soil. The Department of Ecology (DOE) was notified and an early notice letter was received by the District in May of 2023 identifying the site as contaminated under the Model Toxics Control Act (MTCA). It is currently under a voluntary independent clean up status. Additional studies are needed and being conducted to determine the extent and source of the contamination. These studies will take until at least 2025 to complete. The prospective buyer is eligible for DOE grant funding to cover the next phase of the environmental studies. As clean up costs cannot be estimated or assigned at this time, no liability is being recorded by the District as of this date.

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

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**Statement of Net Position**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Assets</b>			
Current assets	\$ 69,020	\$ 63,032	\$ 62,487
Capital assets, net	21,239	21,759	22,613
Lease receivable, net of current portion	254,668	258,609	262,219
Other noncurrent assets	<u>97</u>	<u>180</u>	<u>283</u>
Total assets	<u>\$ 345,024</u>	<u>\$ 343,580</u>	<u>\$ 347,602</u>
<b>Liabilities and deferred inflow of resources</b>			
Current liabilities	\$ 1,548	\$ 1,412	\$ 1,459
Deferred inflow of resources	<u>246,568</u>	<u>253,980</u>	<u>261,393</u>
Total liabilities and deferred inflow of resources	<u>248,116</u>	<u>255,392</u>	<u>262,852</u>
<b>Net position</b>			
Net investment in capital assets	21,239	21,759	22,612
Unrestricted	<u>75,669</u>	<u>66,429</u>	<u>62,138</u>
Total net position	<u>96,908</u>	<u>88,188</u>	<u>84,750</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 345,024</u>	<u>\$ 343,580</u>	<u>\$ 347,602</u>

**Current Assets**

Total current assets of \$69.0 million at year-end 2023 reflect an increase of \$5.9 million (9.5%), compared to the balance of \$63.0 million at the end of 2022. Cash and cash equivalents decreased by \$0.8 million (15.4%) in 2023, compared to a decrease of \$0.1 million (1.4%) in 2022.

**Capital Assets**

The District's net capital assets decreased \$0.5 million (2.4%) in 2023, compared to a net decrease of \$0.9 million (0.9%) in 2022. Depreciation and surplusings of aging hospital assets continue to contribute to this decrease.

**Lease Receivable**

The District's lease receivable decreased \$3.9 million (1.5%) in 2023, compared to a decrease of \$3.2 million (1.2%) in 2022.

**Other Noncurrent Assets**

Other noncurrent assets consist of tenant improvements totaling \$0.1 million at year-end 2023, a decrease of \$0.1 million (46.1%), compared to a decrease of \$0.1 million (31.4%) in 2022.

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

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**Current Liabilities**

Current liabilities increased \$0.1 million (9.6%) from \$1.4 million in 2022 to \$1.5 million in 2023. Current liabilities decreased \$0.1 million (3.2%) from \$1.5 million in 2021 to \$1.4 million in 2022.

**Deferred Inflow of Resources**

The District's deferred inflow of resources decreased \$7.4 million (2.9%) from \$254.0 million in 2022 to \$246.6 million in 2023. The District's deferred inflow of resources decreased \$7.4 million (2.8%) from \$261.4 million in 2021 to \$254.0 million in 2022.

**Operating Results and Changes in the District's Net Position**

In 2023, the District's net position increased \$8.7 million (9.9%), compared to an increase of \$3.4 million (4.1%) in 2022 (in thousands).

	2023	2022	2021
Operating revenues			
Lease revenue	\$ 8,225	\$ 8,218	\$ 8,013
Interest revenue	7,811	7,913	7,978
Other operating revenues	-	-	96
Total operating revenues	<u>16,036</u>	<u>16,131</u>	<u>16,087</u>
Operating expenses			
Salaries and benefits	1,238	1,077	1,085
Program expenditures	8,074	9,781	11,560
Other	2,065	2,071	1,786
Depreciation	1,143	1,283	1,375
Total operating expenses	<u>12,520</u>	<u>14,212</u>	<u>15,806</u>
Operating income	<u>3,516</u>	<u>1,919</u>	<u>281</u>
Nonoperating revenues (expenses)			
Tax levies	2,602	2,504	2,466
Investment income (loss)	2,543	(1,232)	(314)
Other revenues (expenses)	59	247	(35)
Net nonoperating revenues	<u>5,204</u>	<u>1,519</u>	<u>2,117</u>
Increase in net position	8,720	3,438	2,398
Net position, beginning of year	<u>88,188</u>	<u>84,750</u>	<u>82,352</u>
Net position, end of year	<u>\$ 96,908</u>	<u>\$ 88,188</u>	<u>\$ 84,750</u>

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

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Operating revenues in 2023 totaled \$16.0 million. Of that, \$10.4 million was attributable to the SHS lease for operation of the hospital. Additional lease revenues were received from other lease agreements, including Healthcare Realty and the Swedish Kruger Medical Office Building (formerly known as the Kruger Clinic).

