



Reports of Independent Auditors
and Financial Statements

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

December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, Public Hospital District No. 2, Snohomish County, Washington dba Verdant Health Commission adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 4 through 11 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 May 17, 2023, 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.

Moss Adams LLP

Everett, Washington
May 17, 2023

Management's Discussion and Analysis

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, 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. As of December 31, 2022, SHS had paid \$95.5 million in total 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

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, SHS 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 is forecasted at \$2.073 million for 2023.

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

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 \$9.8 million in total program expenditures and grants during 2022, of which \$9 million related to community program investments, including \$0.1 million on the Building Health Communities Initiative. Each program is managed through a cooperative agreement with partners and is being monitored for performance and compliance by Verdant staff. Verdant also spent \$0.7 million on internal programs at the Verdant Community Wellness Center (VCWC) in 2022.

Aligned with industry best practice, Verdant implemented an electronic grants management software in 2022 which supports the entire life cycle of the grantmaking 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. Partner education, training, and communication continues to be a priority for Verdant to ensure all applicants are well informed of its grantmaking application and review process. Proposals are evaluated for eligibility within the strategic priority areas and financial compliance is then scored within the grants management system by staff and Commissioners. The Board approves all awards and contracts issued. Awards are paid in monthly installments.

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 was used for 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 and narrowed its focus from the previous 7 areas. 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.

Verdant has 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 as the sole sponsor of these programs.

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

The Verdant facilities have fully reopened to the public effective 2022. 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. During 2018, Verdant added a 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 and through its published Community Impact Report. Highlights including:

- Post Pandemic Grand reopening of the Verdant Community Wellness Center resuming in person meetings
- \$9,800,000 expended in community grantmaking, community health programs, and internal programmatic services
- \$3.90 investment to the community for every \$1.00 in public funding received by the District
- 3,693 community members served in classes and training
- 195 community members received NARCAN training
- 45 different marginalized and high need clients received extensive care coordination and referral support in 2022 with 15 cases being managed at any given time and approximately 260 client interactions in service to them
- 62 community organizations received funding across all strategic priorities
- 68 cooking demos for healthy lifestyle
- 179 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
- 300 community members attended the Verdant Sponsored National Night Out connecting them with services and Community Partners

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

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).

	2022	(Restated) 2021	2020
Assets			
Current assets	\$ 63,032	\$ 62,487	\$ 59,396
Capital assets, net	21,759	22,613	23,989
Lease receivable, net of current portion	258,609	262,219	-
Other noncurrent assets	180	283	19,025
Total assets	<u>\$ 343,580</u>	<u>\$ 347,602</u>	<u>\$ 102,410</u>
Liabilities			
Current liabilities	\$ 1,412	\$ 1,459	\$ 1,406
Deferred inflow of resources	253,980	261,393	-
Total liabilities	<u>255,392</u>	<u>262,852</u>	<u>1,406</u>
Net position			
Net investment in capital assets	21,759	22,612	23,989
Restricted for debt service	-	-	39
Unrestricted	66,429	62,138	76,976
Total net position	<u>88,188</u>	<u>84,750</u>	<u>101,004</u>
Total liabilities and net position	<u>\$ 343,580</u>	<u>\$ 347,602</u>	<u>\$ 102,410</u>

Current Assets

Total current assets of \$63 million at year-end 2022 reflect a decrease of \$0.5 million (0.9%), compared to the balance of \$62.5 million at the end of 2021. Cash and cash equivalents decreased by \$0.1 million (1.4%) in 2022, compared to an increase of \$1.3 million (30.8%) in 2021.

Capital Assets

The District's net capital assets decreased \$0.9 million (3.8%) in 2022, compared to a net decrease of \$1.4 million (5.7%) in 2021. Depreciation and surplusings of aging hospital assets continue to contribute to this decrease.

Lease Receivable

The District's lease receivable decreased \$3.2 million (1.2%) in 2022, compared to implementing the new lease accounting standard in 2021.

Other Noncurrent Assets

Other noncurrent assets consist of tenant improvements totaling \$0.2 million at year-end 2022, a decrease of \$0.05 million (31.4%), compared to a decrease of \$18.7 million (98.5%) in 2021 due to removal of the rent receivable as part of the new lease standard adoption.

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

Current Liabilities

Current liabilities decreased \$0.05 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 (2.8%) from \$261.4 million in 2021 to \$254.0 million in 2022.

Operating Results and Changes in the District's Net Position

In 2022, the District's net position increased \$3.4 million (4.1%), compared to an decrease of \$16.3 million (16.1%) in 2021 (in thousands).