Overall operating costs of \$12.5 million at year-end 2023 reflect a decrease of \$1.7 million (11.9%), compared to operating costs of \$14.2 million at the end of 2022. Salaries and benefits totaled \$1.2 million in 2023, an increase of \$0.2 million (14.9%) from 2022. Program expenditures totaled \$8.1 million in 2023 compared to \$9.8 million in 2022, a decrease of 17.5%.

Net nonoperating revenues in 2023 totaled \$5.2 million, compared to \$1.5 million in 2022, an increase of \$3.7 million (242.6%). There was also a net increase in investment return of \$3.8 million (306.4%) over 2022, which consisted of \$1.1 million increase in investment income, and a \$2.6 million increase in net unrealized and realized gains (losses). As a Public Hospital district, the investment portfolio is governed by a policy established under RCW Chapters 39.59 and 43.250 which defines the investment objectives and authorized investment options.

### **Contacting the District's Financial Management**

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

## **Financial Statements**

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**Public Hospital District No. 2, Snohomish County, Washington**  
**dba Verdant Health Commission**  
**Statements of Net Position**  
**December 31, 2023 and 2022**

	2023	2022
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,442,122	\$ 5,252,519
Investments	59,680,698	53,355,656
Prepaid expenses and other	224,162	102,858
Current portion of lease receivable	3,941,448	3,609,874
Lease interest receivable	731,686	710,670
Total current assets	69,020,116	63,031,577
<b>CAPITAL ASSETS</b>		
Nondepreciable capital assets	8,323,684	7,742,028
Depreciable capital assets, net of accumulated depreciation	12,915,063	14,016,601
Capital assets, net of accumulated depreciation	21,238,747	21,758,629
LEASE RECEIVABLE, less current portion	254,667,681	258,609,128
TENANT IMPROVEMENTS	97,570	181,009
Total assets	\$ 345,024,114	\$ 343,580,343
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 386,494	\$ 221,794
Prepaid lease income	990,242	956,915
Accrued salaries and benefits	46,313	40,682
Estimated self-insured liabilities	125,000	125,000
Other liabilities	-	67,885
Total current liabilities	1,548,049	1,412,276
<b>DEFERRED INFLOW OF RESOURCES</b>		
Leases	246,567,594	253,980,181
Total deferred inflows of resources	248,115,643	255,392,457
<b>NET POSITION</b>		
Net investment in capital assets	21,238,747	21,758,629
Unrestricted	75,669,724	66,429,257
Total net position	96,908,471	88,187,886
Total liabilities, deferred inflows of resources, and net position	\$ 345,024,114	\$ 343,580,343

See accompanying notes.

**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, 2023 and 2022**

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	2023	2022
OPERATING REVENUES		
Lease revenue	\$ 8,225,434	\$ 8,217,816
Interest revenue	7,811,365	7,912,777
Total operating revenues	16,036,799	16,130,593
OPERATING EXPENSES		
Salaries and wages	984,552	891,132
Employee benefits	253,291	185,762
Program expenditures	8,074,005	9,781,270
Professional services	618,059	777,464
Purchased services, utilities, and other	1,447,340	1,293,623
Depreciation	1,143,341	1,282,942
Total operating expenses	12,520,588	14,212,193
Operating income	3,516,211	1,918,400
NONOPERATING REVENUES (EXPENSES)		
Maintenance and operations tax levy	2,601,952	2,504,027
Investment activity and net unrealized/realized gain (loss)	2,543,384	(1,232,126)
Other revenues	59,038	247,225
Net nonoperating revenues	5,204,374	1,519,126
Change in net position	8,720,585	3,437,526
NET POSITION, beginning of year	88,187,886	84,750,360
NET POSITION, end of year	\$ 96,908,471	\$ 88,187,886

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See accompanying notes.