	2022	(Restated) 2021	2020
Operating revenues			
Lease revenue	\$ 8,218	\$ 8,013	\$ 11,760
Lease interest	7,913	7,978	-
Other operating revenues	-	96	1
	<u>16,131</u>	<u>16,087</u>	<u>11,761</u>
Total operating revenues			
Operating expenses			
Salaries and benefits	1,077	1,085	721
Program expenditures	9,781	11,560	8,410
Other	2,071	1,786	1,594
Depreciation	1,283	1,375	1,608
	<u>14,212</u>	<u>15,806</u>	<u>12,333</u>
Total operating expenses			
Operating (loss) income	<u>1,919</u>	<u>281</u>	<u>(572)</u>
Nonoperating revenues (expenses)			
Tax levies	2,504	2,466	2,407
Investment income (loss)	(1,232)	(314)	1,843
Interest expense and amortization	-	-	31
Other revenues (expenses)	247	(35)	340
	<u>1,519</u>	<u>2,117</u>	<u>4,621</u>
Net nonoperating revenues			
Increase in net position	3,438	2,398	4,049
Cumulative impact of adopting new accounting standard	-	(18,652)	-
Net position, beginning of year	<u>84,750</u>	<u>101,004</u>	<u>96,955</u>
Net position, end of year	<u>\$ 88,188</u>	<u>\$ 84,750</u>	<u>\$ 101,004</u>

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

Operating revenues in 2022 totaled \$16.1 million. Of that, \$9.8 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). Verdant also received a small amount of revenue for internally hosted community programs at the VCWC.

Overall operating costs of \$14.2 million at year-end 2022 reflect a decrease of \$1.6 million (10.1%), compared to operating costs of \$15.8 million at the end of 2021. Salaries and benefits totaled \$1.1 million in 2022, no change from 2021. Program expenditures totaled \$9.8 million in 2022 compared to \$11.6 million in 2021, a decrease of 15.4%.

Net nonoperating revenues in 2022 totaled \$1.5 million, compared to \$2.1 million in 2021, a decrease of \$0.6 million (28.2%). There was also a net decrease in investment return of \$0.9 million (292.2%) over 2021, which consisted of \$0.1 million increase in investment income, and a \$1.0 million decrease 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

Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>(Restated) 2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,252,519	\$ 5,324,633
Investments	53,355,656	53,251,626
Prepaid expenses and other	102,858	43,339
Current portion of lease receivable	3,609,874	3,178,290
Lease interest receivable	710,670	689,461
Total current assets	<u>63,031,577</u>	<u>62,487,349</u>
CAPITAL ASSETS		
Nondepreciable capital assets	7,742,028	7,723,706
Depreciable capital assets, net of accumulated depreciation	14,016,601	14,888,873
Capital assets, net of accumulated depreciation	<u>21,758,629</u>	<u>22,612,579</u>
LEASE RECEIVABLE, less current portion	258,609,128	262,219,002
TENANT IMPROVEMENTS	<u>181,009</u>	<u>283,638</u>
Total assets	<u><u>\$ 343,580,343</u></u>	<u><u>\$ 347,602,568</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 221,794	\$ 398,252
Prepaid lease income	956,915	904,911
Accrued salaries and benefits	40,682	31,276
Estimated self-insured liabilities	125,000	125,000
Other liabilities	67,885	-
Total current liabilities	<u>1,412,276</u>	<u>1,459,439</u>
DEFERRED INFLOW OF RESOURCES		
Leases	<u>253,980,181</u>	<u>261,392,769</u>
Total deferred inflows of resources	<u>255,392,457</u>	<u>262,852,208</u>
NET POSITION		
Net investment in capital assets	21,758,629	22,612,579
Unrestricted	66,429,257	62,137,781
Total net position	<u>88,187,886</u>	<u>84,750,360</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 343,580,343</u></u>	<u><u>\$ 347,602,568</u></u>