**Public Hospital District No. 2, Snohomish County, Washington**  
**dba Verdant Health Commission**  
**Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received for leasing and other operations	\$ 12,261,950	\$ 12,097,604
Cash paid to employees	(1,232,212)	(1,067,488)
Cash paid on community programs	(8,074,005)	(9,781,270)
Cash paid to suppliers for goods and services	(2,022,003)	(2,307,064)
Net cash from operating activities	933,730	(1,058,218)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from maintenance and operations tax levy for noncapital purposes	2,601,952	2,504,027
Other	59,038	247,225
Net cash from noncapital financing activities	2,660,990	2,751,252
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(623,459)	(428,992)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in investments	(5,330,965)	(1,709,847)
Investment income	1,549,307	373,691
Net cash from investing activities	(3,781,658)	(1,336,156)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(810,397)	(72,114)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	5,252,519	5,324,633
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 4,442,122	\$ 5,252,519
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 3,516,211	\$ 1,918,400
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	1,143,341	1,282,942
Amortization of deferred inflow of resources	(7,412,587)	(7,412,588)
Changes in operating assets and liabilities		
Prepaid expenses and other	(121,304)	(59,519)
Lease receivable	3,609,873	3,178,290
Lease interest receivable	(21,016)	(21,209)
Tenant improvements	83,439	102,629
Accounts and warrants payable	164,700	(176,458)
Prepaid lease income	33,327	52,004
Accrued salaries and benefits	5,631	9,406
Other liabilities	(67,885)	67,885
Net cash from operating activities	\$ 933,730	\$ (1,058,218)

See accompanying notes.



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

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## **Note 1 – Organization and Summary of Accounting Policies**

**Organization** – Until September 1, 2010, Public Hospital District No. 2 of Snohomish County, Washington (the District), a Washington municipal corporation, was owned and operated by the District as Stevens Hospital (the Hospital), located in Edmonds, Washington. The Hospital is an acute care community hospital with 217 beds. On September 1, 2010, the District entered into an agreement (the Agreement) to lease the Hospital to Swedish Health Services (SHS), a nonprofit corporation. The Agreement included transfer of control of Stevens Foundation (the Foundation), which was organized and formally incorporated as a 501(c)(3) tax-exempt organization. The District is now doing business as Verdant Health Commission.

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

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

The terms of the Agreement specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rent is on an absolute net basis, with SHS being responsible for all operating costs associated with the facility. The lease calls for certain approvals by the District that affect the operation of the facility for the following: change in license, major service line changes, union contract representation, and maintenance of an independent medical staff. Per the terms of the agreement, SHS committed to capital investments for the facility, some of which were dependent upon various factors like future profitability, return on investment, and demand criteria, and SHS board approval. The District and SHS formed a strategic collaboration committee to provide oversight for the lease and strategic planning activities for the facility.

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

In September 1997, the voters of the District approved maintenance and operations (M&O) tax levy upon the taxable property within the District; the M&O tax provided approximately \$2,602,000 of funding in 2023 and \$2,504,000 of funding in 2022. The levy is ongoing in future years. The M&O tax levy funds are reported in the accompanying statements of revenues, expenses, and changes in net position as nonoperating revenues.

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

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

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

**Cash and cash equivalents** – For purposes of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments** – Investments that are not considered to be cash and cash equivalents are reported at fair value. Investment interest, dividends, and unrealized and realized gains and losses are included in nonoperating income when earned.

**Leases receivable and deferred inflow of resources** – The District engages in right-to-use leases in the capacity of the lessor for contracts that convey the control of the right to use the District's asset to another party and have a term exceeding one year. At the contract inception, the lease receivable and deferred inflow of resources are measured at the present value of payments expected during the contract term. The District uses a discount rate that is explicitly stated in the contract, or alternatively, the District's borrowing rate at the start of the contract. Revenue is recognized over the term of the contract.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

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

The District evaluates capital assets for impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Assets to be disposed of would be recognized at the lower of carrying value or fair value less the estimated cost of disposal. Assets that are held and in use are reviewed for impairment whenever indicators of impairment exist. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses. No impairments have been identified as of December 31, 2023 and 2022.

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

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**Self-insurance liabilities** – The District accrues an estimate of losses and related expenses for its self-insured workers' compensation claims. The District maintains stop-loss insurance for workers' compensation claims in excess of specified amounts. This liability, which is approximately \$125,000 as of December 31, 2023 and 2022, is recorded in the accompanying statements of net position within estimated self-insured liabilities.

**Net position** – Net position of the District is classified into two 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 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.

**Statements of revenues, expenses, and changes in net position** – For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of District services are reported as operating revenues and expenses. All levy income, investment income or loss, 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.

**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.

**Newly adopted accounting pronouncement** – The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The District did not have any such arrangements as of December 31, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the year ending December 31, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The impact of the adoption was not considered material to the financial statements.

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

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**Note 2 – Deposits and Investments**

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, 2023 and 2022, all deposits and investments of the District are categorized as Category 1.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The composition of investments, reported at fair value by investment type at December 31, 2023 and 2022, and excluding unrestricted cash, and other cash and investments of \$4,442,122 and \$5,252,519, respectively, is as follows:

Investment Type as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Inputs Other Than Quoted Prices That Are Directly or Indirectly Observable (Level 2)	Total	Percentage of Totals
U.S. Treasury securities	\$ 37,664,562	\$ -	\$ 37,664,562	63%
U.S. government agency obligations	-	15,646,517	15,646,517	26%
Domestic corporate bonds	-	6,369,619	6,369,619	11%
	<u>\$ 37,664,562</u>	<u>\$ 22,016,136</u>	<u>\$ 59,680,698</u>	<u>100%</u>

Investment Type as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Inputs Other Than Quoted Prices That Are Directly or Indirectly Observable (Level 2)	Total	Percentage of Totals
U.S. Treasury securities	\$ 31,455,283	\$ -	\$ 31,455,283	59%
U.S. government agency obligations	-	11,731,765	11,731,765	22%
Domestic corporate bonds	-	10,168,608	10,168,608	19%
	<u>\$ 31,455,283</u>	<u>\$ 21,900,373</u>	<u>\$ 53,355,656</u>	<u>100%</u>

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

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The District's deposits and investments had the following maturities at December 31, 2023:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1–5
U.S. Treasury securities	\$ 37,664,562	\$ 2,291,151	\$ 35,373,411
U.S. government agency obligations	15,646,517	7,119,096	8,527,421
Domestic corporate bonds	6,369,619	5,280,123	1,089,496
Total investments	<u>\$ 59,680,698</u>	<u>\$ 14,690,370</u>	<u>\$ 44,990,328</u>

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

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

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

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

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

**Note 3 – Retirement Plan**

The District sponsors a 401(a) plan and a 457 plan that are available to all benefit-eligible employees working over 20 hours per week. Employees are eligible to contribute at their hire date. Employees contribute to the 457 plan at their discretion. Employee contributions were approximately \$61,000 and \$62,000 during the years ended December 31, 2023 and 2022, 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 \$42,000 and \$41,000 during the years ended December 31, 2023 and 2022, respectively.

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

**Note 4 – Capital Assets**

The schedule of capital asset activity for the years ended December 31, 2023 and 2022, was as follows:

	Beginning Balance January 1, 2023	Additions	Retirements	Account Transfers	Ending Balance December 31, 2023
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	18,322	537,179	-	44,477	599,978
	<u>7,742,028</u>	<u>537,179</u>	<u>-</u>	<u>44,477</u>	<u>8,323,684</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	2,370,444	-	-	-	2,370,444
Buildings and building improvements	53,059,466	76,554	-	(44,477)	53,091,543
Equipment	35,052,323	9,726	(259,559)	-	34,802,490
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	2,337,930	8,792	-	-	2,346,722
Buildings and building improvements	39,908,776	953,899	-	-	40,862,675
Equipment	34,218,926	180,650	(259,559)	-	34,140,017
<b>DEPRECIABLE CAPITAL ASSETS, net</b>	<u>14,016,601</u>	<u>(1,057,061)</u>	<u>-</u>	<u>(44,477)</u>	<u>12,915,063</u>
<b>CAPITAL ASSETS, net</b>	<u>\$ 21,758,629</u>	<u>\$ (519,882)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,238,747</u>
	Beginning Balance January 1, 2022	Additions	Retirements	Account Transfers	Ending Balance December 31, 2022
<b>NONDEPRECIABLE CAPITAL ASSETS</b>					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	-	18,322	-	-	18,322
	<u>7,723,706</u>	<u>18,322</u>	<u>-</u>	<u>-</u>	<u>7,742,028</u>
<b>DEPRECIABLE CAPITAL ASSETS</b>					
Land improvements	2,370,444	-	-	-	2,370,444
Buildings and building improvements	52,731,537	327,929	-	-	53,059,466
Equipment	35,723,503	82,741	(753,921)	-	35,052,323
<b>LESS ACCUMULATED DEPRECIATION</b>					
Land improvements	2,328,890	9,040	-	-	2,337,930
Buildings and building improvements	38,866,295	1,042,481	-	-	39,908,776
Equipment	34,741,426	231,421	(753,921)	-	34,218,926
<b>DEPRECIABLE CAPITAL ASSETS, net</b>	<u>14,888,873</u>	<u>(872,272)</u>	<u>-</u>	<u>-</u>	<u>14,016,601</u>
<b>CAPITAL ASSETS, net</b>	<u>\$ 22,612,579</u>	<u>\$ (853,950)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,758,629</u>