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, 2022 and 2021

	<u>2022</u>	<u>(Restated) 2021</u>
OPERATING REVENUES		
Lease revenue	\$ 8,217,816	\$ 8,013,578
Interest revenue	7,912,777	7,978,024
Other operating revenue	-	95,843
	<u>16,130,593</u>	<u>16,087,445</u>
OPERATING EXPENSES		
Salaries and wages	891,132	924,176
Employee benefits	185,762	160,615
Program expenditures	9,781,270	11,559,753
Professional services	777,464	618,749
Purchased services, utilities, and other	1,293,623	1,167,570
Depreciation	1,282,942	1,375,092
	<u>14,212,193</u>	<u>15,805,955</u>
Total operating expenses		
Operating income	<u>1,918,400</u>	<u>281,490</u>
NONOPERATING REVENUES (EXPENSES)		
Maintenance and operations tax levy	2,504,027	2,466,426
Investment income and net unrealized/realized loss	(1,232,126)	(314,461)
Other revenues (expenses)	247,225	(34,923)
	<u>1,519,126</u>	<u>2,117,042</u>
Net nonoperating revenues		
Change in net position	3,437,526	2,398,532
CUMULATIVE IMPACT OF ADOPTING NEW ACCOUNTING STANDARD	-	(18,651,627)
NET POSITION, beginning of year	<u>84,750,360</u>	<u>101,003,455</u>
NET POSITION, end of year	<u>\$ 88,187,886</u>	<u>\$ 84,750,360</u>

See accompanying notes.

Public Hospital District No. 2, Snohomish County, Washington
dba Verdant Health Commission
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>(Restated) 2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for leasing and other operations	\$ 12,097,604	\$ 11,465,777
Cash paid to employees	(1,067,488)	(1,083,262)
Cash paid on community programs	(9,781,270)	(11,559,753)
Cash paid to suppliers for goods and services	<u>(2,307,064)</u>	<u>(1,492,437)</u>
Net cash from operating activities	<u>(1,058,218)</u>	<u>(2,669,675)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from maintenance and operations tax levy for noncapital purposes	2,504,027	2,505,280
Other	<u>247,225</u>	<u>(33,694)</u>
Net cash from noncapital financing activities	<u>2,751,252</u>	<u>2,471,586</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(428,992)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in investments	(1,709,847)	1,161,064
Investment income	<u>373,691</u>	<u>292,010</u>
Net cash from investing activities	<u>(1,336,156)</u>	<u>1,453,074</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(72,114)	1,254,985
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,324,633</u>	<u>4,069,648</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,252,519</u>	<u>\$ 5,324,633</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 1,918,400	\$ 281,490
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	1,282,942	1,375,092
Amortization of deferred inflow of resources	(7,412,588)	(7,337,231)
Changes in operating assets and liabilities		
Prepaid expenses and other	(59,519)	225,355
Lease receivable	3,178,290	3,332,708
Lease interest receivable	(21,209)	(689,461)
Tenant improvements	102,629	89,088
Accounts and warrants payable	(176,458)	68,527
Prepaid lease income	52,004	(16,772)
Accrued salaries and benefits	9,406	1,529
Other liabilities	<u>67,885</u>	<u>-</u>
Net cash from operating activities	<u>\$ (1,058,218)</u>	<u>\$ (2,669,675)</u>

See accompanying notes.

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, 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 set-up 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 \$2,504,000 of funding in 2022 and \$2,458,000 of funding in 2021. 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

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, 2022 and 2021.

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

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, 2022 and 2021, 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.

Adoption of new accounting standard and restatement – During the year ended December 31, 2022, the District adopted new accounting guidance that changed its method of accounting for leases. GASB Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. These changes were incorporated in the District's 2022 financial statements and had an effect on the beginning net position of the District. The District recognized \$266,736,021 in a deferred inflow of resources at January 1, 2021, due to the implementation of GASB 87; however, this entire amount was offset by a lease receivable. The financial statements for the year ended December 31, 2021, have been retroactively restated for the change, which resulted in a decrease in change in net position of \$14,256,983 for the year ended December 31, 2021.

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).

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

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, 2022 and 2021, 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, 2022 and 2021, and excluding unrestricted cash, and other restricted cash and investments of \$5,252,519 and \$5,324,633, respectively, is as follows:

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>

Investment Type as of December 31, 2021	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	\$ 26,316,725	\$ -	\$ 26,316,725	49%
U.S. government agency obligations	-	14,809,867	14,809,867	28%
Domestic corporate bonds	-	12,125,034	12,125,034	23%
	<u>\$ 26,316,725</u>	<u>\$ 26,934,901</u>	<u>\$ 53,251,626</u>	<u>100%</u>

The District's deposits and investments had the following maturities at December 31, 2022:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
U.S. Treasury securities	\$ 31,455,283	\$ 16,151,895	\$ 15,303,388
U.S. government agency obligations	11,731,765	3,107,992	8,623,773
Domestic corporate bonds	10,168,608	2,292,504	7,876,104
Total investments	<u>\$ 53,355,656</u>	<u>\$ 21,552,391</u>	<u>\$ 31,803,265</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.