As of December 31, 2023, the District had an approximate remaining commitment in the amount of \$7,600,000 related to a construction project at the Kroger Clinic.

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

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**Note 5 – Lease Receivable and Lease Income**

As referenced in Note 1, the District entered into a lease and operating agreement (the Agreement) with SHS that was dated and effective September 1, 2010. The terms of the Agreement specify an initial 30-year term, with two 10-year renewal options. Rental payments to be made by SHS will be \$600,000 per month, with annual escalation of 3% per year on each anniversary date for the first 15 years. The rental payments will freeze at the rate set during year 15 for the duration of the Agreement. The revenue related to this lease is recorded on a straight-line basis by the District in accordance with applicable accounting standards. The District is also engaged as a lessor for other various tenants who rent space from the District. The lease agreements are recorded at the net present value of the agreements at an imputed interest rate of 3%, with monthly minimum payments due as stipulated in the underlying contracts. As a result, lease receivable and a deferred inflow of resources are reflected in the balance sheet as of December 31, 2023 and 2022.

The following is a summary of changes in lease receivable for the years ended December 31, 2023 and 2022:

	January 1, 2023	Increases	Decreases	December 31, 2023	Amounts Due Within One Year
Lease receivable	\$ 262,219,002	\$ -	\$ (3,609,873)	\$ 258,609,129	\$ 3,941,448
	January 1, 2022	Increases	Decreases	December 31, 2022	Amounts Due Within One Year
Lease receivable	\$ 265,397,292	\$ -	\$ (3,178,290)	\$ 262,219,002	\$ 3,609,874

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

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Future receipts under these leases as of year ended December 31, 2023, are estimated as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>
2024	\$ 3,941,448	\$ 7,676,633	\$ 11,618,081
2025	4,276,877	7,554,805	11,831,682
2026	4,652,483	7,420,279	12,072,762
2027	4,818,303	7,278,439	12,096,742
2028	4,989,887	7,131,546	12,121,433
2029–2033	26,975,163	33,292,741	60,267,904
2034–2038	27,604,838	29,225,877	56,830,715
2039–2043	31,573,063	24,963,815	56,536,878
2044–2048	36,675,800	19,861,078	56,536,878
2049–2053	42,603,225	13,933,653	56,536,878
2054–2058	49,488,621	7,048,257	56,536,878
2059–2063	18,213,710	931,968	19,145,678
2064–2068	-	450,078	450,078
2069–2073	-	790,027	790,027
2074–2078	-	1,016,659	1,016,659
2079–2083	-	1,016,659	1,016,659
2084–2088	609,123	407,536	1,016,659
2089–2093	742,005	274,654	1,016,659
2094–2098	861,926	154,733	1,016,659
2099–2101	582,657	27,340	609,997
	<u>\$ 258,609,129</u>	<u>\$ 170,456,777</u>	<u>\$ 429,065,906</u>

**Note 6 – Property Taxes**

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

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



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

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For 2023 and 2022, the District's regular tax levy was \$0.046 and \$0.058 per \$1,000 on a total assessed valuation of \$55,701,007,182 and \$43,586,413,934, for a total regular levy of \$2,578,541 and \$2,504,027, 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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission's financial statements, and have issued our report thereon dated June 18, 2024.

### **Report on Internal Control Over Financial Reporting**

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

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

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

## **Report on Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Everett, Washington

June 18, 2024