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

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 \$62,000 and \$46,000 during the years ended December 31, 2022 and 2021, 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 \$41,000 and \$45,000 during the years ended December 31, 2022 and 2021, respectively.

Public Hospital District No. 2, Snohomish County, Washington
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Notes to Financial Statements

Note 4 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2022 and 2021, were as follows:

	Beginning Balance January 1, 2022	Additions	Retirements	Account Transfers	Ending Balance December 31, 2022
NONDEPRECIABLE CAPITAL ASSETS					
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>
DEPRECIABLE CAPITAL ASSETS					
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	-	36,560,165
	-	-	-	-	-
LESS ACCUMULATED DEPRECIATION					
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	-	35,726,768
	<u>14,888,873</u>	<u>(872,272)</u>	<u>-</u>	<u>-</u>	<u>14,016,601</u>
DEPRECIABLE CAPITAL ASSETS, net	<u>14,888,873</u>	<u>(872,272)</u>	<u>-</u>	<u>-</u>	<u>14,016,601</u>
CAPITAL ASSETS, net	<u>\$ 22,612,579</u>	<u>\$ (853,950)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,758,629</u>
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 7,723,706	\$ -	\$ -	\$ -	\$ 7,723,706
Construction in progress	-	-	-	-	-
	<u>7,723,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,723,706</u>
DEPRECIABLE CAPITAL ASSETS					
Land improvements	2,370,444	-	-	-	2,370,444
Buildings and building improvements	52,731,537	-	-	-	52,731,537
Equipment	35,756,068	-	(32,565)	-	35,723,503
	-	-	-	-	-
LESS ACCUMULATED DEPRECIATION					
Land improvements	2,319,849	9,041	-	-	2,328,890
Buildings and building improvements	37,775,286	1,091,009	-	-	38,866,295
Equipment	34,497,720	275,042	(31,336)	-	34,741,426
	<u>16,265,194</u>	<u>(1,375,092)</u>	<u>(1,229)</u>	<u>-</u>	<u>14,888,873</u>
DEPRECIABLE CAPITAL ASSETS, net	<u>16,265,194</u>	<u>(1,375,092)</u>	<u>(1,229)</u>	<u>-</u>	<u>14,888,873</u>
CAPITAL ASSETS, net	<u>\$ 23,988,900</u>	<u>\$ (1,375,092)</u>	<u>\$ (1,229)</u>	<u>\$ -</u>	<u>\$ 22,612,579</u>

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

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, 2022 and 2021.

The following is a summary of changes in lease receivable for the years ended December 31, 2022 and 2021:

	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

	January 1, 2021	Increases	Decreases	December 31, 2021	Amounts Due Within One Year
Lease receivable	\$ 266,736,021	\$ 1,993,979	\$ (3,332,708)	\$ 265,397,292	\$ 3,178,290

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

Future receipts under these leases as of year ended December 31, 2022, are estimated as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>
2023	\$ 3,609,874	\$ 7,790,348	\$ 11,400,222
2024	3,941,448	7,676,633	11,618,081
2025	4,276,878	7,554,805	11,831,683
2026	4,652,483	7,420,279	12,072,762
2027	4,818,303	7,278,439	12,096,742
2028–2032	26,332,819	34,091,525	60,424,344
2033–2037	27,470,477	30,017,855	57,488,332
2038–2042	30,641,085	25,895,793	56,536,878
2043–2047	35,593,199	20,943,679	56,536,878
2048–2052	41,345,657	15,191,221	56,536,878
2053–2057	48,027,809	8,509,069	56,536,878
2058–2062	28,713,260	1,649,778	30,363,038
2063–2067	-	450,078	450,078
2068–2072	-	676,710	676,710
2073–2077	-	1,016,659	1,016,659
2078–2082	-	1,016,659	1,016,659
2083–2087	473,601	543,058	1,016,659
2088–2092	720,103	296,556	1,016,659
2093–2097	836,484	180,176	1,016,660
2098–2101	765,522	47,805	813,327
	<u>\$ 262,219,002</u>	<u>\$ 178,247,125</u>	<u>\$ 440,466,127</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.

For 2022 and 2021, the District's regular tax levy was \$0.058 and \$0.062 per \$1,000 on a total assessed valuation of \$43,586,413,934 and \$39,951,784,413, for a total regular levy of \$2,504,027 and \$2,457,683, 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, 2022 and 2021, 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 May 17, 2023.

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 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
May 17, 2023

